

**ILLINOIS GOVERNMENT  
FINANCE PROFESSIONALS  
ACADEMY LEVEL I**

**March 20 – 21, 2019**



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Association**

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## **2019 ILLINOIS GOVERNMENT FINANCE PROFESSIONALS' ACADEMY LEVEL I**

NIU Naperville, 1120 E. Diehl Rd., Naperville, IL 60563

### **Day 1 - Wednesday, March 20, 2019**

<b>8:00 – 8:30 AM</b>	<b>Registration and Continental Breakfast</b>
<b>8:30 – 8:50 AM</b>	<b>Welcome and Speed Networking</b>
<b>8:50 – 9:50 AM</b>	<b>Principles of Professional Government Finance</b> <b>Speaker: Elizabeth Holleb, CPA, Finance Director - City of Lake Forest</b>
<b>9:50 – 10:30 AM</b>	<b>Governmental Accounting Overview</b> <b>Speaker: Anthony M. Cervini, CPA, CFE, Partner - Sikich LLP</b>
<b>10:30 – 10:40 AM</b>	<b>Networking Break</b>
<b>10:40 – 11:10 AM</b>	<b>Governmental Accounting Overview (Continued)</b>
<b>11:10 AM – 12:00 PM</b>	<b>Banking Basics and Tools for the Finance Professional</b> <b>Speaker: Susan A. Wade, Vice President Public Funds - First Midwest Bank</b>
<b>12:00 – 12:55 PM</b>	<b>Networking Luncheon</b>
<b>12:55 – 1:45 PM</b>	<b>Perfect Procurement Policies and Procedures</b> <b>Speaker: Adam B. Simon, Partner - Ancel Glink, P.C.</b>
<b>1:45 – 2:35 PM</b>	<b>Basics of Investing</b> <b>Speakers: Mike Rodgers, Managing Director, Senior Portfolio Specialist - Wells Fargo Asset Management Global Fixed Income</b> <b>Kurt Maekawa, Sales Director - Well Fargo Balance Sheet Asset Management</b> <b>Jeffrey Svien, Vice President - Wells Fargo Government Banking</b>
<b>2:35 – 2:50 PM</b>	<b>Networking Break</b>
<b>2:50 – 3:40 PM</b>	<b>What Every Finance Professional Needs to Know About Cyber Security</b> <b>Speaker: Marc Thorson, Information Technology Director - City of DeKalb</b>
<b>3:40 – 4:30 PM</b>	<b>Purchasing Fundamentals for Finance Professionals</b> <b>Speaker: RuthAnne Hall, CPPO, Purchasing Manager, Lake County Government - Lake County</b>

*IGFOA reserves the right to modify the agenda and/or speakers*

## **Day 2 - Thursday, March 21, 2019**

<b>8:00 – 8:45 AM</b>	<b>Registration and Continental Breakfast</b>
<b>8:45 – 9:00 AM</b>	<b>Academy Discussion</b>
<b>9:00 – 10:15 AM</b>	<b>The ABC's of Governmental Budgeting</b> <b>Speaker: Julie M. Zolghadr, Manager, Budget Division-</b> City of Springfield
<b>10:15 to 10:30 AM</b>	<b>Networking Break</b>
<b>10:30 – 11:20 AM</b>	<b>Revenue Overview</b> <b>Speaker: Elizabeth Holleb, CPA, Finance Director -</b> City of Lake Forest
<b>11:20 AM – 12:10 PM</b>	<b>Pension Primer</b> <b>Speakers: Jason Franken, FSA, EA, MAAA -</b> Foster & Foster, Inc. <b>Christina Coyle, CPA, Finance Director -</b> Village of Glen Ellyn
<b>12:10 – 1:00 PM</b>	<b>Networking Luncheon</b>
<b>1:00 – 1:50 PM</b>	<b>Essentials of Debt Issuance</b> <b>Speakers: Mark Huddle, Senior Counsel -</b> Ice Miller LLP <b>Mark Jeretina, Vice President -</b> Speer Financial, Inc.
<b>1:50 – 2:40 PM</b>	<b>Local Government Reporting – Due Dates Part 1</b> <b>Speaker: Michael Malatt, CPA, Senior Manager -</b> Baker Tilly Virchow Krause, LLP
<b>2:40 – 2:55 PM</b>	<b>Networking Break</b>
<b>2:55 – 3:30 PM</b>	<b>Local Government Reporting – Due Dates Part 2</b>
<b>3:30 – 4:30 PM</b>	<b>What Makes a Good Finance Director</b> <b>Speaker: Heidi Voorhees, President -</b> GovHRUSA
<b>4:30 PM</b>	<b>Closing Remarks</b>



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## Illinois Government Finance Professionals Academy Level I Principles of Professional Government Finance



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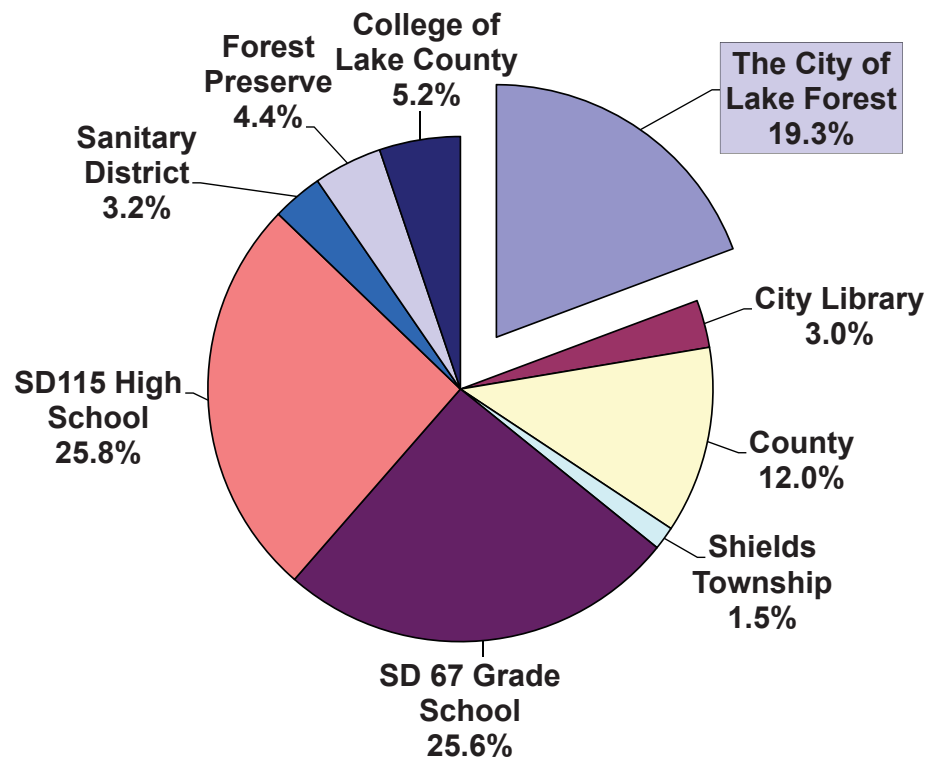
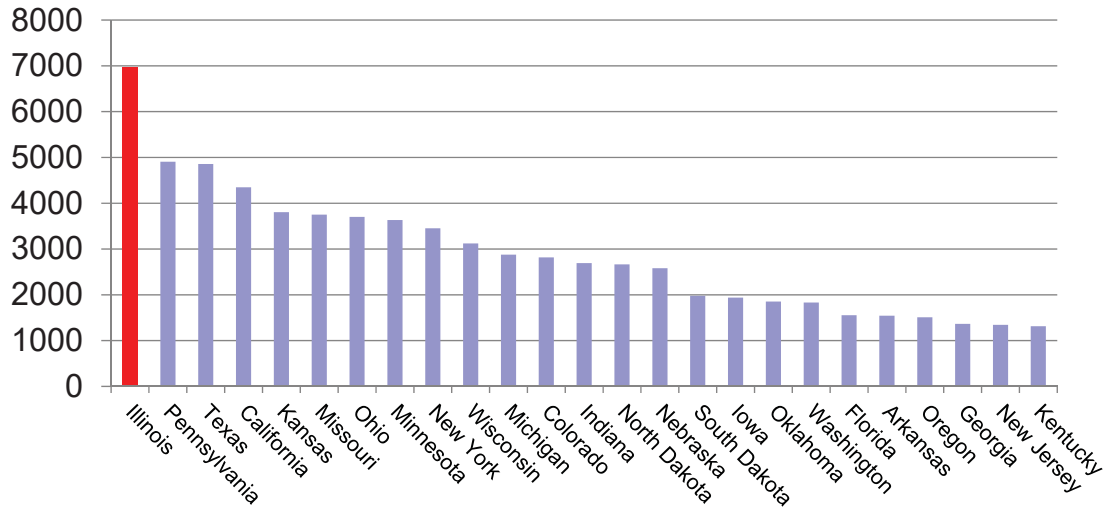
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# Local Governments

Nearly 7000 units of government in Illinois

- County
- Forest Preserves
- Municipal – City, Village, Town
- School Districts
- Library Districts
- Park District
- Fire Protection District
- Sanitary District
- Townships
- Others - Water Agencies, Mass Transportation Agencies, Soil and Water Conservation Districts, Mosquito Abatement Districts

## 2012 Census of Governments – Top 25 Local Governments by Type and State





GOOD GOVERNMENT / Press Release

November 13, 2013

PREVIOUS POST

**ObamaCare: Illinois Enrollment Numbers**

By Naomi Lopez Bauman  
11/13/2013

NEXT POST

**Breaking: ObamaCare Enrollment Announced: Illinois Enrollments Just 1,370 – Dramatically Short Of Target**

11/13/2013



A report released today by the nonpartisan **Illinois Policy Institute** finds that at 6,963, Illinois has more units of local government than any other state in the nation. The state's extremely high number of government agencies is resulting in duplication of services, high local taxes and also creating barriers to taxpayers holding their local government agencies accountable.

The report found that taxpayers in part of suburban Elgin, for example, fund a staggering 16 different government entities. These include the city of Elgin, Plato Township, Kane County, a local school district, a community college district, a forest preserve, a road district, a cemetery district, a library, a water reclamation district, an airport authority, fire district, waste disposal district and three different transportation-related government entities.

"How could any citizen possibly keep track of what all 16 local government agencies are doing? They can't, and that's what is so dangerous about having so many layers of government in Illinois: citizens cannot possibly hold their governments accountable," said **Brian Costin**, director of government reform at the **Illinois Policy**

## Home Rule/Non-Home Rule

- 1970 Constitution made all municipalities with a population >25,000 Home Rule
- By referendum, municipalities may also become or drop Home Rule status
- Home Rule provides more local control
  - Additional revenue options
  - Planning and zoning

## What are differences between public and private sector?

- Source(s) of revenue
- Use(s) of revenue



## What are differences between public and private sector?

- Decision making
- Legal issues/budget





## What are differences between public and private sector?

- Freedom of information/transparency
- Performance/success measures

**FOIA**



## Local Government Financial Responsibilities

Accounting	Financial Reporting	Purchasing
Budgeting	Information Technology	Revenue Collection
Capital Planning	Internal Auditing	Taxes, Fees and Charges
Cash/Investment Management	Payroll/Human Resources	Utility Billing
Debt Management	Pensions	Others ???

# Essential Functions of Government

## ■ Allocation

- ☐ Most appropriate use of resources

## ■ Distribution

- ☐ Income and wealth among individuals
- ☐ Largely federal and state role

## ■ Stabilization

- ☐ Overall level of economic activity
- ☐ Federal monetary and fiscal policies
- ☐ State or local economic development programs

# Objectives of Government Finance

## ■ Accountability

- ☐ Full Disclosure
- ☐ Internal Controls
- ☐ Financial Reporting – Generally Accepted Accounting Principles (GAAP)
- ☐ Annual independent audit in accordance with generally accepted government auditing standards

# Objectives of Government Finance

## ■ Equity

- Fairness
- Individuals in equal relevant circumstances treated equally (Horizontal Equity)
- Individuals in different relevant circumstances are treated fairly (Vertical Equity)
  - Involves value judgments

# Objectives of Government Finance

## ■ Efficiency

- Are the right level of resources devoted to delivering the right mix of services?



## Other Common Terms

- Opportunity Cost
- Tax Burden
- Intergenerational Equity
- Voluntary/Involuntary Transactions
- Mandates
- Taxes vs. Fees

## Financial Fiscal Policies

- Establish principles on which government's finances are based
- Attachment: Lake Forest City Council Fiscal Policy – Fiscal Year 2020
  - Reviewed and approved annually as part of budget development process

# Fiscal Policy

- Statement of Policy Purpose
- Policy Goals
- Overall Budget Guidelines
- Expense Guidelines
- Revenue Guidelines
- Reserve Policies

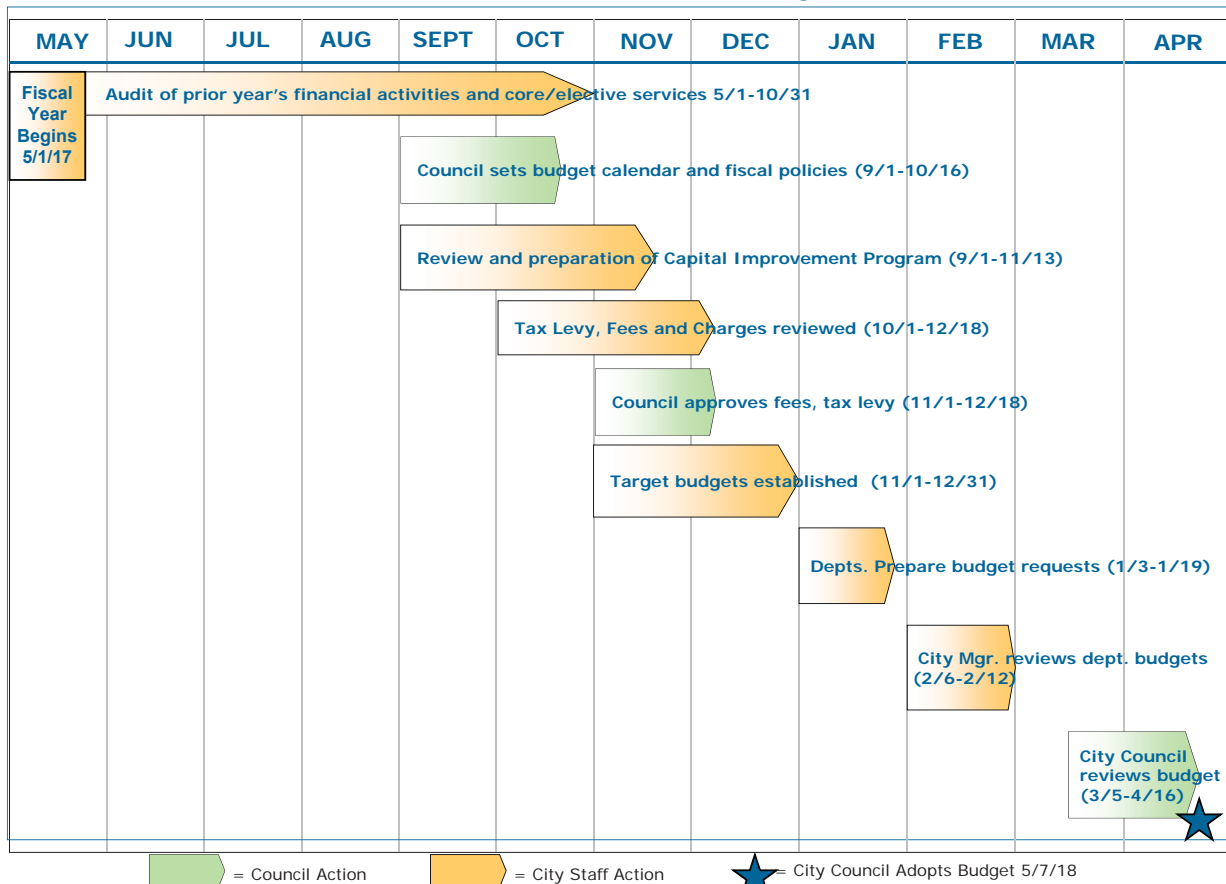
# Fiscal Policy (continued)

- Investment Policies
- Debt Policies
- Accounting, Auditing, and Financial Reporting Policies

# Other Policies?

- Investment Policy
- Purchasing Policy
- Pension Funding Policy

## Lake Forest Financial Cycle



# Questions?

Elizabeth Holleb  
City of Lake Forest  
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# **City Council Fiscal Policy**

## **FISCAL YEAR 2020**

### **Statement Of Policy Purpose**

The City of Lake Forest, (the “City”), and its governing body, the City Council, (the “Council”), is responsible to the City’s citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. These policies of the Council are designed to establish guidelines for the fiscal stability of the City and to provide guidelines for the City’s chief executive officer, the City Manager.

These policies will be reviewed annually.

### **Policy Goals**

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the City. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the City’s ability to insulate itself from fiscal crisis,
- Enhances short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the City rather than single issue areas,
- Promotes the view of linking long-term financial planning with day-to-day operations, and
- Provides the Council and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.



To these ends, the following fiscal policy goal statements are presented.

## **I. Overall Budget Guidelines**

1. The City shall annually adopt a Balanced Budget, for which expenditures in a given fiscal year do not exceed the sum of: 1) estimated revenues for the fiscal year, plus 2) the fund balance at the beginning of the fiscal year. Abide by the target based budgeting process. Target based budgeting ties expenses to projected resources at the beginning of the budget process, rather than cutting expenses after budgets are developed. This methodology reaffirms the relationship between revenues and services, taxes and spending, and involves departments in the process from the beginning.
2. Seek and encourage resident input in budget planning issues and service level decisions.
3. Review all services residents receive and strive to maintain the services at existing levels, unless specific variances are granted by the City Council. Each service should be examined thoroughly to determine if it is still necessary or can be provided in a more cost-effective way. New program initiatives must be measured in terms of their overall fiscal impact and capabilities.
4. Pay for all recurring expenses with recurring revenues, and use non-recurring revenues for non-recurring expenses. Proceeds from land sales (including the Laurel and Western TIF Note) shall be deposited into the Capital Fund unless intended for other legislative initiatives as directed by the City Council.
5. Maintain positive fund balances for all funds.
6. Annually review the cash flow reserves in all City operating funds to ensure adequacy given the volatility and risk of revenues attributable to each fund.
7. Monitor actual revenues and expenditures compared to budget throughout the year so that spending may be reduced as needed to offset revenue shortfalls or unanticipated expenditures.
8. Protect the City's assets by maintaining adequate insurance coverage through either commercial insurance or risk pooling arrangements with other governmental entities.
9. Abide by the 1991 Property Tax Extension Limitation Act, which limits the annual increase in property tax extensions to the lesser of 5 percent, or the increase in the consumer price index, plus allowances for new construction and voter approved increases, unless the City Council determines that an exception is necessary to preserve the long term financial health of the City.

10. Work actively with legislators and Councils of Government in passing legislation that promotes effective government, reduces unfunded mandates, controls pension and other personnel related costs or otherwise creates unsustainable operating costs for local governments.

## **II. Expense Guidelines**

### **Personnel**

1. Limit staff increases to areas where approved program growth and support require additional staff. The Council will also seek to maintain authorized personnel at the lowest levels possible consistent with the service plan authorized.
2. Adjust the personnel pay plan consistent with market rates for positions with comparable responsibilities.
3. Fully fund annual obligations for all employee pension plans pursuant to the City's Pension Funding Policy (as may be amended by City Council) and the State of Illinois Compiled Statutes, as determined annually by an independent actuary. Continue efforts to seek action by the Illinois General Assembly for pension reform to ensure fiscal sustainability.
4. Fund other post-employment benefit (OPEB) costs on a pay-as-you-go basis, while also setting aside reserves in the Self Insurance Fund to meet future obligations. Reserves shall be set aside annually using a fifteen-year amortization period beginning May 1, 2015, based upon the most recent actuarial valuation.
5. Be a leader among Illinois municipalities in maintaining fiscally prudent compensation policies and identifying alternative methods for attracting and retaining quality employees.

### **Operating Costs**

1. Fully budget anticipated expense for an average operating year.
2. Maintain a contingency budget for unanticipated expenses.
3. Review all contract services and other charges for cost effectiveness and to determine if there are alternative methods to perform these services at less cost.

4. Review the potential for outsourcing/contracting services for each City operating department.
5. Follow funding priorities that emphasize efficiencies and economy with established criteria including the number of residents benefiting from specific services or programs.
6. A 2014 cost allocation study has been completed to demonstrate the allocation of administrative costs budgeted in the General Fund and their benefit to budget programs across the organization. The City utilizes the cost allocation study results to assess administrative charges to other City funds to recover administrative costs provided by General Fund administrative departments. Where feasible, the cost allocation study is also used to factor in the administrative cost burden to departments in agreements to provide services to outside entities.

### **Program Expansions**

1. Proposed program expansions above existing service levels must be submitted as budgetary enhancements requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of its relationship to the health, safety, and welfare of the community to include analysis of long-term fiscal impacts.

### **New Programs**

1. Proposed new programs must also be submitted as budgetary enhancements requiring detailed justification. New programs will be evaluated on the same basis as program expansion to include analysis of long-term fiscal impacts.

### **Capital Budget**

1. Make all capital improvements in accordance with an adopted Capital Improvements Program (CIP).
2. Conduct a detailed analysis of the capital improvement proposals for the current year, review projects identified for future years, and establish a five year capital improvement plan. Review the funding methods for all projects proposed to reflect financial implications and to determine whether the project is essential at this time.
3. Conduct a detailed review of all capital equipment requests to determine current needs, cost effectiveness, and ramifications if deferred or eliminated.

4. Coordinate development of the capital budget with development of the operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts. Following completion of any project, conduct a post project review.
5. Identify the "full-life" estimated cost and potential funding source for each capital project proposal before it is submitted to the Council for approval.
6. Maintain level and complete budgeting for building and capital equipment to avoid erratic changes from year to year for on-going maintenance and replacement of City facilities and equipment. Fund recurring/maintenance capital expenses from recurring revenue sources.
7. Abide by the following financing parameters for the establishment of a special service area:
  - Amortization period: not to exceed 20 years or the estimated useful life of the improvements, whichever is less;
  - Interest rate: market rate at date of bond sale, or
    - City financed projects: not less than the Municipal Market Data rate for uninsured Aaa rated bonds + 2%. Rate will be set on the construction start date;
  - All financing, legal and other related costs shall be included in the cost of the project;
  - The City will typically finance a maximum residents' share of \$500,000 annually. For projects greater than \$500,000, a bond sale may be conducted.
  - If the City is required to provide related capital project funding earlier than planned due to the establishment of the SSA, the funding shall be from General Fund fund balance. At no time shall the establishment of the SSA cause the General Fund fund balance to fall below its established minimum benchmark.

### **III. Revenue Guidelines**

1. Maintain a diversified and stable revenue structure to shelter the City from short-term fluctuations in any one revenue source. Minimize reliance on State and/or Federal revenues to fund core services.
2. The City Council will determine tax levy allocation amounts to the General Fund, Police and Fire Pension Fund, IMRF/Social Security, Park and Recreation Fund, Special Recreation and the Library.
3. Conservatively but realistically review and estimate projected revenues.

4. Institute user fees and charges for specialized programs and services in the City, as well as conduct an annual detailed analysis of all user fees, charges, and fines to assure proper charges for services and recommend appropriate changes.
5. Conduct the annual detailed review of all Enterprise Fund charges, (i.e., water and sewer, golf) and recommend cost effective changes in line with operating expenses and capital needs.
6. Routinely identify intergovernmental aid funding possibilities. However, before applying for or accepting intergovernmental aid, the City will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary increment. Therefore:
  - ♦ All grant applications, prior to submission, must be approved by the City Manager.
  - ♦ No grant will be accepted that will incur management and reporting costs greater than the grant amount.
  - ♦ All grant requirements will be reviewed and understood prior to entering into the grant agreement.
7. In 2002, Lake Forest voters approved a referendum authorizing a .5% sales tax for expenditure on public infrastructure located in the City. Recognizing an immediate need for storm water system improvements, the City issued bonds in 2003 and 2004. The revenue generated by the .5% sales tax is utilized to make the debt service payments on this debt. A minimum reserve of one years' principal and interest payments is maintained in the Sales Tax .5% funds. Surplus revenues exceeding the minimum reserve may be considered for other public infrastructure improvements annually by the City Council.

#### **IV. Reserve Policies**

1. The City will maintain a fund balance for fiscal cash liquidity purposes, (i.e., fiscal reserve), that will provide sufficient cash flow to minimize the potential of short-term tax anticipation borrowing.
2. Unassigned fund balances should be equal to no less than 35% of non-pass through operating revenues for the General Fund plus accrued sick and vacation leave.
3. The City will maintain sufficient self-insurance reserves as established by professional judgment based on the funding techniques utilized, loss records, and required retentions.

4. The City will seek to maintain minimum fund balance targets (unrestricted net position for proprietary funds) in each fund which reflect considerations such as revenue volatility and necessary contingencies. It is noted that certain funds are subject to five year financial forecasts, debt service coverage requirements and/or may be accumulating fund balance to address future capital needs, warranting a fund balance in excess of the minimum target. In the event fund balance falls below the established target for a particular fund, the City shall establish a plan to return the fund balance to its target. The fund balance targets by fund or category of funds is as follows:
  - General Fund – see Section IV.2
  - Parks and Recreation Funds (combined) – 25% of operating revenue
  - Other Non-major Special Revenue Funds – 10% of operating revenue
  - Debt Service Funds – N/A
  - Capital Project Funds – The Capital Improvement Fund should maintain sufficient fund balance (minimum of \$1 million) to address unanticipated capital expenses not foreseen during the annual CIP and budget development process.
  - Water and Sewer Enterprise Fund/Operating – 33% of operating revenue plus one years' debt service + \$500,000
  - Water and Sewer Enterprise Fund/Capital – 0%
  - Deerpath Golf Course Fund – 15% of operating revenue
  - Fleet Fund – 15% of operating revenue
  - Self Insurance Fund – 25% of operating revenue + OPEB reserve
  - Liability Insurance Fund – 50% of operating revenue
  - Police and Fire Pension Funds – N/A; subject to statutory and actuarial requirements
  - Cemetery Trust Fund – N/A; subject to bequest requirements and Cemetery Commission policy

## **V. Investment Policies**

1. The City will follow the investment policy approved by the City Council on February 6, 2017, or a subsequently approved revision to the investment policy.
2. The City will conduct an analysis of cash flow needs on an on-going basis. Disbursements, collections, and deposits of all funds will be scheduled to insure maximum cash availability and investment potential.
3. The City will, where permitted by law, pool cash from its various funds for investment purposes.
4. The City will invest City revenue to maximize the rate of return while maintaining a low level of risk.

5. The City will review contractual consolidated banking services every five years.

## **VI. Debt Policies**

1. The City will not fund current operations from the proceeds of borrowed funds.
2. The City will confine long-term borrowing to non-recurring capital improvements, projects, or equipment that cannot be financed from current financial resources.
3. The City will analyze market conditions, and long-term capital needs assessments, prior to debt issuance to determine the most advantageous average life. The debt structure may be lengthened during low interest rates and shortened during high rates.
4. The City will look for both current and advance refunding opportunities in order to save interest expense.
5. The City's debt capacity shall be maintained at a level consistent with available Moody's Guidelines to maintain our Aaa rating.
6. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition and will regularly analyze total indebtedness including underlying and overlapping debt.
7. The City will maintain good communications about its financial condition with bond and credit rating institutions.
8. The City will follow a policy of full disclosure in every annual financial report and official statement/offering document.

## **VII. Accounting, Auditing, And Financial Reporting Policies**

1. The City will establish and maintain a high standard of accounting practices in conformance with uniform financial reporting in Illinois, and Generally Accepted Accounting Principles (GAAP), for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).
2. The City's financial accounting system will maintain records on a basis consistent with accepted standards for local government accounting (according to GASB).
3. The City will strive to collect the majority of its receivables within thirty days.
4. The City will retain the right to perform financial, compliance, and performance audits on any entity receiving funds or grants from the City.

5. The City will engage an independent firm of certified public accountants to perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS), and will have these accountants publicly issue an opinion which will be incorporated in the Comprehensive Annual Financial Report.
6. The Audit Committee is responsible for recommending the selection of the independent firm of certified public accountants (the Council's external auditor) to perform an annual financial and compliance audit, defining the audit scope and receiving the report of the auditor.
7. The City will annually seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.
8. The City will follow the below fund balance classification policies and procedures.
  - A. Committed Fund Balance shall be established, modified or rescinded through a City Council resolution.
  - B. Assigned Fund Balance will generally follow the approved budget and may be assigned to a specific purpose by the Finance Director.
  - C. In the General Fund, the City considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, followed by committed amounts then assigned amounts. Unassigned amounts are used only after the other categories of fund balance have been fully utilized.
  - D. In governmental funds other than the General Fund, the City considers restricted amounts to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City will first utilize assigned amounts, followed by committed amounts then restricted amounts.

**Other Applicable Financial Policies:**

- **Pension Funding Policy**
- **Investment Policy**

Amended: October 2018





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# Basic Accounting Theory



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## BASIC ACCOUNTING EQUATION

$$\text{OWNED} - \text{OWED} = \text{NET WORTH}$$

## RESTATED BASIC ACCOUNTING EQUATION

OWNED – OWED = NET WORTH

ASSETS – LIABILITIES = EQUITY  
(FUND BALANCE)

## LIQUID FINANCIAL POSITION

**CURRENT ASSETS – CURRENT LIABILITIES  
= NET CURRENT ASSETS**

## EXPANDED ACCOUNTING EQUATION

$$\begin{aligned} &\textbf{ASSETS =} \\ &\textbf{LIABILITIES + (FUND BALANCE OR NET} \\ &\textbf{POSITION)} \\ &\textbf{+ REVENUES – EXPENDITURES OR EXPENSES)} \end{aligned}$$

## DOUBLE ENTRY ACCOUNTING

# Double-Entry Accounting

Double-entry bookkeeping means to record the dual effects of each business transaction.

$$\text{Assets} = \text{Liabilities} + \text{Fund Balance}$$

## Recording Transactions in the Journal

### Step 1

*Identify the transaction and specify each account affected.*

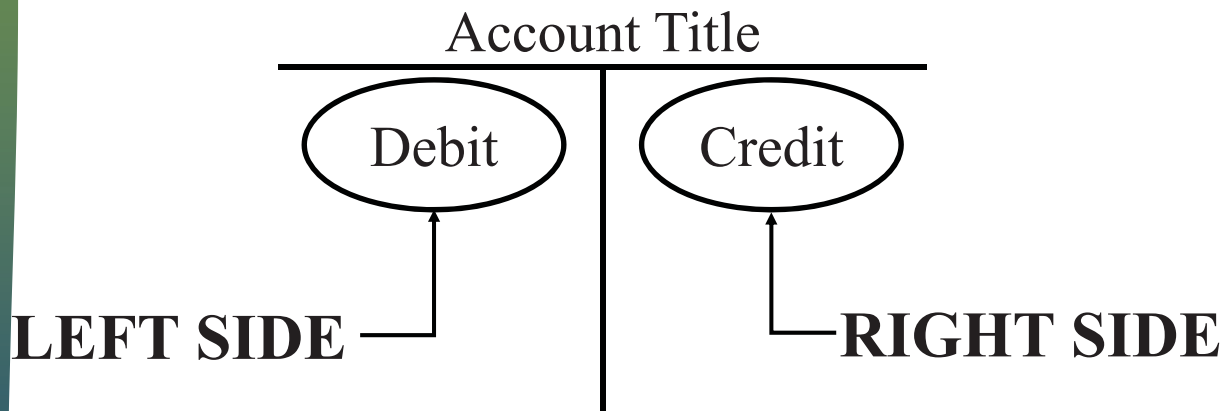
### Step 2

Determine whether each account is *increased or decreased* by the transaction.  
Use the rules of debits and credits.

### Step 3

*Enter the transaction in the journal, including a brief explanation for the entry.*







# The T-Account



# Increases and Decreases in the Accounts

Accounting  
Equation:

Rules of  
Debit and  
Credit:

Assets	=	Liabilities	+	Fund Balance
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  Debit + </div> <div style="text-align: center;">  Credit - </div> </div>		<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  Debit - </div> <div style="text-align: center;">  Credit + </div> </div>		<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  Debit - </div> <div style="text-align: center;">  Credit + </div> </div>

# Rules of Debit and Credit

**City ABC received \$50,000 in Sales Tax.**

Assets		=	Liabilities		+	Fund Balance
<b>Cash</b>						<b>Sales Tax Revenue</b>
Debit for Increase, 50,000						Credit for Increase, 50,000

# Rules of Debit and Credit

**City ABC pays \$100,000 for payroll.**

Assets		=	Liabilities		+	Fund Balance
<b>Cash</b>						<b>Salary Expense</b>
Credit for Decrease, 100,000						Debit for Increase, 100,000

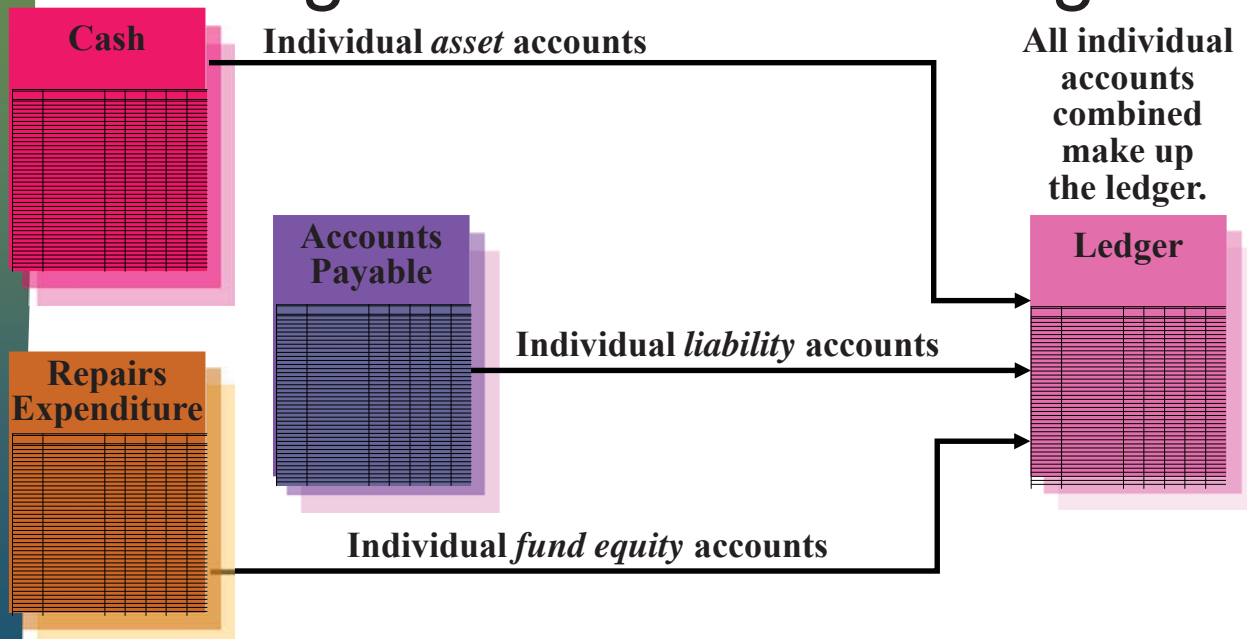
# Posting from Journal to Ledger

The *journal* is a chronological record of all transactions listed by date.

The *ledger* is a grouping of all the accounts; it shows their balances.

Data must be copied to the ledger – a process called *posting*.

# Posting from Journal to Ledger













## REFERENCE GUIDE: What do I debit? What do I credit?

ACCOUNT	DEBIT	CREDIT
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Fund balance	Decrease	Increase
Revenues	Decrease	Increase
Expenditures/Expenses	Increase	Decrease

# DEBIT/CREDIT THEORY











## LET'S COMBINE EVERYTHING THAT WE HAVE LEARNED:

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
													













# DEBIT/CREDIT THEORY

- **AT THE BEGINNING OF THE FISCAL YEAR, A GOVERNMENT HAD \$20,000 IN ASSETS.**

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
													
\$20,000		=			+		\$20,000	+			-		











# DEBIT/CREDIT THEORY

- **THE GOVERNMENT EARNED REVENUE OF \$8,000.**

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
													
\$20,000		=			+		\$20,000	+			-		
\$8,000		=			+			+		\$8,000	-		
\$28,000		=			+		\$20,000	+		\$8,000	-		











# DEBIT/CREDIT THEORY

## ■ THE GOVERNMENT INCURRED EXPENDITURES OF \$6,000.

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
													
\$20,000		=			+		\$20,000	+			-		
\$8,000		=			+			+		\$8,000	-		
		=		\$6,000	+			+			-	\$6,000	
\$28,000		=		\$6,000	+		\$20,000	+		\$8,000	-	\$6,000	

# DEBIT/CREDIT THEORY











## ■ THE GOVERNMENT BORROWS \$9,000.

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
													
\$20,000		=			+		\$20,000	+			-		
\$8,000		=			+			+		\$8,000	-		
		=		\$6,000	+			+			-	\$6,000	
\$9,000		=		\$9,000	+			+			-		
\$37,000		=		\$15,000	+		\$20,000	+		\$8,000	-	\$6,000	

# DEBIT/CREDIT THEORY

## ■ THE BOOKS ARE CLOSED AT YEAR-END.

(ALL REVENUES & EXPENDITURES ARE ROLLED UP INTO FUND BALANCE FOR BALANCE SHEET REPORTING.)

ASSETS		=	LIABILITIES		+	FUND BALANCE		+	REVENUES		-	EXPENDITURES	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
													
\$37,000		=		\$15,000	+		\$20,000	+		\$8,000	-	\$6,000	
							+\$8,000						
							-\$6,000						
\$37,000		=		\$15,000	+		\$22,000						

## CHART OF ACCOUNTS

# Chart of Accounts

- The Chart of Accounts is a structured list of all accounts used in a ledger “accounting system”
- Categories
  - ☐ Assets (Balance Sheet)
  - ☐ Liabilities (Balance Sheet)
  - ☐ Fund Equity (Balance Sheet)
  - ☐ Revenues (R&E)
  - ☐ Expenditure (R&E)
- Numbering convention - Important
- Summarize and aggregate detailed transactions
  - ☐ Meaningful Analysis
  - ☐ Financial Reporting and Budgets



Assets – Liabilities = Fund Equity

# Chart of Accounts – Assets

- *Current Assets*
- Generally numbered as “100” accounts and include:
  - ☐ 101 Cash
  - ☐ 102 Petty Cash
  - ☐ 103 Investments – CD’s
  - ☐ 105 Investments - Agencies
  - ☐ 113 Taxes Receivable – Current
  - ☐ 115 Accounts Receivable
  - ☐ 117 Interfund Receivables
  - ☐ 119 Intergovernmental Receivables

# Chart of Accounts – Assets

## ■ *Capital Assets (long-term physical assets)*

- 161 Land
- 162 Right-of-Way
- 163 Buildings
- 164 Improvements Other Than Buildings (Wells)
- 165 Machinery and Equipment
- 166 Construction in Progress



# Chart of Accounts – Liabilities

## ■ *Current Liabilities*

## ■ Generally numbered as “200” accounts and include:

- 202 Accounts Payable
- 206 Retainage Payable
- 207 Interfund Payables
- 209 Accrued Wages Payable

# Chart of Accounts – Liabilities

## ■ *Long-term Liabilities*

- 231 Bonds Payable (non-current)
  - 231.1 General Obligation Bonds Payable
  - 231.2 Revenue Bonds Payable
  - 231.3 Special Assessment Bonds Payable
  - 231.4 Debt Certificates Payable
- 237 Lease Purchase Agreements
- 238 Compensated Absences Payable

# Chart of Accounts – Fund Equity

## ■ *Fund Equity*

- Governmental (fund balance)
- Proprietary fund types (net position)

## ■ *Fund Balance*

- *Reserved, Unreserved, Designated, Undesignated*

## ■ *GASB Statement 54 Changes for Fund Balance Definitions*

## ■ *Fund Equity:*

- 245 Inventories
- 246 Prepaid Items
- 253 Restricted Fund Balance (External Constraint)
- 254 Committed Fund Balance (Council Constraint)
- 255 Assigned Fund Balance (Informal Constraint)
- 256 Unassigned Fund Balance (Available)
- 261 Net Invested in Capital Assets (Non-mortgaged Assets)

# Chart of Accounts

- Revenues and Expenditures/Expenses (R&E)

## Chart of Accounts – Revenues

- Revenues and Other Financing Sources are generally numbered as “300” accounts and include:
  - 310 Taxes
    - 311 Property Taxes
      - 311.10-11 Property Taxes – IMRF Levy
      - 311.10-12 Property Taxes – Social Security Levy
      - 311.10-16 Property Taxes – Police Pension Levy
    - 313 Local Taxes
      - 313.10-00 Local Sales Tax
      - 313.30-00 Hotel/Motel Tax
      - 313.50-00 Food & Beverage Tax



## Chart of Accounts – Revenues

- ☐ 315 State Taxes
  - 315.10-00 State Sales Tax
  - 315.20-00 State Income Tax
- ☐ 321 Licenses
  - 321.05-00 Liquor license
  - 321.10-10 Licenses – Apartments
  - 321.10-15 Licenses – Hotel/Motel
  - 321.10-20 Licenses – Mobile Home Park
- ☐ Permits
  - 322.20-10 Building Permit
  - 320.20-20 Electrical Permit
  - 320.20-30 Plumbing Permit
  - 320.20-40 HVAC Permit

## Chart of Accounts – Revenues

- ☐ 341 Charges for Services
  - 341.10-00 Waste Collection Fees
  - 341.16-00 Ambulance Fees
  - 343.10-00 Water Use Fees (Water Fund)
- ☐ 350 Fines and Forfeits
  - 371.10 Police Tickets
  - 371.20 Parking Fines
  - 371.60 False Alarm Fines
- ☐ 360 Investment Income
- ☐ 370 Miscellaneous
- Consistent across funds and departments/divisions (if applicable)



## Chart of Accounts – Revenues

- Examples of Other Financing Sources accounts:
  - 391 Interfund Transfers
  - 392 Proceeds of General Capital Asset Dispositions
  - 393 Proceeds of General Long-Term Debt
  - 394 Appropriation of Fund Balance

## Chart of Accounts – Expenditures

- Expenditures Accounts
- Most significant and numerous accounts
  - Cost Center
    - Fund
    - Department
    - Function
  - Activity (Accounts shared by all Cost Centers)
    - Element
    - Object

# Chart of Accounts – Expenditures

## ■ Cost Center or Activity?

### ■ Cost Center (organization or unit - unique)

- ☐ Fund
  - General Fund
- ☐ Department
  - Fire Department
- ☐ Division
  - Prevention Division
- ☐ Function/Activity and Sub-Function/Sub-Activity
  - Public Safety
- ☐ Program
  - Smoke alarms

### ■ Activity (Function or Service - shared)

- ☐ Element
  - Salaries & Wages
- ☐ Object
  - Regular Salaries
  - Part-time Salaries
  - Overtime Salaries
  - Social Security

# Chart of Accounts – Expenditures

## ☐ Function and Sub Function/Activity

- 410 General Government
  - ☐ 411 Legislative
  - ☐ 412 Executive
  - ☐ 415 Finance
- 420 Public Safety
  - ☐ 421 Police
  - ☐ 422 Fire
- 430 Public Works
  - ☐ 431 Highway & Streets
  - ☐ 432 Sanitation
- 440 Health and Welfare
- 450 Culture and Recreation

# Chart of Accounts – Expenditures

## ■ Element and Object Codes:

### □ 1 Personnel Services

#### ■ Salaries and Wages

- 10-10 Regular Salaries
- 11-10 Part-time Salaries
- 12-10 Overtime

#### ■ Benefits

- 16-10 Employer Social Security
- 17-10 IMRF Retirement
- 18-10 Health and Dental

### □ 2 Professional Services

#### ■ Construction Services

- 27-10 Major Facility Projects
- 27-30 Traffic Signals
- 27-40 Street Resurfacing
- 27-70 Sidewalks

# Chart of Accounts

## ■ Accounting Line

### □ Language of the Chart of Accounts

### □ Translates thousands, some cases millions of transactions into an understandable summary

Account Number 001-1210-451-10-10

Fund	001	General Fund	Cost Center
Department	12	Cultural Arts Department	Cost Center
Division	10	Children's Discovery Museum	Cost Center

Activity	45	Culture and Recreation	Cost Center
Sub Activity	1	Recreation	Cost Center

Element	10	10 = Salaries and Wages	Activity - Shared by all Cost Centers
Object	10	10 = Regular Salaries	Activity - Shared by all Cost Centers

# Chart of Accounts

- Create the Financial Report
- Trial Balance
  - Balances for all the accounts
    - Assets
    - Liabilities
    - Equity
    - Revenue
    - Expenditures

# PRINCIPLES OF ACCOUNTING

## GOVERNMENTAL ACCOUNTING VS. PRIVATE ACCOUNTING

### ■ Similarities

- ☐ Reporting on financial position and results of operation
- ☐ Double entry accounting
- ☐ Terminology

### ■ Differences

- ☐ Profit motive
- ☐ Reporting
- ☐ Legal provisions
- ☐ Flexibility
- ☐ Fund accounting

## Governmental Accounting Acronyms

- GAAP
- NCGA
- GASB
- AICPA
- FASB

## NCGA Principles of Governmental Accounting

- **GAAP and Legal Compliance**
  - Accounting System
- **Fund Accounting**
- **Capital Assets and Long Term Debt**
- **Basis of Accounting**
- **Budget and Budgetary Accounting**
- **Classification and Terminology**
- **Financial Reporting**

## Fund Accounting – Fund Categories

- **Governmental**
  - GENERAL
  - SPECIAL REVENUE
  - CAPITAL PROJECTS
  - DEBT SERVICE
  - PERMANENT
- **Proprietary**
  - ENTERPRISE
  - INTERNAL SERVICE

## Fund Accounting – Fund Categories

- **Fiduciary**
  - **PENSION TRUST**
  - **AGENCY**

## Basis of Accounting

- **Governmental Funds**
  - **Modified Accrual**
  - **Current Resources Measurement Focus**
- **Proprietary and Fiduciary Funds**
  - **Accrual**
  - **Economic Resources Measurement Focus**
  - **Agency Funds no Measurement Focus**

## Capital Assets and Long Term Debt

- **Governmental Funds**
  - **Capital Assets and Long Term Debt in Interactive Account Group**
- **Proprietary and Fiduciary Funds**
  - **Capital Assets and Long Term Debt Recorded in the Fund**
- **Capital Assets at Cost or Estimated Cost or Fair Value if Donated**

## Classification and Terminology

- **Other Financing Sources and Uses**
  - **Interfund Transfers**
  - **Proceeds of Long Term Debt**



## Financial Reporting

### ■ **CAFR vs AFR**

- **Introductory Section**
- **Financial Section**
- **Statistical Section**
- **GFOA Certificate of Achievement**

# FUND ACCOUNTING

## FUND ACCOUNTING

- Traditional method of accounting in state and local governments
- Each fund is a separate fiscal and accounting entity
- Each fund reports its own assets, liabilities, equity, revenues and expenditures/expenses
- Maintains its own accounting equation
- Determines design of accounting system
  - Separate data for each fund in system
- Used to segregate resources, demonstrate legal compliance

## DEFINITION OF A FUND

- A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

## MINIMUM NUMBER OF FUNDS RULE

- Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

## MINIMUM NUMBER OF FUNDS RULE

- Use of subfunds can reduce number of individual funds to be reported on.
- Alternatively, similar “funds” in the accounting system can be combined for reporting purposes (e.g., debt service funds)
- GASB #54 clarifies the definition of what can be reported in special revenue funds.

## MINIMUM NUMBER OF FUNDS RULE

- Why create more funds?
- Use of funds for accounting vs. financial reporting?
- Creates unnecessary complexity in our accounting and financial reporting.

## FUND CLASSIFICATIONS

- Three broad fund categories
  - ☐ Governmental
  - ☐ Proprietary
  - ☐ Fiduciary

## GOVERNMENTAL FUNDS

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds

## GENERAL FUND

- A government's primary operating fund
- To account for all financial resources not accounted for in another fund
- Only one general fund permitted to be reported on GAAP based statements
- Almost all governments should have one

## REASONS NOT TO ACCOUNT FOR AN ACTIVITY IN THE GENERAL FUND

- Why can't we account for a particular transaction or revenue source in the general fund?
  - GAAP requirements
  - Legal requirements
  - Sound financial administration suggests separate accounting.

## SPECIAL REVENUE FUNDS

- Revenues are legally restricted to expend for a particular purpose (e.g., MFT).
- Demonstrate legal compliance

## SPECIAL REVENUE FUNDS

- Use is voluntary
  - ☐ general fund of blended component unit is a special revenue fund in primary government's report
- Examples of special revenue funds
- Special revenue versus enterprise
- Most abused fund classification
  - ☐ Separate funds for each line of tax levy
  - ☐ Restricted revenue "transferred" to other funds to spend
    - Reimbursement accounting

## DEBT SERVICE FUNDS

- To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest payable by governmental funds
- Use is mandatory when legally required – bond ordinance
- Use is mandatory when resources are being accumulated for principal and interest payments maturing in future years (sinking fund)
- Number of debt service funds
  - ☐ System
  - ☐ Reporting

## CAPITAL PROJECTS FUNDS

- To account for major capital acquisitions and construction separately from ongoing operating activities (other than enterprise funds)
- Avoids distortions in financial resources trend information
- Oftentimes used to account for the expenditure of general obligation bond proceeds
- Common examples
- Use is voluntary – unless legally required
  - ☐ Number of funds
  - ☐ Accounting versus reporting
  - ☐ Arbitrage implications

## PERMANENT FUNDS

- To report resources that are legally restricted by an external third party to the extent that only earnings, and not principal, may be used for purposes that support the government's programs
  - ☐ Created by GASB Statement No. 34
  - ☐ Formerly nonexpendable trust
  - ☐ Common examples



## PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds

## ENTERPRISE FUNDS

- Account for total cost of activity or operation
- Fee charged to external users.
  - ☐ May or may not recover total cost of providing services
- Use is mandatory
  - ☐ Hospitals
  - ☐ Public entity risk pools (with transfer of risk)
  - ☐ When debt is issued that is backed solely by fees and charges (i.e., revenue bonds)
  - ☐ legally required to recover or measure total costs
  - ☐ government's policy to recover the costs of providing a service through user fees

## INTERNAL SERVICE FUNDS

- To account for any activities that provide goods or services to other funds, departments, or agencies on a cost-reimbursement basis
  - ☐ Internal cost allocations or pools
- Cost reimbursement basis
  - ☐ No ongoing deficits
  - ☐ No ongoing surpluses

## FIDUCIARY FUNDS (not our assets)

- Pension Trust Funds (and OPEB Trust Funds)
- Investment Trust Funds
- Private-Purpose Funds
- Agency Funds (Custodial Funds)

## PENSION (AND OPEB) TRUST FUNDS

- To report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, other post-employment benefit plans, and other employee benefit plans.
- Separate fund for each pension plan.
- Separate plan for post-employment health care plan (GASB S-75)

## ACCOUNT GROUPS (INTERACTIVE FUNDS)

- 2 used in practice
  - ☐ Capital asset interactive fund
  - ☐ Long term debt interactive fund
- No longer reported as part of financial statements
  - ☐ Needed for reporting at entity-wide
  - ☐ Interactive account groups (smart account groups)
    - Capture capital assets and long term debt for reporting at entity-wide
    - Capture other conversion entries related to measurement focus and basis of accounting
    - Add meaningful equity accounts

# BASIS OF ACCOUNTING

## MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

- Basic building block of everything we do
- Underlies every transaction we record
- Answers the three W questions
  - ☐ What
  - ☐ Where
  - ☐ When

# DEFINITION OF MEASUREMENT FOCUS

- Determines what is being measured in the operating statements
  - Which resource inflows and outflows to report
- Determines where capital assets and long-term liabilities are recorded
- Determines if we report an expenditure or an expense

# TWO MEASUREMENT FOCUSES

- Flow of economic resources measurement focus
  - Proprietary Funds (enterprise and internal service)
  - Fiduciary Funds
- Flow of Current Financial Resources
  - Governmental Funds

## ECONOMIC RESOURCES

- All assets and all liabilities
- Accrual basis of accounting
- Increases are revenues or gains
- Decreases are expenses or losses
- Measures net total assets and net income (loss)
- Proprietary Funds, Fiduciary Funds, Entity-wide statements (all)

## CURRENT FINANCIAL RESOURCES

- Only current assets and current liabilities
- Modified Accrual Basis of Accounting
- Increases are revenues or other financing sources
- Decreases are expenditures or other financing uses
- Measures available spendable resources and net change in fund balance
- Governmental Funds

# DIFFERENCES BETWEEN MEASUREMENT FOCUSES

- Purchase of a capital asset (capital outlay)
- Use of a capital asset (depreciation)
- Sale or disposal of capital asset
- Issuance of Long-term Debt
- Repayment of Principal on Long-term Debt

# BASIS OF ACCOUNTING

- Timing of recognition
- Determines when inflows and outflows should be reported on the operating statement

# TWO BASIS OF ACCOUNTING

- Full Accrual
  - ☐ Revenues when measurable and earned
  - ☐ Expenses when the liability has been incurred
- Modified Accrual
  - ☐ Revenues when measurable and available
  - ☐ Expenditures when the fund liability is incurred (draw on current financial resources)
- Cash basis

# MODIFIED ACCRUAL BASIS REVENUES

- Measurable
- Available
  - ☐ Bill paying cycle (ILCS Prompt Payment Act)
  - ☐ Standardized period of time
  - ☐ Operating cycle (12 months)
- GASB has refined for property taxes (at most 60 days)
- Monitoring disclosure in notes for further refinement



# MODIFIED ACCRUAL BASIS EXPENDITURES

- Accrued when incurred (good received or service provided) unless exception allowed
  - Inventories (purchases or consumption method)
  - Prepaid items (purchases or consumption)
  - Long-term Obligations
    - matured (due) and payable

# MODIFIED ACCRUAL BASIS LONG-TERM OBLIGATIONS

- Expenditure when matured (due) and payable
  - Debt – due date
  - Compensated absences
    - Terminated or retired

## ATTRIBUTES OF PROPRIETARY FUNDS (AND GOVERNMENTAL ACTIVITIES)

- Capitalization of capital assets (all)
- Depreciation expense recognized
- Accrual of revenues when earned
- Repayment of principal effects balance sheet
- Revenues/gains/expenses/losses
- Net position (unrestricted net position)

## ATTRIBUTES OF GOVERNMENTAL FUNDS

- Flow of current financial resources
- Modified accrual basis of accounting
- Revenues and expenditures
- Revenue when measurable and available
- Expenditures when fund liability is incurred
- Fund balance (available spendable resources)

# ECONOMIC RESOURCES

- Equity is net position
- Measures how well off economically a fund is
- Three components
  - ☐ Net investment in capital assets
  - ☐ Restricted
  - ☐ Unrestricted
- Fiduciary restricted/unrestricted

# CURRENT FINANCIAL RESOURCES

- Equity is fund balance
- Components
  - ☐ Nonspendable
  - ☐ Restricted
  - ☐ Committed
  - ☐ Assigned
  - ☐ Unassigned



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## Banking Basics and Tools for the Finance Professional

Susan Wade, Vice President Public Funds  
First Midwest Bank



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### ***Public Funds***

As a fiduciary agent of public funds, it is imperative above all else to keep those funds safe and secure regardless of the external economic conditions.

There are two main pathways to keeping public funds safe

- Illinois Public Funds Investment Act
- Investment Policy

## Illinois Public Funds Investment Act (IPFIA)

Illinois Public Funds Investment Act  
(30 ILCS 235/1) (from Ch. 85, par. 901)

1. Provides direction for investments of public funds for all municipal entities in Illinois
  - A. Deposits on hand for checking, savings, money market accounts and CDs.
  - B. Deposits for longer term investments in Treasuries, Agencies, Corporates Money Market Mutual Funds
2. Provides direction for collateralizing funds at financial institutions.

This is the minimum requirement for all public entities.

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## Investment Policy

Each public entity can also have their own board approved Investment Policy.

- The board may choose to narrow the scope of IPFIA.
- In home rule instances, the board may choose to broaden the IPFIA with board approval.

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## Collateralization of Deposits

In order to secure the taxpayer funds in the event of a bank failure, IPFIA calls for the funds on hand at a bank are required to be collateralized.

FDIC Insurance will cover \$250,000 per account holder at a bank. Funds held at that bank are then needed to be collateralized to mitigate the risk of bank failure.

There are two ways of collateralizing funds:

1. Third Party Agreements (Federal Reserve Bank of Chicago, Bank of New York, etc.)
  - A. Federal Reserve Bank = Fixed cap of collateral amount
  - B. Bank of New York = fluctuation of collateral amount
2. Letter of Credit – typically from Federal Home Loan Bank of Chicago (FHLB)
  - A. Fixed cap of collateral amount

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## Collateralization of Deposits – FHLB LC

If a bank uses FHLB Letter of Credit to collateralize, the municipality will receive a letter of credit (LC) with them listed as the beneficiary. The original will need to be kept in a safe place as in the event of a bank failure, it will need to be provided to FHLB for liquidation.

- The dollar amount of the LC will need to be sufficient to cover all the funds on deposit during the peak balances (tax collection).
- The maximum amount should be reviewed annually to avoid a shortage.

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## Collateralization of Deposits – Federal Reserve Bank

If a bank uses the Federal Reserve Bank to collateralize the public fund, a Third Party Agreement will need to be executed between the three parties.

- The bank investment that will be deposited into the FRBs account will need to be sufficient to cover all the funds on deposit during the peak balances (tax collection).
- The maximum amount should be reviewed annually to avoid a shortage.
- The public entity should maintain an original copy of the agreement.
- Types of allowable investments pledged need to be included in the agreement and a copy of the investment policy (if there is one) should be made a part of the file.

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## Collateralization of Deposits – Bank of New York

If a bank uses Bank of New York to collateralize the public fund, a Third Party Agreement will need to be executed between the three parties.

- The bank investment that will be deposited into the BNY account will need to be sufficient to cover all the funds on deposit on a daily basis. This will ensure full coverage of the deposits on hand.
- The public entity should maintain an original copy of the agreement.
- Types of allowable investments pledged need to be included in the agreement and a copy of the investment policy (if there is one) should be made a part of the file.
- On a daily basis, the total amount of funds on deposit is transmitted to BNY. The first \$250,000 for FDIC coverage is taken off the top, and then the balance is the amount needed to be collateralized. The public entity may want to have more than 100% coverage to allow for market changes of the underlying investment

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## Collateral at Year End

Your auditor should request a copy of the LC or the TPA and review it's content for compliance with the audit.

There is a section in your CAFR which will address collateralized funds and non collateralized funds.

Your bank should receive two account confirmations. One for balances at year end of the transactional and investment accounts, and one for collateral accounts.

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## FIVE CORE SOLUTION SETS IN TREASURY MANAGEMENT



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## Receivables

The faster and more efficiently that your receivables are collected, the quicker you can put your cash to work for your business. Our Receivables Services provide your business with the flexibility to offer your customers multiple payment methods. This makes it easier for your customers to do business with you while providing you with a simple collection process.

### Receivable Services:

- ACH Collections
- Lockbox Services
- Merchant Services
- Remote Deposit Capture
- Bill Payment Consolidation
- Coin and Currency Processing
- Smart Safe Solutions

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## ACH Collections

Reduce the time and expense that your company spends collecting recurring receivables with preauthorized electronic transactions. Your bank's Automatic Clearing House (ACH) Collections service can save time and money by eliminating traditional check processing. Using ACH, your customers can have their payments automatically deducted from their bank accounts and deposited into your checking account.

### Features and Benefits:

- Low cost alternative to more expensive traditional instruments
- Business to business transactions
- Business to consumer transactions
- Online portal, available 24/7
- Dual control options mitigates fraud risk
- Template based transactions
- National Automated Clearing House Association (NACHA) formatted file upload

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## Lockbox

The Lockbox Service is designed to accelerate the collection of accounts receivable remittances and to increase the availability of funds. Your bank is ready to assist in customizing various in-house lockbox options to fit your needs.

### Types of Lockbox Services available:

- Electronic
- Wholesale
- Retail
- Wholetail

### Features and Benefits:

- Faster funds availability
- Reduces risk
- Reduces cost of labor and office expenses
- Same day deposit
- Online reporting via Receivables Manager

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## Merchant Card Processing

### More Payment Acceptance Options = Growth Opportunities

- Additional payment options
- Visa®, MasterCard®, Discover®, and American Express® processing to check verification services
- Increased customer base
- Processing solutions
- Competitive rates
- 24/7 Merchant Help Desk
- Next day availability of deposited funds (5:00pm deadline)

### Leading Edge Technology = Reliable Transaction Processing

- Broad range of secure payment processing methods
  - Point-of-Service Terminal
  - Internet option allows payment acceptance via any web-enabled device
  - Wireless/Mobile
- Intuitive online reporting system

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## Remote Deposit Capture

Remote Deposit Capture (RDC) provides you with a faster, safer and more efficient way to make check deposits, all from the convenience of your office. Checks are deposited electronically into your account the same day you scan them, eliminating the need to travel to the bank before the daily deposit cut-off time.

### Features and Benefits:

- Faster availability of funds
- Extended Deposit Cutoff time – 8:00 p.m. (CT)
- Multiple reporting features
- Reduces desk float
- Reduces transportation time and costs
- Decreases employer liability
- Also an option to use a mobile device for deposit

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## Bill Pay Consolidation

### Automated Payment Process = Efficient and Cost Effective Solution

- Enrollment in the Electronic Remittance Network
- Payment via ACH Credit, with a large reduction in check volume
- Customized accounts receivable posting file to integrate into A/R System
  - Greatly reduces the manual intervention need to process and post payments

### State-Of-The-Art Technology = Accounts Receivable Control

- Easy to use online portal
- Ability to view payment activity by 10:00am CST
- Ability to generate repairs and returns to payment activity
  - Repairs are automatically applied to all future payments
- Access to 24 months of payment activity

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## Coin and Currency Processing

Armored car transportation reduces the risk to you and your employees by providing the safe transportation of cash and coin between the bank and your place of business.

### **Enhanced Security = Reduced Liability Risk**

- Armored car transportation\* keeps your valuables safe
  - Employees not put at risk transporting coin and currency to and from the bank branch
  - Deposits are protected by controls and safety measures every step of the way

### **Expedited, Scheduled Cash Processing = Improved, Reliable Cash Flow**

- Fast, automated processing of cash deposits and cash orders
- Convenient online cash ordering

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## Smart Safe

Expand on the safety of armored car transportation by providing an on-location protection of your cash.

### **Enhanced Security = Reduced Liability Risk**

- Safes are used to collect currency at location and Dunbar is responsible for servicing the safes
  - Risk associated with bringing large cash deposits to the branch is eliminated
  - Inaccurate bill counting is reduced
- Safes are protected by numerous safety features and only accessible by Dunbar
- Employee theft is deterred
- Counterfeit bill acceptance is reduced

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## Payables

Your cash has many uses – meeting payroll, paying vendors, and even earning more cash. Solid cash management depends on these things happening predictably, safely and securely within your company's daily objectives and long-term strategy. Our offerings enable your business to manage payables effectively.

### Payable Solutions:

- Commercial Credit Card\* Offerings
- ACH Credit Origination
- Wire Transfers

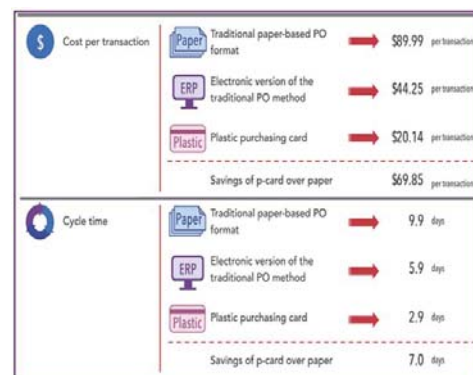
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## The Value of Commercial Credit Cards<sup>1</sup>

Research confirms that card-based payments are the most secure of common payment methods<sup>2</sup>.

Payment Method	Percentage of Organizations Reporting Fraud	Average Fraud Amount Per Incident
Check	85%	\$1,221
ACH	26%	\$730
Commercial Card*	20%	\$130

The benefits of a Purchasing Card over paper translates into cost savings and reduction in processing times<sup>3</sup>.



1. Subject to credit approval.

2. Source: RPMG, Paytech 2014

3. 2017 Purchasing Card Benchmark Survey Results – RPMG Research Corporation

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## ACH Origination

The ACH payment System streamlines a company's cash flow cycle by utilizing electronic transactions. ACH provides a low-cost, automated environment for disbursements and collections via Business Express.

### Features and Benefits:

- Low cost alternative to more expensive traditional instruments
- Business to business transactions
- Business to consumer transactions
- The average all-in cost to write a check is \$3.00 vs. an ACH is \$0.29\*
- Online portal, available 24/7
- Time reduction and staff expense savings
- Dual control options mitigate fraud risk
- Template based transactions
- NACHA formatted file upload

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## Wire Transfers

Wire Transfers are the fastest way to electronically send and receive funds on a same-day basis. Our service can be accessed via a telephone or personal computer and can move your company's funds virtually anywhere in the world.

### Features and Benefits:

- Repetitive wire templates and reoccurring wire instructions are available
- Transfer funds in U.S. Dollar domestically and U.S. Dollar and foreign currency internationally<sup>2</sup>
- Dual approval online are controls available and are strongly recommended
- Multi-Factor, out-of-band authentication for additional security (online)
- Various caller authentication methods (phone)

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## Business Express Online Banking

Business Express Capabilities	
View	Activity
Current Account Information	Transfer Funds
Account Details	Wire Transfers
Account Balances	Originate ACH Transactions
Cleared Checks and Deposits	Stop Payment Requests

### Features and Benefits:

- Accessibility on your PC or tablet
- Client acts as Administrator
  - Creates sub-users
  - ACH & Wire Templates
- Secure Login and approval of ACH & Wires
  - No more tokens
- No personal account access

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## Business Express Mobile

Mobile access allows you to manage your account anytime anywhere:

- Monitor account balances
- Review account activity
- Pay bills
- Transfer funds between accounts
- View and or decision Positive Pay exceptions
  - ACH Positive Pay
  - Check Positive Pay

### Features and Benefits:

- Deposit checks into your account using your phone
- No daily limit on transfers between accounts

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## Fraud Prevention Services

Ensure your payments are safe from fraud and error with Fraud Mitigation Services. We provide the additional controls and monitoring you need on your accounts to prevent check and electronic payment fraud.

### Fraud Mitigation Services:

- Check Positive Pay
- Post No Check
- ACH Positive Pay
- ACH Universal Debit Block
- Two signatures required

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## Current State of Fraud

### Reasons for financial loss due to check fraud

- 41% did not use Positive Pay
- 29% due to clerical errors
- 25% not timely reconciliation
- 20% from stolen check stock
- 18% as a result of internal fraud

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## Check Positive Pay

Gain peace of mind and added security by reducing your exposure to check fraud. Each time your company issues a check, it is exposed to possible fraudulent checking activity. It may be lost, stolen, altered or forged.

With Positive Pay, your bank will only pay the checks that you have authorized and will bring to your attention any checks that you have not authorized – before they have a chance to clear through your account.

### Features and Benefits:

- Tighten security by monitoring all check clearing activity.
- Greater convenience as all unauthorized checks or “exceptions” received by your bank are brought to your attention by 7:00 a.m. (CT) via Business Express.
- Improve your cash flow forecasting by reducing the likelihood of fraud.
- Ability to decide exception items via Business Express and mobile application.
- Payee Positive Pay or Standard Positive Pay available

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## ACH Positive Pay & Debit Block

### ACH Positive Pay

This service helps safeguard against fraudulent activity by filtering unauthorized electronic transactions for your review. Any item that meets your pre-established criteria are automatically posted to your accounts.

- ACH debits that do not meet these criteria are blocked and asked for your review to pay or return.
- Filtering criteria includes Originating Company ID, Standard Entry Class, and Dollar Amount Range.

### ACH Debit Block:

ACH Debit Block will block all potential ACH debit transactions from a receiving account, resulting in these items being returned per your decision.

- Control what ACH transactions post to your account.
- Block all ACH debits, credits or both types of transactions from posting to your account.

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## Perfect Procurement Policies and Procedures

By: Adam Simon  
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## Perfect Procurement Policies and Procedures

- Comprehend the implications of the Gift Ban Act on procurement activities;
- Gain knowledge of the criminal laws affecting procurement;
- Understand conflicts of interest arising from secondary employment;
- Learn about contract limitations affecting local governments; and
- Understand the importance of using government-written contracts instead of vendor presented agreements

# Gift Ban Act

- State Officials and Employees Ethics Act
  - 5 ILCS 430/1, et seq.
  - Gift Ban Act – Article 10
    - Who Must Comply?
    - What is a “Gift”?
    - What is a “Prohibited Source”?
    - Any Exemptions?

# Gift Ban Act

- General Rule:
  - Applies to State Officials and Employees
  - No officer, member, or State employee shall intentionally solicit or accept any gift from any prohibited source or in violation of any federal or State statute, rule, or regulation. **This ban applies to and includes the spouse of and immediate family living with the officer, member, or State employee.**
  - No prohibited source shall intentionally offer or make a gift that violates this Section.

# Gift Ban Act

## ■ General Rule:

- ☐ Section 70-5 extends general rule to local governments
- ☐ Each local government must adopt local rules
- ☐ As used in this Article, (i) an "officer" means an elected or appointed official; regardless of whether the official is compensated, and (ii) an "employee" means a full-time, part-time, or contractual employee.

# Gift Ban Act

## ■ What is a gift?

- ☐ Any tangible or intangible item having monetary value
  - Examples:
    - ☐ gratuity, discount, entertainment, hospitality, loan, forbearance, cash, food and drink, and honoraria for speaking engagements related to or attributable to government employment or the official position of an employee, member, or officer. `

# Gift Ban Act

- What is a prohibited source?
  - Any person or entity who does business or seeks to do business with the unit of local government
  - Any person who is an agent of, a spouse of, or an immediate family member who is living with a "prohibited source".

## Gift Ban Act - Exceptions

- Opportunities and services available on the same terms as for the general public.
- Anything bought at market value.
- Travel expenses for a meeting to discuss municipal business.
- Gifts from relatives.
- Gifts provided on the basis of a personal friendship.
- Intra-office and inter-office gifts.
- Food or refreshments not exceeding \$75.00 per person on a single calendar day that are: (i) consumed on the premises from which they were purchased or prepared; or (ii) purchased ready to eat and delivered.
- Items from a prohibited source during a calendar year of a *cumulative* value of \$100 or less.

# Criminal Codes & Contracting

- Illinois Criminal Code, Article 33E
  - 720 ILCS 5/33-1, et seq.



# Criminal Codes & Contracting

- Illinois Criminal Code, Article 33E
  - The cost to the public is increased and the quality of goods, services and construction paid for by public monies is decreased when contracts for such goods, services or construction are obtained by any means other than through **independent noncollusive submission of bids** or offers by individual contractors or suppliers, and **the evaluation of those bids or offers by the governmental unit pursuant only to criteria publicly announced in advance.**



# Criminal Codes & Contracting

- Illinois Criminal Code, Article 33E
- Violations by Bidders
  - Bid-rigging, Bid-rotating
  - Kickbacks
  - Bribery to Falsely Certify Completion or Quality of Work



# Criminal Codes & Contracting

- Illinois Criminal Code, Article 33E
- Violations by Local Government Employees
  - Pre-Opening/Sharing Sealed Bids
  - Bid Stringing
  - Sharing Inside Information
  - Illegal Change Orders





# Criminal Codes & Contracting

- Illinois Criminal Code, Article 33E
- Contract Certification – Section 33E-11
  - Every bid and public contract shall contain a certification by the prime contractor that the prime contractor is not barred from contracting with any local government (rigging/rotating)
  - The local government shall provide the appropriate forms for such certification.

# Secondary Employment

- Check Your Local Ethics and Procurement Ordinances
- Have you Been Disqualified?
- To whom do you owe a duty of loyalty?
- Will your participation on both sides result in violation of criminal law or local ordinances?



# Contract Limitations

- Procurement Process
- Term
- Amount
- Approval

# Contract Limitations

- Procurement Process
  - ☐ Does the nature of the contract require you to use a particular procurement process?
  - ☐ Does the amount of the contract require you to use a particular procurement process?
  - ☐ Does a local regulation apply?
  - ☐ Does an exemption apply?

# Contract Limitations

## ■ Term

- ☐ Appropriations
- ☐ Statutory Exceptions



# Contract Limitations

## ■ Amount

- ☐ Prior Appropriation?
- ☐ What is the source of funds use to pay for the contract?

# Contract Limitations

## ■ Approval

- ☐ Governing Body or Administrative Employee
- ☐ Delegation of Authority
- ☐ Irregularities



# Contract Limitations

## ■ Case Law

# Contract Limitations

- Unless the power to bind the city in contract is expressly delegated to someone other than the officer identified by statutory authority, only the corporate authorities may execute contracts

# Contract Limitations

- It is clear that any contract with a city entered without a formal motion, resolution, amendment or ordinance is void

# Contract Limitations

- When an employee of a municipal corporation purports to bind the agency by contract without prior approval, in violation of the applicable statute, the contract is void, there can be no implied contract, and the contract cannot be validated by principles of ratification or estoppel.

# Contract Limitations

- where city had power to make contract but exercised it in an irregular fashion the contract is voidable

# Whose Contract to Use?

- Term
- Amendments
- Limitations of Liability/Damages
- Disclaimer of Warranties
- FOIA/Confidentiality
- Dispute Resolution
- Termination Rights

## Thank you!

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## **Basics of Investing**

**Mike Rodgers  
Kurt Maekawa  
Jeffrey Svien**



## **Table of contents**

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- I. Application and benefits of an investment policy
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  - Corporate credit
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- VII. Glossary of fixed income terms



## Application and benefits of an investment policy statement

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## Benefits of an investment policy statement

**An Investment Policy Statement is good corporate governance. Every organization with funds to manage should have in place a formal written investment policy statement. The benefits of having an investment policy statement are:**

- Defines investment goals and objectives
- Satisfies an important fiduciary duty
- Guides the asset management process – no surprises
- Provides discipline to the process
- Provides a framework for risk management
- Designed to endure the volatility of market cycles
- Designed with a long-term perspective
- Meets regulatory documentation requirements

Types of Organizations	Specific Mandates
<ul style="list-style-type: none"> <li>▪ Corporations</li> <li>▪ Foundations and Endowments</li> <li>▪ Non-Profit Organizations</li> <li>▪ State and Local Governments</li> <li>▪ Insurance Companies</li> <li>▪ Financial Institutions</li> <li>▪ Healthcare Organizations</li> <li>▪ Higher Education Entities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operating Cash (balance sheet)</li> <li>▪ Capital Market Proceeds</li> <li>▪ Construction Funds</li> <li>▪ Captive Insurance</li> <li>▪ General Account Insurance</li> <li>▪ Cash Allocation of Larger Plan</li> <li>▪ Employee Benefit Plans</li> <li>▪ Decommissioning Trusts</li> </ul>

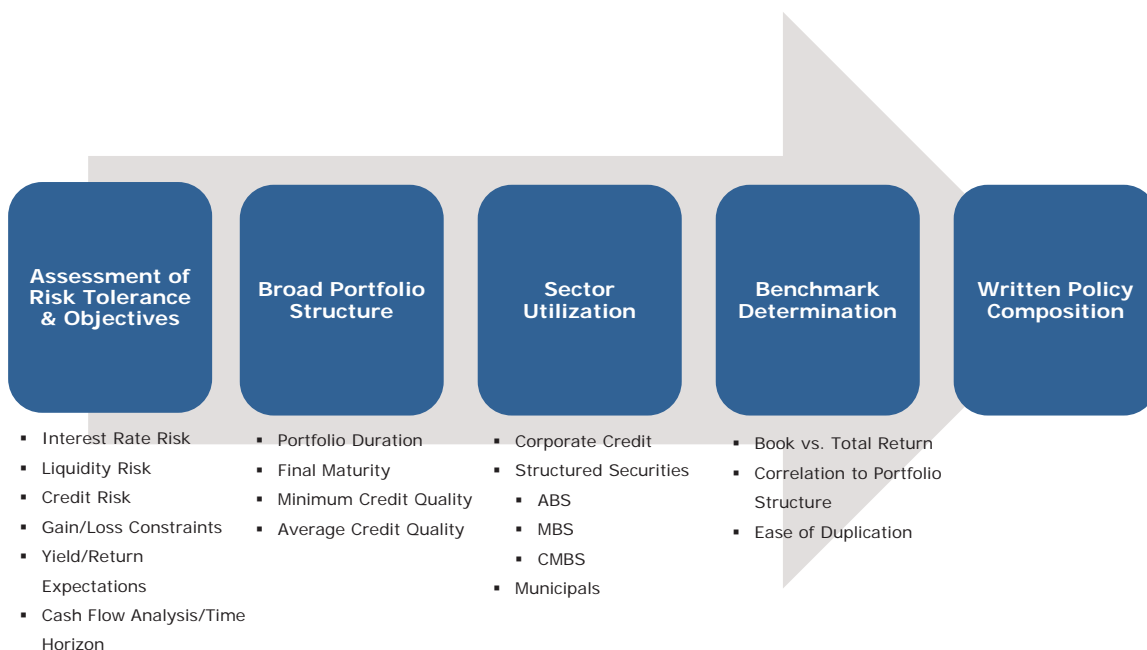
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## Understanding your organization

Investment Guideline Drivers	Regulatory Constraints
<ul style="list-style-type: none"> <li>▪ Asset/Liability Matching</li> <li>▪ Liquidity Needs</li> <li>▪ Cash Flow Schedule</li> <li>▪ Risk Tolerance <ul style="list-style-type: none"> <li>▪ Credit Rating Sensitivity</li> <li>▪ Interest Rate Sensitivity</li> <li>▪ Gain/Loss Sensitivity</li> </ul> </li> <li>▪ Accounting/Financial Statement Implications <ul style="list-style-type: none"> <li>▪ Accounting Classification: FAS 115 <ul style="list-style-type: none"> <li>▪ Hold-to-Maturity</li> <li>▪ Available For Sale</li> </ul> </li> <li>▪ EITF 03-01/FAS 115-1</li> <li>▪ FAS 157 and 157-4</li> <li>▪ FAS 95</li> <li>▪ GAS 40 and 45</li> </ul> </li> <li>▪ Shareholder Sensitivities and Expectations</li> <li>▪ Unique Business Risks and Biases</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment Company Act of 1940</li> <li>▪ State and Local Government Statutes</li> <li>▪ Offshore <ul style="list-style-type: none"> <li>▪ Foreign Withholding</li> <li>▪ U.S. Real Property Issues</li> </ul> </li> <li>▪ Qualified Institutional Buyer (QIB)</li> <li>▪ Rule 144A Offerings</li> <li>▪ Industry Specific Regulations <ul style="list-style-type: none"> <li>▪ Banks</li> <li>▪ Insurance Companies</li> <li>▪ Healthcare Organizations</li> </ul> </li> </ul>

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## Steps for determining investment guidelines



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## Broad portfolio structure determination

7

## Customized separate account strategies

### Strategies matched to liquidity needs

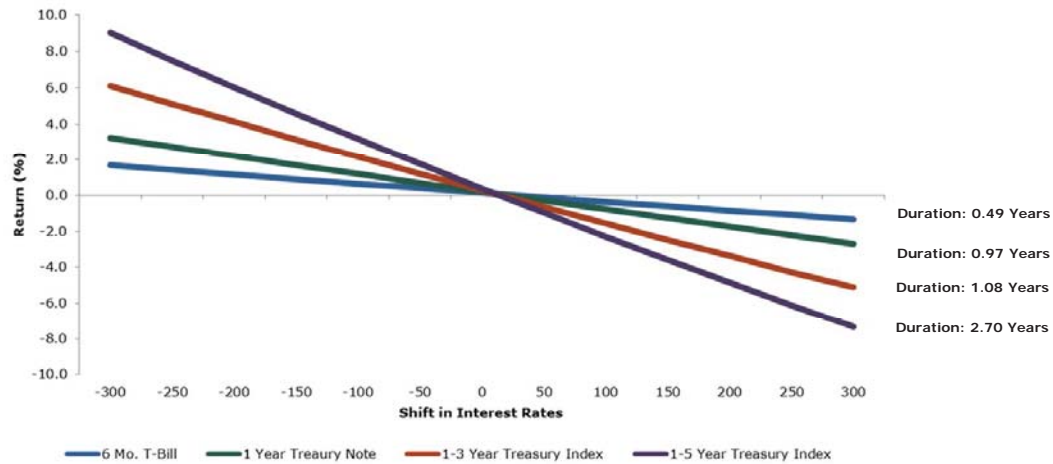
Separate account vehicles accommodate the highest degree of flexibility and customization to meet specific liquidity needs, gain/loss sensitivity, financial statement implications, and tax concerns.

	Operating cash	Working capital	Investment assets
Liquidity needs	1-day to 30-days	1-month to 12 months	1-year to 5-years
Investment objectives	Overnight/Cash	Enhanced Cash	Limited Duration
Taxable strategies	Taxable 3-Month	Taxable 6-Month Taxable Ultra Short Plus Taxable 1-Year	Taxable 1- to 3-Year Taxable Plus 1- to 3-Year Taxable 1- to 5-Year Montgomery U.S. Short Duration
Tax-advantaged strategies	Cash Tax-Advantaged	Enhanced Cash Tax-Advantaged Ultra Short Tax-Advantaged Ultra-Short Plus Tax-Advantaged	Limited Duration Tax-Advantaged Limited Duration Plus Tax-Advantaged Short-Term Plus Tax-Advantaged

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## Duration & interest rates-price volatility tolerance

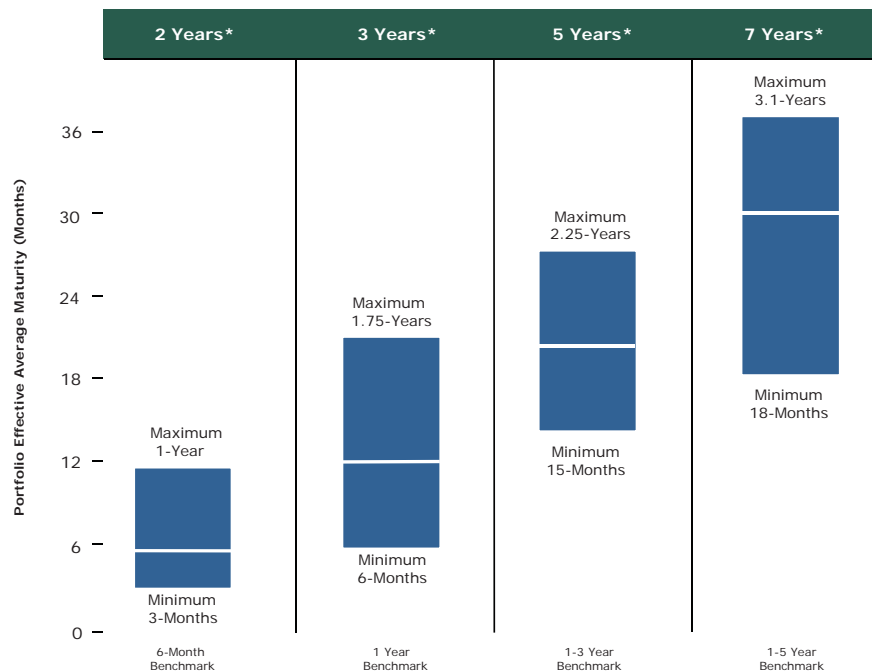
- A measure of the approximate sensitivity of a bond's value to interest rate changes. More specifically, it is the approximate percentage change in value for a 100 basis point (1%) change in rates.
- A duration of 1.00 implies a negative price change of 1% for each 100 basis point increase in market interest rates.
- Effective duration also takes into consideration the impact on cash flows from changes in interest rates.
- Effective maturity and effective duration are closely aligned in the short-term part of the yield curve for securities that have regularly scheduled cash flows.



Source: WellsCap

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## Common maturity profiles/benchmark considerations

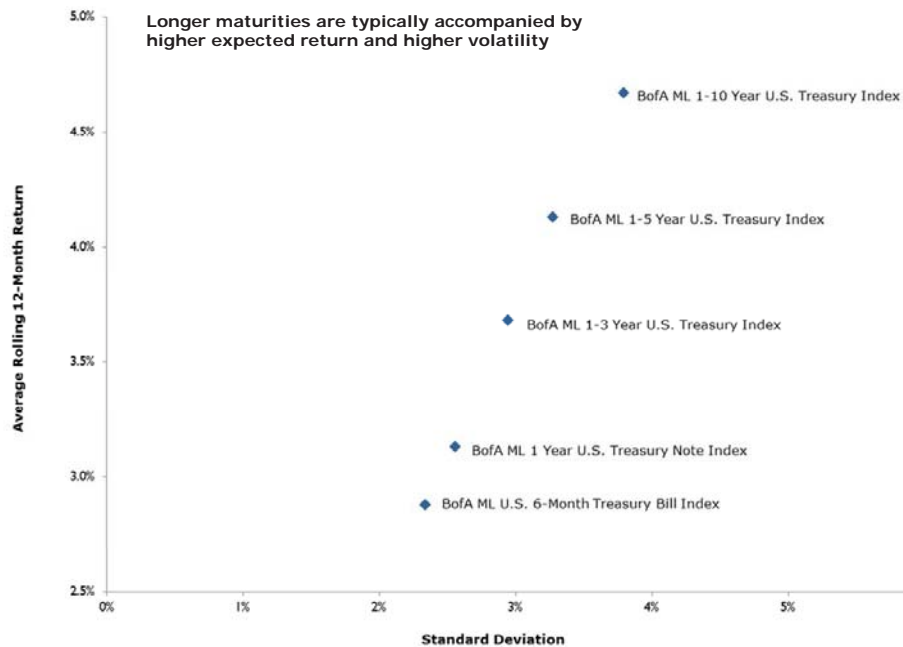


\*Maximum individual maturity  
Source: WellsCap

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# Maturity risk-return

## 1994-2017 Rolling 12-Month Returns At Each Quarter-End



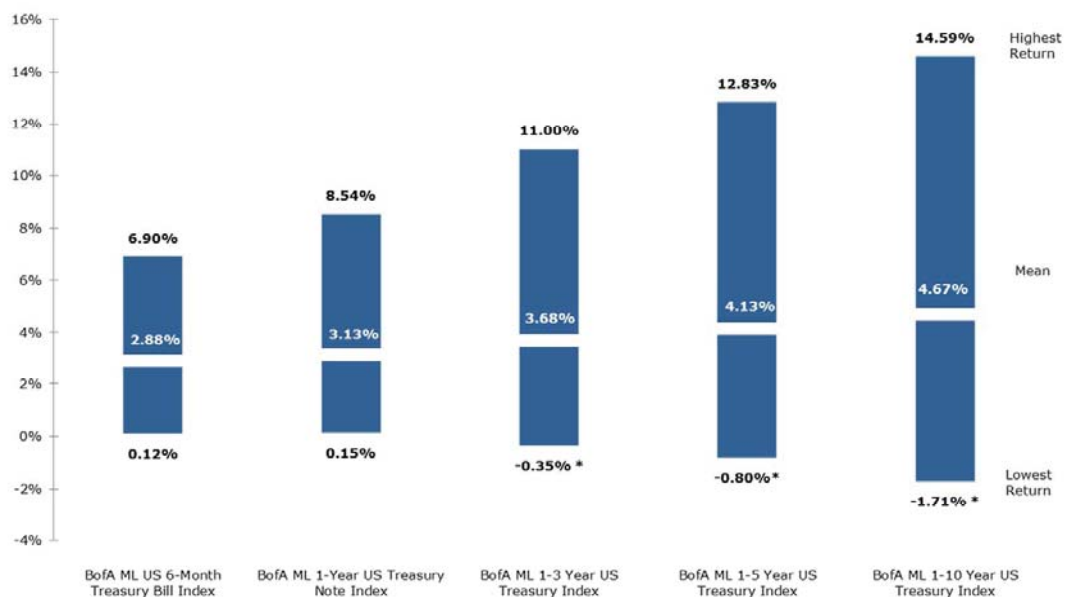
Source: Bloomberg

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# Total return for one year holding periods by maturity

## Rolling 12-Month Returns At Each Quarter-End

January 1994 – December 2017

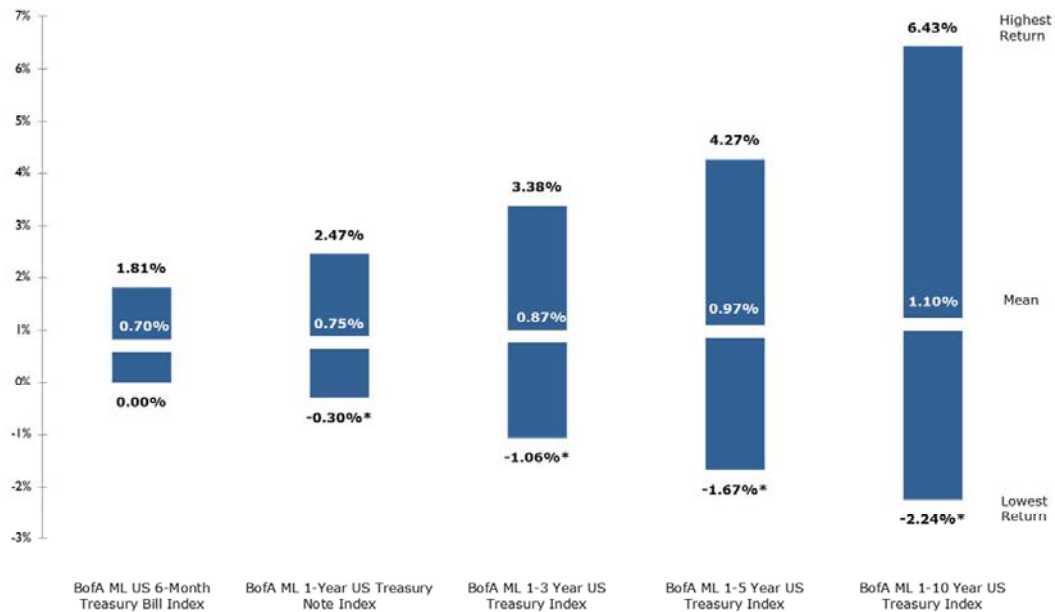


\*The 1994-2017 period includes two negative return period for the 1-3 Year Index, nine negative return periods for the 1-5 Year Index, and twelve negative return periods for the 1-10 Year Index.  
Source: Bloomberg, BofA Merrill Lynch

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## Total return for quarterly holding periods by maturity

January 1994 – December 2017



\*The 1994-2017 period includes six negative return periods for the 1 Year Index, twelve negative return periods for the 1-3 Year Index, twenty-three negative return periods for the 1-5 Year Index, and twenty-nine negative return periods for the 1-10 Year Index.  
Source: Bloomberg, BofA Merrill Lynch

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## Credit ratings

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# Credit rating methodology

The vast majority of debt in the market carries a rating by one or several Nationally Recognized Statistical Rating Organization (NRSRO).

An NRSRO is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

There are currently nine NRSROs that issue bond ratings. The top three NRSRO's (Standard & Poor's, Moody's Investors Service, Fitch Ratings) issue 96.5% of the total ratings.\*

Other NRSRO's include:

- Dominion Bond Rating Service, Ltd
- Kroll Bond Rating Agency
- A. M. Best Company
- Japan Credit Rating Agency, Ltd.
- Egan-Jones Rating Company
- Morningstar Credit Ratings, LLC
- HR Ratings

The methodology each NRSRO employs to rate debt and debt issuers varies somewhat, but generally, they focus on several key characteristics, including:

- Balance Sheet Health
- Liquidity
- Exposure to Shocks
- Governance
- Payment Priority (Senior vs. Subordinated Debt)
- Event Risks

\*As of December 2015

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# Credit quality – Standard & Poor's

## Long-Term Ratings

Rating	Definition
<b>AAA</b>	Highest rating; extremely strong capacity to pay interest and repay principal.
<b>AA</b>	Very strong capacity; differs from AAA in only a small degree.
<b>A</b>	Strong capacity but more susceptible to adverse economic effects than higher-rated categories.
<b>BBB</b>	Adequate capacity, but adverse economic conditions more likely to weaken capacity.
<b>BB</b>	Lowest degree of speculation; risk exposure.
<b>B</b>	Speculative; risk exposure.
<b>CCC</b>	Vulnerable to nonpayment; Speculative; major risk exposure.
<b>CC</b>	Highly vulnerable to nonpayment; Speculative.
<b>C</b>	Highly vulnerable to nonpayment, but currently paying interest.
<b>D</b>	Bonds in default with interest and/or repayment of principal in arrears.

## Short-Term Taxable Ratings

Rating	Definition
<b>A-1+</b>	Highest degree of safety.
<b>A-1</b>	Strong degree of safety.
<b>A-2</b>	Satisfactory degree of safety.
<b>A-3</b>	Adequate degree of safety.

## Short-Term Municipal Ratings

Rating	Definition
<b>SP-1</b>	Very strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.
<b>SP-2</b>	Satisfactory capacity to pay principal and interest.
<b>SP-3</b>	Speculative capacity to pay principal and interest.

The ratings from 'AA' to 'B' may be modified by the addition of a plus or minus sign to show relative standings within the major rating categories.

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## Credit quality – Moody's

### Long-Term Ratings

Rating	Definition
Aaa	Best quality; the smallest degree of investment risk.
Aa	High quality; margins of protection not quite as large as Aaa bonds.
A	Upper to medium investment-grade; security adequate but could be susceptible to impairment.
Baa	Medium investment-grade; neither highly protected nor poorly secured; lack outstanding investment characteristics and sensitive to changes in economic circumstances.
Ba	Speculative; protection is very moderate.
B	Not a desirable investment; sensitive to day-to-day economic circumstances.
Caa	Poor standing; may be in default but with a workout plan.
Ca	Highly speculative; often in default or have other marked shortcomings.
C	Lowest rated class. Regarded as having extremely poor prospects of ever attaining any real investment standing.

### Short-Term Taxable Ratings

Rating	Definition
Prime 1 (P-1)	Superior capacity for repayment.
Prime 2 (P-2)	Strong capacity for repayment.
Prime 3 (P-3)	Acceptable capacity for repayment.

### Short-Term Municipal Ratings

Rating	Definition
VMIG 1	Superior Credit Quality
VMIG 2	Strong Credit Quality
VMIG 3	Acceptable Credit Quality
SG	Speculative Grade

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## Credit quality – Fitch

### Long-Term Ratings

Rating	Definition
AAA	Highest credit quality; lowest expectation of credit risk; unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality; low expectation of credit risk; not significantly vulnerable to foreseeable events.
A	High credit quality; low expectation of credit risk; more vulnerable to changes in circumstances or economic conditions than higher ratings.
BBB	Good credit quality; low expectation of credit risk.
BB	Speculative; possibility of credit risk developing.
B	Highly speculative; significant credit risk is present, but a limited margin of safety remains.
CCC	High default risk.
CC	Indicates default possible.
C	Signals imminent default.
DDD	Default; D, DD, DDD represent varying degrees of ability to achieve partial or full recovery in a reorganization or liquidation
DD	
D	

### Short-Term Taxable Ratings

Rating	Definition
F-1	Highest credit quality; indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote an exceptionally strong credit feature.
F-2	Good credit quality; a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of higher ratings.
F-3	Fair credit quality; capacity of timely payment of financial commitments is adequate.
B	Speculative; minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.
C	High default risk; default is a real possibility; capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.
D	Default; denotes actual or imminent payment default.

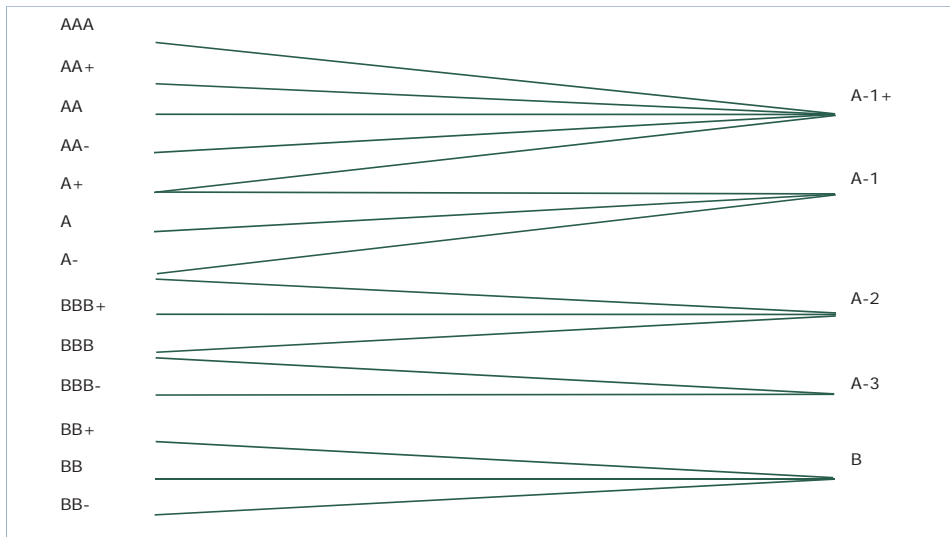
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## Standard & Poor's ratings

### The link between short-term and long-term ratings

#### Taxable Ratings



Source: Standard & Poor's

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## Diversification/sector selection

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## Diversification

- When considering a fixed income strategy, remember the importance of diversification. As a general rule, it's never a good idea to put all your assets and all your risk in a single asset class or investment. Diversification makes sense because no single asset class performs best in all economic environments. Building and maintaining a diverse portfolio helps lower portfolio volatility and helps smooth returns over time.
- Portfolios can be diversified across Asset Classes, Issuers, and Maturity.
- Having bonds across many asset classes (government, agency, corporate, municipal, asset and mortgage-backed securities, etc.) creates protection from the possibility of large losses in any particular market sector.
- Owning bonds from many different issuers protects the portfolio from the possibility that any one issuer will materially diminish the value of the portfolio.
- Building a portfolio across the allowable maturity spectrum helps manage interest rate risk.

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## Table of short duration returns: A case for diversification

### Annual returns for key sector indices

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	U.S. Agencies, 1-3 Years 7.05%	U.S. Corporates, 1-3 Years 14.69%	Mortgages 0-3 Years WAL 5.42%	Mortgages 0-3 Years WAL 3.15%	U.S. Corporates, 1-3 Years 4.49%	U.S. Corporates, 1-3 Years 1.78%	U.S. Corporates, 1-3 Years 1.19%	Mortgages 0-3 Years WAL 1.12%	U.S. Corporates, 1-3 Years 2.39%	U.S. Corporates, 1-3 Years 1.91%
2	U.S. Treasuries, 1-3 Years 6.61%	Asset Backed Securities, 0-3 Years WAL 13.80%	U.S. Corporates, 1-3 Years 4.86%	Municipals 1-3 Years 2.37%	Asset Backed Securities, 0-3 Years WAL 1.88%	Municipals 1-3 Years 1.07%	Mortgages 0-3 Years WAL 1.10%	U.S. Corporates, 1-3 Years 1.01%	Asset Backed Securities, 0-3 Years WAL 1.84%	Asset Backed Securities, 0-3 Years WAL 1.54%
3	Mortgages 0-3 Years WAL 5.27%	Mortgages 0-3 Years WAL 5.98%	Asset Backed Securities, 0-3 Years WAL 3.35%	U.S. Corporates, 1-3 Years 1.76%	Mortgages 0-3 Years WAL 1.61%	Mortgages 0-3 Years WAL 0.91%	Asset Backed Securities, 0-3 Years WAL 0.89%	Asset Backed Securities, 0-3 Years WAL 0.90%	U.S. Agencies, 1-3 Years 0.95%	Municipals 1-3 Years 0.99%
4	Municipals 1-3 Years 5.16%	Municipals 1-3 Years 4.21%	U.S. Treasuries, 1-3 Years 2.35%	U.S. Treasuries, 1-3 Years 1.55%	Municipals 1-3 Years 1.03%	Asset Backed Securities, 0-3 Years WAL 0.78%	Municipals 1-3 Years 0.72%	Municipals 1-3 Years 0.76%	U.S. Treasuries, 1-3 Years 0.89%	Mortgages 0-3 Years WAL 0.83%
5	Asset Backed Securities, 0-3 Years WAL -1.22%	U.S. Agencies, 1-3 Years 2.17%	U.S. Agencies, 1-3 Years 2.32%	U.S. Agencies, 1-3 Years 1.53%	U.S. Agencies, 1-3 Years 0.85%	U.S. Agencies, 1-3 Years 0.42%	U.S. Agencies, 1-3 Years 0.70%	U.S. Agencies, 1-3 Years 0.70%	Municipals 1-3 Years 0.33%	U.S. Agencies, 1-3 Years 0.67%
6	U.S. Corporates, 1-3 Years -2.68%	U.S. Treasuries, 1-3 Years 0.79%	Municipals 1-3 Years 1.29%	Asset Backed Securities, 0-3 Years WAL 1.49%	U.S. Treasuries, 1-3 Years 0.43%	U.S. Treasuries, 1-3 Years 0.36%	U.S. Treasuries, 1-3 Years 0.62%	U.S. Treasuries, 1-3 Years 0.54%	Mortgages 0-3 Years WAL 0.19%	U.S. Treasuries, 1-3 Years 0.42%

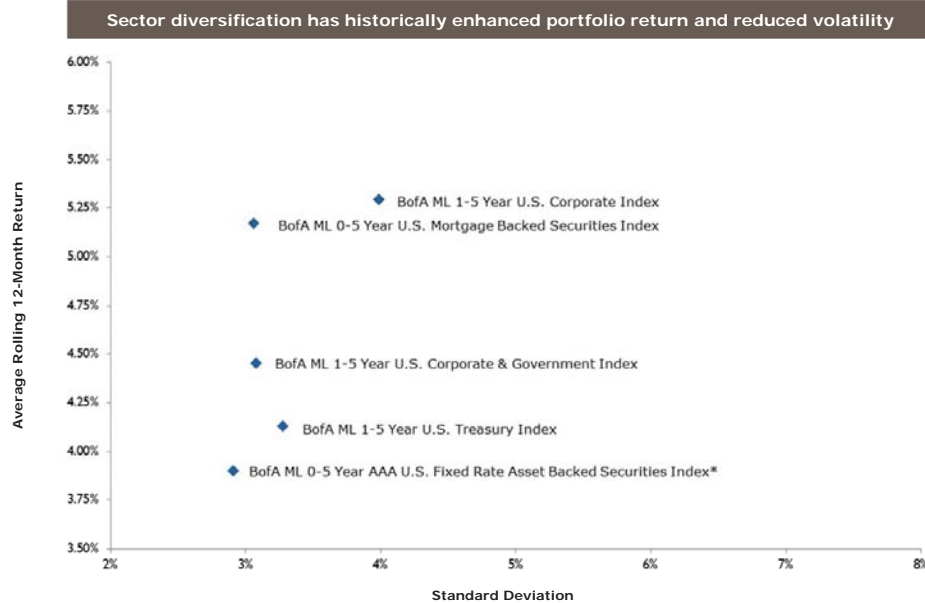
Source: Bloomberg

Returns shown are the annual total returns of select Bank of America Merrill Lynch indices. This Table of Short Duration Returns is a comprehensive representation of relative sector performance for a 10-year period through 12/31/2017. This material is offered compliments of Wells Capital Management to its clients. It is for your own personal information and we are not soliciting an action based upon it. Past performance is not indicative of future results.

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## Sector risk-return profiles

1994- 2017 rolling 12-month index returns at each quarter-end



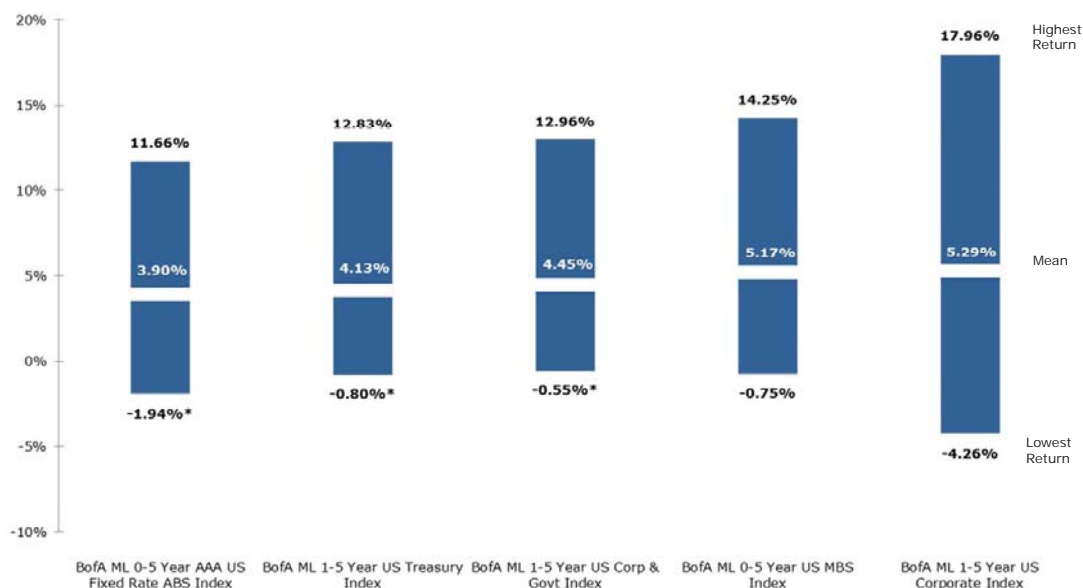
\* The data for the BofA Merrill Lynch 0-5 Year AAA U.S. Fixed Rate Asset Backed Securities Index begins in January 1997  
Source: Bloomberg

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## Total return for one year holding periods by sector

Rolling 12-month returns at each quarter-end

January 1994 - December 2017

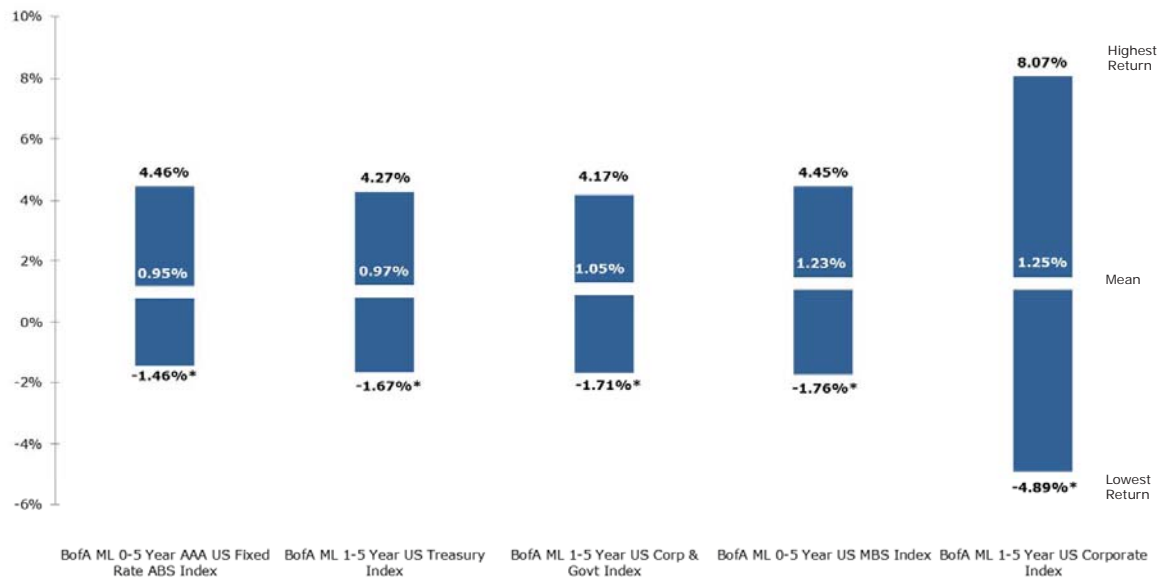


\* The 1994-2017 period includes one negative return period for the 0-5 Year ABS Index, nine negative return periods for the 1-5 Year Treasury Index, two negative return periods for the 1-5 Corp. & Govt Index, four negative return periods for the 1-5 Year Corp. Index, and four negative return periods for the 0-5 Year U.S. MBS Index.  
\*\* The data for the BofA ML 0-5 Year AAA U.S. Fixed Rate Asset Backed Securities Index begins in January 1997.  
Source: Bloomberg, BofA Merrill Lynch

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## Total return for quarterly holding periods by sector

January 1994 - December 2017



\*The 1994-2017 period includes eight negative return periods for the 0-5 Year ABS Index, twenty-three negative return periods for the 1-5 Year Treasury Index, sixteen negative return periods for the 1-5 Corp & Govt Index, eighteen negative return periods for the 1-5 year Corp Index, and twelve negative return periods for the 0-5 Year MBS Index.  
\*\*The data for the BofA ML 0-5 Year AAA U.S. Fixed Rate Asset Backed Securities Index begins in January 1997.

Source: Bloomberg, BofA Merrill Lynch

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## Asset class correlation

- Diversification is a compelling investment option as different market sectors tend to be structurally and fundamentally unique from others.
- Historically, many sectors are less correlated with others than would be expected.

### 10-year monthly return correlations:

	U.S. Treasury	U.S. Agencies	U.S. Corporate	AAA ABS	Municipal Bond
U.S. Treasury	1.00	0.93	0.42	0.16	0.32
U.S. Agencies		1.00	0.57	0.25	0.38
U.S. Corporate			1.00	0.62	0.56
AAA ABS				1.00	0.53
Municipal Bond					1.00

Source: Wells Capital Management, Barclays, - 1/1/06-12/31/2016

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# Diversification and risk management

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Consistent with investment guidelines, we structure liquid, diversified portfolios with a focus on capital preservation

- Strict internal weight limits, generally more restrictive than client guidelines, reduces exposure to individual issues and sectors

## Internal Diversification Limits at time of purchase

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Commercial Paper: A-1/P-1	3% per issuer
Commercial Paper: A-2/P-2	2% per issuer
Corporates : AAA/AA	3% per issuer
Corporates: A	2% per issuer
Corporates: BBB	1% per issuer
Municipals: AAA	5% per issuer
Municipals: AA	4% per issuer
Municipals: A	2.5% per issuer
Municipals: BBB	1.5% per issuer
Asset-Backed: AAA	3% per issuer

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# Corporate credit

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## About corporate credit

- A corporate bond is a debt obligation issued by private and public corporations to finance capital investment and operating cash flow.
- The U.S. investment grade market is a large liquid market with a total of \$1.3 trillion outstanding at the end of 2016.
- Provides portfolio diversification with a variety of industry sectors, maturity dates/structures and credit quality characteristics to meet your objectives.
- Interest rate can be fixed or floating and is typically paid semiannually.
- Offers an attractive yield pick-up over U.S. Treasury securities as investors are compensated for credit risk based on credit quality and market demand.
- Interest rate volatility when compared to a U.S. Treasury security is lower across the maturity and credit quality spectrum with shorter maturity and lower quality issuers having the lowest correlation to a movement in U.S. Treasury yields.

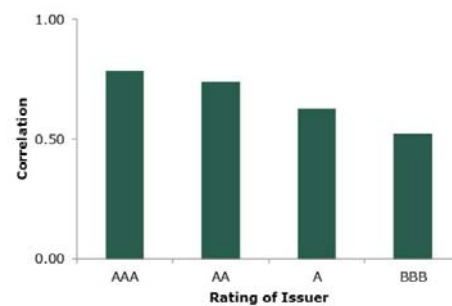
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## Corporate credit – correlation to interest rate risk

### Correlation in returns with U.S. Treasuries

Investment Grade Corps	Treasury				
	2 Years	3 Years	5 Years	10 Years	30 Years
AAA	0.60	0.69	0.78	0.86	0.84
AA	0.60	0.68	0.74	0.78	0.70
A	0.47	0.55	0.63	0.68	0.62
BBB	0.37	0.45	0.52	0.57	0.51

### Correlation to the 5-yr U.S. TSY



### Corporate credit index issuer statistics

Credit Rating	Number of Issuers	% of Credit Index	YTM
AAA	13	2.0%	3.13%
AA	83	11.1%	2.69%
A	407	38.4%	3.11%
BBB	769	48.4%	3.65%

### Takeaways

- Down-in-credit leads to reduced correlation with interest rates; this can be valuable in a rising rate environment
- Ability to source diversifying investments increases substantially by allowing lower rated credits
- Income advantage, which offsets both credit and interest rate risk, increases meaningfully with lower rated bonds.

Source: Barclays Live,  
\*March 1992– March 2017

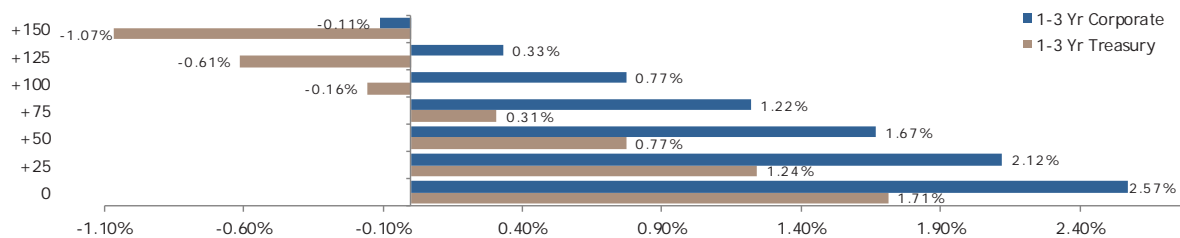
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# Importance of income in a rising rate environment

In a rising rate environment, coupon payments can provide insulation to negative price return.

Immediate parallel shift, 12m horizon

1-3 Yr Corporate				1-3 Yr Treasury				Outperformance	
Scenario	Total Return	Price	Income	Scenario	Total Return	Price	Income	Scenario	Total Return
0	2.57%	0.51%	2.06%	0	1.71%	0.53%	1.18%	0	0.86%
+25	2.12%	0.06%	2.07%	+25	1.24%	0.06%	1.18%	+25	0.88%
+50	1.67%	-0.40%	2.07%	+50	0.77%	-0.41%	1.19%	+50	0.90%
+75	1.22%	-0.85%	2.07%	+75	0.31%	-0.88%	1.19%	+75	0.91%
+100	0.77%	-1.31%	2.08%	+100	-0.16%	-1.34%	1.19%	+100	0.93%
+125	0.33%	-1.75%	2.08%	+125	-0.61%	-1.80%	1.19%	+125	0.94%
+150	-0.11%	-2.20%	2.09%	+150	-1.07%	-2.26%	1.19%	+150	0.96%

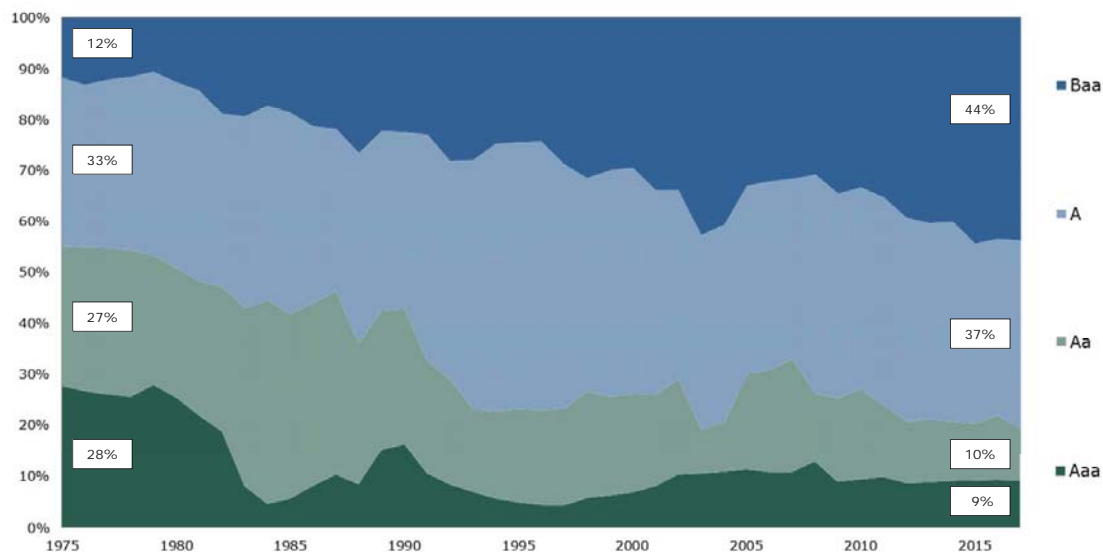


Source: Barclays POINT, Wells Capital Management

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# Credit ratings distribution

Quality analysis of Barclays U.S. Credit Index, 1975-2017



Since 1975, the "A" and "Baa" components of the investment grade credit index have grown significantly, while the "Aaa" and "Aa" components have contracted.  
Source: Barclays

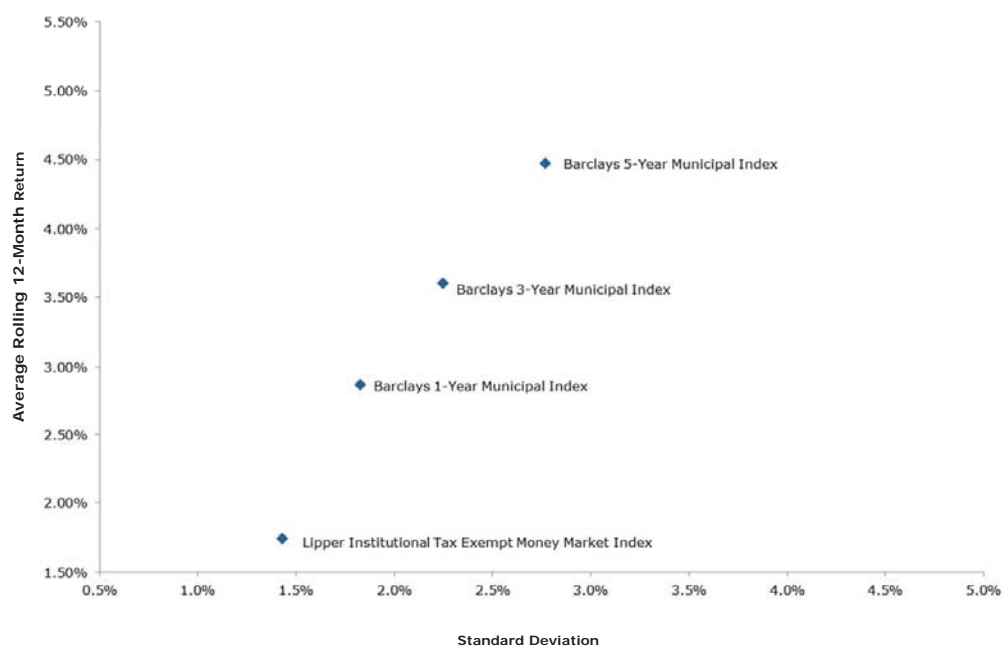
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## Municipals

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## Maturity risk-return – Municipal bonds

1994- 2017 rolling 12-month returns at each quarter-end



Sources: Lipper Analytical Services; Barclays

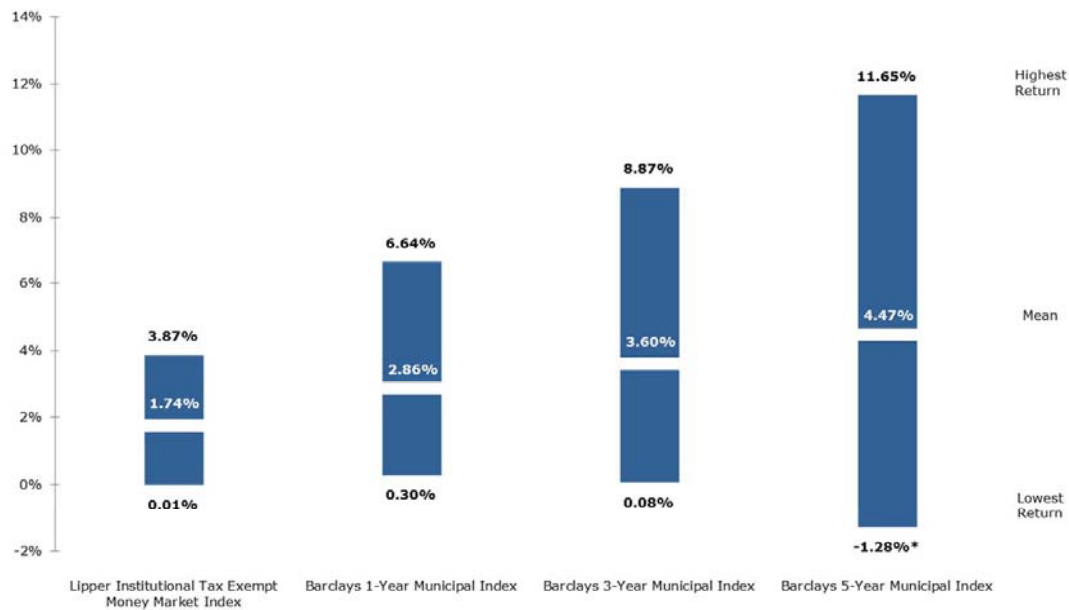
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## Tax exempt– one year holding period total return

### Rolling 12-Month Returns At Each Quarter-End

January 1994 - December 2017

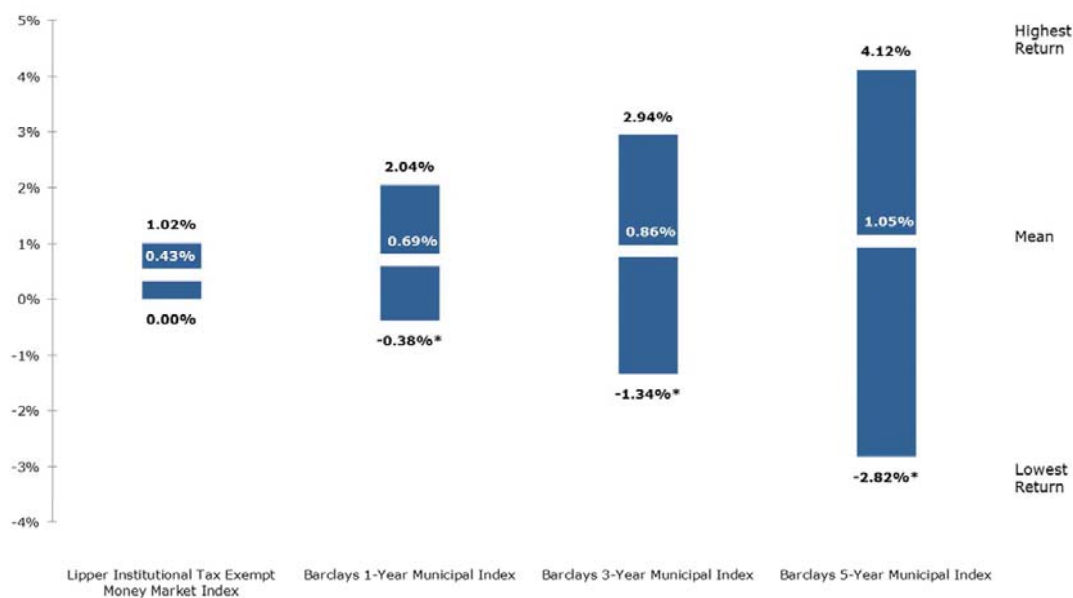


\* The 1994-2017 period includes three negative return periods for the 5 Year Municipal Index  
Sources: Lipper Analytical Services; Barclays.

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## Total return quarterly holding periods – Tax exempt bonds

January 1994 - December 2017



\* The 1994-2017 period includes eight negative return periods for the 1 Year Municipal Index, fifteen negative return periods for the 3-Year Municipal Index, and seventeen negative return periods for the 5-Year Municipal Index  
Sources: Lipper Analytical Services; Barclays.

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## Municipal asset class correlation

- Municipal bonds offer a compelling investment option as the market is structurally and fundamentally unique from other asset classes.
- Historically, the municipal market is less correlated with traditional fixed income sectors.
- The municipal market is owned in large part by retail investors who typically take a buy and hold approach to their municipal bond holdings.
- The near-elimination of municipal bond insurance has created significant opportunities for institutional investors with deep credit research capabilities.

### 10-year monthly return correlations:

	Municipal Bond	U.S. Treasury	U.S. Agencies	U.S. Corporate	AAA ABS
Municipal Bond	1.00	0.32	0.38	0.56	0.53
U.S. Treasury		1.00	0.93	0.42	0.16
U.S. Agencies			1.00	0.57	0.25
U.S. Corporate				1.00	0.62
AAA ABS					1.00

Source: Wells Capital Management, Barclays, - 1/1/06-12/31/2016

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## Credit risk – A compelling case for municipal bonds

### \$3.8 Trillion municipal market

Defaults have occurred, but at a very small rate relative to the overall municipal market

	Payment Defaults
2008	\$1.6B
2009	\$3.4B
2010	\$4.3B
2011	\$2.4B
2012	\$2.7B
2013	\$2.8B
2014	\$1.5B
2015	\$2.3B
2016 <sup>3</sup>	\$27.8B
2017 <sup>3</sup>	\$22.8B
2018 <sup>4</sup>	\$2.3B

Note: Puerto Rico issuers accounted for 95% of municipal defaults in 2016 and 2017.

Comparative default rates for municipal and corporate debt<sup>1</sup>

	Municipal (%)	Corporate (%)
AAA	0.00	1.17
AA	0.04	1.48
A	0.17	2.79
BBB	1.07	6.14
BB	5.48	18.46
B	12.38	30.75
CCC/C <sup>2</sup>	44.88	58.78
Investment-Grade	0.30	3.69
Speculative-Grade	10.37	27.50

- Historically, a BBB municipal bond has a cumulative default rate less than a AAA corporate bond.
- Credit fundamentals in the municipal market supports attractive risk-adjusted returns.
- Credit decision is a large driver of the crossover investment decision.

<sup>1</sup>For municipal defaults, S&P's study period was Jan. 1, 1986, to Jan. 1, 2016. For corporate defaults, S&P's study period was Jan. 1, 1981 to Jan. 1, 2016.

<sup>2</sup>For U.S. corporate defaults, S&P's study calculations include all ratings in the C category, from CCC to C. Source: S&P

<sup>3</sup>Default total is \$1.84bn excluding Puerto Rico. One of the prior sources was removed due to a methodology change.

<sup>4</sup>Source: Federal Reserve, Bank of America Merrill Lynch: As of March 7, 2017.

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# Ratings stability in the municipal market

## Average one-year rating changes for municipals & corporates

From/To*	Aaa	Aa	A	Baa
<b>Aaa</b>				
Muni	98.19	1.61	0.15	0.04
Corp	91.05	8.24	0.60	0.07
<b>Aa</b>				
Muni	0.44	98.16	1.35	0.04
Corp	0.86	89.58	8.95	0.44
<b>A</b>				
Muni	0.03	1.77	97.40	0.71
Corp	0.05	2.58	91.00	5.63
<b>Baa</b>				
Muni	0.02	0.04	1.79	97.39
Corp	0.03	0.14	4.34	90.39

- Municipal ratings stability compares favorably to corporates, as evidenced in the highlighted cells.
- Downgrade frequency is historically much smaller in the municipal market, as evidenced in the upper-right cells.
- For example, as depicted by the arrow, in an average year since 1970, 1.61% of municipals migrate from AAA to AA vs. 8.24% of corporate bonds.

Source: Moody's Annual Default Study: Corporate Default and Recovery Rates, 1970-2017 (February 15<sup>th</sup>, 2018)  
Source: Moody's US Municipal Bond Defaults and Recoveries, 1970 to 2016 (June 27<sup>th</sup>, 2017)  
\* Securities not rated or that had ratings withdrawn were omitted and percentages were adjusted accordingly.

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## Benchmark selection

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## Considerations – Total return versus book return

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**Determination of total return vs. book return is dependent upon:**

- Accounting considerations
- Cash flow projections
- Loss constraints
- Risk assessment

**Total return – Based on interest earnings, realized gains/losses and unrealized gains/losses**

- Stable, core funds
- Longer maturity parameters
- Few, if any, loss constraints
- Total return performance benchmark

**Book return – Based on interest earnings and realized gains/losses**

- Hold to maturity accounting classification
- Heavy cash flow
- Shorter maturity parameters
- Loss sensitive
- Money market benchmark

## Choosing a performance benchmark

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**A performance benchmark should be consistent with an organization's:**

- Goals and objectives
- Risk tolerance
- Time horizon
- Return expectations
  - Book return (income) vs. total return (income & capital appreciation)

**Performance benchmark should be:**

- Representative of the portfolio's duration/time horizon
- A meaningful measurement of investment performance vs. the market and/or alternative solutions
- Consistent across all managers with similar mandates
- Utilized with a clear understanding of any material differences that exist between the portfolio and the benchmark due to policy constraints:
  - Eligible Sectors
  - Concentrations
  - Minimum Ratings
  - Duration and Maturity

## Benchmark examples

### Total return

#### Taxable indices

- BofA ML U.S. 6-Month Treasury Bill Index
- BofA ML 1-Year U.S. Treasury Note Index
- BofA ML 1-3 Year U.S. Treasury Index
- BofA ML 1-3 Year U.S. Corp & Gov't Index
- BofA ML 1-5 Year U.S. Treasury Index
- BofA ML 1-5 Year U.S. Corp & Gov't Index

#### Tax-exempt indices

- Barclays 1-Year Municipal Index
- Barclays 3-Year Municipal Index
- Barclays 5-Year Municipal Index

### Book return

There are no published benchmarks which measure book return only, though customized proxies can be developed.

## Benchmarks

### Average maturity and duration ranges for select benchmarks

	Average Maturity	Duration*
BofA ML 1-3 Year U.S. Treasury Index	1.85 – 2.05	1.65 – 1.95
BofA ML 1-5 Year U.S. Treasury Index	2.60 – 2.80	2.30 – 2.75
Barclays 1-Year Municipal Index	1.40 – 1.50	1.15 – 1.40
Barclays 3-Year Municipal Index	2.90 – 3.00	2.40 – 2.60

\*Modified Duration  
Source: Bloomberg; Barclays Capital

## Investment policy construction

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## Investment policy statement – Short form example

### Investment objectives

- Preservation of principal
- High degree of liquidity
- Maximum "After Tax", "Nominal", "Total", or "Book" return

### Acceptable investments (U.S. dollar-denominated only)<sup>1,2</sup>

- |  |  |                               |
|--|--|-------------------------------|
| ▪ U.S. Treasury Securities                       | ▪ Money Market Funds/Sweep Vehicle             |                               |
| ▪ Federal Agency Securities (GSEs)               | ▪ Mortgage-Backed Securities                   |                               |
| ▪ FDIC-Guaranteed Securities                     | ▪ Collateralized Mortgage Obligations          | ▪ Municipal Notes/Bonds       |
| ▪ Repurchase Agreements                          | ▪ Commercial Mortgage-Backed Securities        | ▪ Tax-Exempt Commercial Paper |
| ▪ Commercial Paper (foreign and domestic issues) | ▪ Foreign Government Related Securities        | ▪ Asset-Backed Securities     |
| ▪ Corporate Notes/Bonds                          | ▪ Taxable Municipal Debt                       |                               |
| ▪ Covered Bonds                                  | ▪ Certificates of Deposit (incl. Yankee, Euro) |                               |

### Benchmark

#### Maturity parameters

- Maximum Maturity/Demand Feature/Average Life:
- Maximum Average Maturity Deviation From Benchmark:

#### Concentration and diversification

- No more than 5% in any single issue/issuer at the time of purchase (except U.S. Treasury and Agency securities).
- No more than 50% of the portfolio shall be invested in any single GSE/Federal Agency at the time of purchase.

#### Minimum Acceptable credit quality

- The obligor must carry the rating outlined below or the equivalent by at least two of the Nationally Recognized Statistical Rating Organization (NRSRO) for non-municipal securities. For split ratings, either the middle rating of three, or the lower rating of two agencies will prevail. Municipal bonds must be rated by at least one NRSRO.

**Minimum short-term rating: A-1 or A-2**  
**Minimum long-term rating: [AAA to BBB-]**

<sup>1</sup>Non-rated and non-rated, pre-refunded issues may be purchased (collateralized by U.S. Treasuries and Agencies).

<sup>2</sup>Tax Status: 35% Federal Tax Rate; Securities subject to the Alternative Minimum Tax (AMT) may be purchased.

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## Investment policy statement – Long form example

### I. Purpose of the Investment Policy Statement

The purpose of this Investment Policy Statement is to establish an understanding as to the investment goals, objectives, and management policies for [company name].

### II. Scope

The investable funds covered under this investment policy represent the [type of funds] of [company name]. It includes all domestic subsidiaries of [company name]. Foreign subsidiaries are excluded from this policy.

### III. Roles and responsibilities

The Board of Directors/Investment Committee/Audit Committee/Treasurer/CFO is responsible for reviewing this Investment Policy on an annual basis. Any changes to this policy must be approved by\_\_\_\_\_

### IV. Investment objectives

**A. This policy was created with a goal of achieving the following objectives listed in order of importance:**

1. Safety and preservation of principal
2. Provide liquidity as needed
3. Maximize total return ("After-Tax" or "Nominal") with the goal of outperforming the [benchmark index] over time or
4. Maximize income ("After-Tax" or "Nominal")

### V. Investment guidelines- Example

#### A. Permissible investments:

1. Obligations of the U.S. Treasury and its agencies
2. U.S. dollar denominated issues of foreign government related entities
3. Repurchase agreements (repo) collateralized by U.S. Government Securities
4. Money market mutual funds
5. Agency mortgage-backed securities(MBS) including collateral mortgage obligations(CMO's)
6. Money market instruments including U.S. domestic and U.S. dollar denominated foreign issues of commercial paper, ABS commercial paper, certificates of deposit, bankers acceptances, time deposits, euro-dollar certificates of deposit
7. Corporate Obligations issued by U.S. domestic corporations and U.S. dollar denominated issues of foreign corporations
8. Non-agency structured products such as Asset-Backed Securities (ABS) and commercial mortgage-backed securities (CMBS)
9. Taxable and Tax-Free Municipal securities including but not limited to tax-exempt commercial paper
10. As a Qualified Institutional Buyer (QIB), corporate obligations and commercial paper issued as 144A are permitted investments.

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## Investment policy statement – Long form (cont.)

### B.Diversification - Example

- 1.Securities listed under "Permissible Investments", A. 1) through A. 5) can be held without limit on a per issuer basis. Sector restrictions are noted below.
- 2.Securities listed under "Permissible Investments", A. 6) through A. 9) are restricted to the per issuer guidelines outlined in Exhibit A. or you can state a percentage limit such as 5%. In addition, you can specify sector restrictions such as:
- 3.Corporate Obligations are limited to a maximum of \_\_\_\_\_% of the portfolio's total market value.
- 4.Structured products such as ABS, MBS, CMOs, and CMBS are limited to a maximum of \_\_\_\_\_% of the portfolio's total market value.
- 5.Taxable and Tax-Free Municipal securities are limited to a maximum of \_\_\_\_\_% of the portfolio's total market value.
- 6.Diversification limits only apply at time of purchase.

### C.Maturity - Example

- 1.The maximum maturity of any single investment is\_\_\_\_\_ months/years at time of purchase.
- 2.In the case of structured products such as ABS, MBS, CMOs, and CMBS, the average life of the security at time of purchase will be used as the maturity date in lieu of the stated final maturity.
- 3.For floating rate notes, the actual remaining time to maturity will not exceed \_\_\_\_\_months/years.
- 4.For variable rate demand notes and put bonds, the reset date or put date will be used in lieu of the final stated maturity.
- 5.The maximum weighted average duration of the portfolio is \_\_\_\_\_months/years.

### D.Credit quality - Example

- 1.At time of purchase, securities must be rated in the applicable rating category as indicated below by at least two Nationally Recognized Statistical Rating Organizations (NRSROs).
- 2.For taxable and tax-free municipal securities the obligor must be rated in the rating category listed below by at least one NRSRO.
- 3.For split ratings, either the middle rating of three, or the lower rating of two agencies will prevail.
- 4.The minimum average credit quality of the portfolio is \_\_\_\_\_.

**Minimum short-term rating:** A-1 or A-2  
**Minimum long-term rating:** [AAA to BBB-]

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## Investment policy statement – long form (cont.)

### VI. Additional policy guidelines –Example

#### A. Prohibited investments

1. Some common prohibitions are derivatives, futures and options contracts, private placements, conflicts of interest including social responsibility requirements.

#### B. Reporting/performance requirements

1. Investment manager will provide a monthly statement containing all transactions and security details including but not limited to security description, purchase and/or sale price, current market price, unrealized gain/loss, book yield, market yield, and accrued income.
2. Performance will be evaluated on a quarterly basis and will be compared on a relative basis to [benchmark] over 3-month, year-to-date, 1-year, 3-year, 5-year and 10-year periods.

#### C. Downgrades and additional policy exceptions

3. Securities downgraded below the minimum quality requirements stated under section D of this policy can be held with written approval by the [appropriate party]. The investment manager must notify the [appropriate party] within [stated time period] of the downgrade event and provide their recommended action based on their credit review/analysis.
4. All other policy exceptions must be communicated by the investment manager in a timely manner and must be approved in writing by [appropriate party].

## Investment policy statement – Long form (cont.)

### Exhibit A

#### Wells Capital Management

#### Internal per issuer limits at time of purchase

Commercial Paper:	A-1/P-1	3% per issuer
Commercial Paper:	A-2/P-2	2% per issuer
Corporates :	AAA/AA	3% per issuer
Corporates:	A	2% per issuer
Corporates:	BBB	1% per issuer
Municipals:	AAA	5% per issuer
Municipals:	AA	4% per issuer
Municipals:	A	2.5% per issuer
Municipals:	BBB	1.5% per issuer
Asset-Backed:	AAA	3% per issuer



## Glossary of security definitions

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## Security definitions

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- **Asset-Backed Securities:** Pass-through securities backed by loans, leases, credit card receivables or installment contracts. Asset-backed securities have final maturities ranging from three to five years at the time of issue with the average time to receipt of principal (average life) ranging from one to three years.
- **Certificates of Deposit:** A marketable receipt for funds deposited in a bank or thrift institution for a specific time period at a stated rate of interest. Eurodollar CDs are issued by large U.S. or foreign banks usually paid in London in U.S. dollars. Yankee CDs are obligations of foreign banks issued in the United States by their U.S. branch.
- **Collateralized Mortgage Obligation (CMO):** A security backed by a pool of pass-throughs or a pool of mortgage loans. The prepayments are segmented to allow for more predictable cash flows.
- **Commercial Mortgage-Backed Securities (CMBS):** Instruments secured by loans on commercial properties. A CMBS provides liquidity and diversification to commercial real estate investors and ready access to capital for commercial lenders.
- **Commercial Paper (foreign and domestic issues):** A short-term, unsecured promissory note issued by banks, corporations, and finance companies.
- **Corporate Notes and Bonds:** Corporate debt instrument. Maturities range from nine months to 30 years.
- **Covered Bonds:** Corporate debt instruments secured by a perfected interest in a pool of collateral providing the investor with dual recourse to both the issuer and the specified collateral. Principal and interest on the covered bond is paid to investors from the issuer's operating cash flows, with the secured collateral serving as a secondary source of payment. As such, covered bonds offer investors additional protection on their principal investment that does not exist with unsecured corporate debt.
- **Euro Certificates of Deposit:** Euro deposits pay a floating interest rate (like a money market account) and offer the chance for capital appreciation if the euro appreciates against the investor's home currency (presumably the dollar). Euro deposit rates are based on the euro interbank offer rate, which is set by the European Central Bank.
- **FDIC-Guaranteed Securities:** Applies to all Senior Unsecured Debt identified as guaranteed by the FDIC and issued by an Eligible Entity from October 12, 2008 through June 30, 2009, subject to a cap. The FDIC Guarantee expires on the earlier of maturity of the debt or June 30, 2012. The FDIC's obligation to pay holders of guaranteed debt is triggered by the uncured failure of the issuer to make a timely payment of principal or interest.
- **Foreign Agencies:** Entities or branches of a foreign government. While the debt may not be guaranteed by the government, there is an implied guarantee as their interests are aligned.

## Security definitions

- **Foreign Government Related Entities:** Defined as foreign domiciled government or related entity who issue bonds denominated in U.S. dollars under U.S. securities law for sale in the United States as well as globally.
- **Foreign Local Governments:** Local governments of a foreign country such as a state, province or city.
- **Money Market Funds:** Sweep vehicle to invest excess funds.
- **Mortgage-Backed Securities:** Investment instruments that represent ownership of an undivided interest in a group of mortgages.
- **Municipal Notes/Bonds:** A debt security issued by a state, municipality or county to finance its capital expenditures. Municipal notes are appealing to investors because they mature in one year or less, offer fixed income and are often exempt from income tax at the local, state and/or federal levels. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state in which the bond is issued.
- **Municipal Variable Rate Securities:** Floating rate municipal obligations that have a nominal long-term maturity but have a coupon rate that is reset at preset intervals.
- **Pre-Refunded Municipal Bonds:** Municipalities frequently refinance older municipal debt by issuing a new, lower coupon bond to defease the original, higher coupon debt. The proceeds from the new bond issue are deposited into an escrow account, or an irrevocable trust and held as cash, or invested in a portfolio of treasury and/or federal agency securities that match the specific interest payment schedule and call date of the original bond. While a pre-refunded bond carries the credit risk characteristics of a U.S. government security, the interest income is considered Federally tax-exempt income, thereby making them attractive to after-tax investors.
- **Repurchase Agreements:** Standardized, simultaneous purchase and sale of the same security between Asset Manager and approved government broker/dealers. Repurchase agreements, are, in effect, short-term (overnight) loans collateralized by securities.
- **Rule 144A Offerings:** A Rule 144A security can be resold to persons that the seller and any person acting on behalf of the seller reasonably believe to be Qualified Institutional Buyers (QIB). A QIB is an institution that owns or invests on a discretionary basis at least \$100 million of qualified securities.

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## Security definitions

- **Sovereigns:** A bond issued by a foreign government denominated in U.S. dollars and registered with the Securities and Exchange Commission for sale in the U.S. and globally.
- **Supranational:** An entity that is formed by two or more central governments through international treaties. The purpose for creating a supranational is to promote the economic development for the member countries.
- **Tax-Exempt Commercial Paper:** An unsecured short-term loan, usually issued to finance short-term liabilities, that provides the debt holders some level of tax preference on the earnings from their debt investment at a local, state or federal level, or a combination thereof.
- **Taxable Short-Term Municipal Debt:** Municipal securities typically secured by general government funds from tax revenue or a Governmental Agency.
- **Time Deposits:** Certificate of Deposit held in a financial institution for a negotiated fixed term or with the understanding that the depositor can withdraw only by giving notice.
- **U.S. Federal Agency Securities (GSE, Government-Sponsored Enterprise):** Debt obligations issued by agencies of the U.S. government such as the Federal National Mortgage Association (FNMA) and the Federal Farm Credit Bank (FFCB). While not explicitly guaranteed by the government, the securities are generally traded with an "implied" guarantee.
- **U.S. Treasury Bill, Notes, and Bonds:** U.S. government guaranteed securities. Represent the most liquid and creditworthy securities in the domestic market.
- **Yankee Certificates of Deposit:** Negotiable time deposit issued in the United States by a foreign borrower, usually in denominations of \$1 million to \$5 million. These certificates pay a fixed or variable rate of interest for a specified maturity, usually under 12 months, and are sold directly or through dealers. They are unsecured obligations of the issuing institution.
- **Yankee Corporates:** A dollar-denominated bond issued by a foreign corporation issued under U.S. securities law for sale in the United States and globally.

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## Glossary of fixed income terms

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## Glossary of fixed income terms

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### **Accretion**

Adding principal to a fund over a period of time. Similar to amortization except that accretion results in an increase of accounting worth, while amortization results in a decrease. In portfolio accounting, discount bonds are accreted to par while premium bonds are amortized to par.

### **Accrued Interest**

The interest accumulated on a bond since issue date of the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

### **Average Life**

The arithmetic weighted average life of a bond where the weights are the proportion of the principal amount being redeemed.

### **Barbell**

Portfolio structuring technique using a mix of short and long-term securities to achieve a targeted average maturity or duration.

### **Basis Point**

One one-hundredth of one percent (.01%). Thus 100 basis points equal 1%.

### **Benchmark**

A bond, frequently the most recent, sizable issue, whose terms set a standard for the market. The benchmark bond usually has the greatest liquidity, the highest turnover, and is the most frequently quoted.

### **Bond Returns**

Consist of two components: current yield and price performance. Current Yield - is the amount of coupon income received, expressed as a percentage of the current market value of the bond or portfolio.

Price Performance - of bonds is determined by changes in interest rates. If rates rise, bond prices fall. If rates fall, bond prices rise.

### **Bullet Maturity**

A bond whose principal is paid only on the final maturity date.

### **Call**

The right to redeem outstanding bonds before their scheduled maturity. The first dates when an issuer may call bonds are specified in the prospectus of every issue that has a call provision in its indenture (contract).

## Glossary of fixed income terms

### Capital Gain / Capital Loss

A realized gain or loss calculated at the time of sale or maturity of any capital asset or security. Refers to the profit or loss attributable to the difference between the purchase and sale prices.

### Cash Equivalents

Any kind of savings account, short-term bank account, commercial paper, or other type of security with short maturities (generally under one year) which can be readily converted to cash. (i.e.-Treasury Bill)

### Consumer Price Index (CPI)

The Consumer Price Index (CPI) measures price changes at the retail level, and is often inaccurately labeled the "cost of living" (COL). It is based primarily on prices found in stores by specially trained "shoppers"

### Convertible Bond

A bond which, at the option of the holder, is convertible into other securities of the corporation, usually into common equity. Occasionally, convertibles have been issued by one corporation convertible into the equity of another. Also, some securities have been issued which are convertible into a specified amount of an underlying commodity. ]

### Convexity

Mathematical concept that measures sensitivity of the market price of an interest-bearing bond to changes in interest rate levels.

### Corporate Tax Equivalent (CTE) Yield

The rate of return required on a par bond to produce the same after-tax yield to maturity as a given bond.

### Coupon

The interest to be paid on a bond semi-annually. Refers to the interest payment of "par" or face value. It is expressed as a percentage of par.

### Credit Risk

The risk that an issuer may default on its securities. Relative degrees of credit risk are delineated by the ratings of the rating agencies.

## Glossary of fixed income terms

### Current Yield

Amount of coupon income received, expressed as a percentage of the current market value of the bond or portfolio. For example, a bond with a current market price of \$1,000 that pays \$80 per year in interest would have a current yield of 8%.

### Cusip Number

Stands for Committee on Uniform Securities Identification Procedures. Special computer identification number for all stocks and registered bonds.

### Debenture

General debt obligation backed only by the intensity of the borrower and documented by an agreement called an indenture. An unsecured bond is a debenture.

### Default

Failure to pay principal or interest promptly when due. If caused by a minor omission that is remedied quickly, it is known as a technical default.

### Discount Basis

A method for quoting non-coupon securities (which always sell at a discount) in which the discount from par is annualized based on a 360-day year.

### Duration

A measure of average maturity that incorporates a bond's yield, coupon, final maturity and call features into one measure. Duration measures the sensitivity of a bond or portfolio's price to changes in interest rates.

### Forward

A forward trade is a principal-to-principal non-transferable agreement, which stipulates that delivery and payment for securities will take place on a date in the future at a price agreed to at the time of the transaction.

### General Obligation Bond (GO)

A federal tax-exempt bond backed by the "full faith, credit and taxing power" of the issuing municipality.

## Glossary of fixed income terms

### Effective Yield

The rate of return realized by an investor who buys a security and subsequently sells it. It reflects coupon, interest on interest, principal payments and capital gains or losses in comparison to the original purchase price.

### Face Value (Amount)

The par value of a bond that appears on the face. This is the amount that the issuer promises to pay at maturity as well as the amount on which interest is computed.

### Floating Rate Note (FRN)

A fixed income security which has variable coupon rates, periodically changed according to the rise and fall of a certain interest rate index or a specific fixed income security, which is used as a benchmark. Also known as a "floater".

### Indenture

For debt securities, the contract that specifies all legal obligations of the issuer with respect to the securities and any qualifications or restrictions that may exist. The indenture names a trustee which holds the indenture, supervises payments of principal and interest to the security holders, and acts on behalf of the holders in the event of a default or other violation of the indenture's provisions.

### Inflation Index Bond

Fixed income securities whose principal value is periodically adjusted according to the rate of inflation. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest is paid on an increasing principal value, which has been adjusted for inflation.

### Interest

An amount charged to a borrower by a lender for the use of money, expressed in terms of an annual percentage rate of the principal amount.

### Interest-Rate Risk

Risk that changes in interest rates will adversely affect the value of an investor's securities portfolio. For example, an investor with large holdings in long-term bonds and utilities has assumed a significant interest-rate risk, because the value of those bonds and utility stocks will fall if interest rates rise. Investors can take various precautionary measures to hedge their interest-rate risk, such as buying interest-rate futures or interest-rate options contracts.

## Glossary of fixed income terms

### Investment Grade

Bonds rated in the top four rating categories (AAA, AA, A, BBB) are commonly known as investment grade securities and are considered eligible for bank investment under present commercial bank regulations issued by Comptroller of the Currency.

### Junk Bond

A bond claimed to have high yield, a low investment quality and credit worthiness, usually with a rating of BB or less.

### Laddering

A fixed income portfolio strategy in which assets are distributed evenly over a range of maturities.

### LIBOR (London Interbank Offered Rate)

The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities.

### Liquidity Premium

The extent to which yields are lower on more liquid securities due to the relative ease with which such securities can be bought or sold in the secondary market.

### Market Risk

The risk that current interest rates may change and thus adversely affect current market prices.

### Maturity

The date on which a loan, bond, mortgage or other debt security becomes due and is to be paid off.

### Nominal Yield

The rate listed on the face of a bond; the coupon rate.

### Original Issue Discount (OID)

OID is the discount from Par Value at the time a bond or other debt instrument, such as a STRIP, is issued. A bond may be issued at \$50 (\$5) per bond instead of \$100 (\$1,000), for example. The bond will mature at \$100 (\$1,000), however, so that an investor has a built-in gain if the bond is held until maturity. The most extreme version of an original issue discount is a zero-coupon bond, which is originally sold at far below par value and pays no interest until it matures.

# Glossary of fixed income terms

## Original Face

The principal amount of a pass-through pool originally issued.

## Par Value

- The value of a security as expressed on its face value without consideration to any premium or discount. A bond selling at par, for instance, is worth the same dollar amount it was issued for or at which it will be redeemed at maturity-typically, \$1,000 per bond.
- The principal amount or denomination at which the obligor (issuing corporation) contracts to redeem the bond at maturity. This amount is stated on the face of the bond.

## Premium

The amount by which the price exceeds the par amount or maturity value of a bond.

## Prepayment

The unscheduled partial or complete payment of the principal amount outstanding on a debt obligation before it is due.

## Puttable Bonds

Corporate issues in which the investor has the option to "put" (sell) the bond back to the issuer at a stated price.

## Rate of Return

Otherwise known as current yield, that is, the coupon or contractual dividend rate divided by the purchase price.

## Risk

A measure of the probability of financial loss. In the fixed income markets there are several types of risk:

- Credit risk: the risk that an issuer will default on its bonds at some time prior to maturity.
- Market risk: the risk that an investor will experience a financial or book loss from an adverse change in market prices.
- Liquidity risk: the risk that an issue will be illiquid and force an investor to take a loss if he attempts to sell the issue prior to maturity.
- Prepayment risk: the risk that a pass-through issue will have an adverse pattern of prepayments (i.e., low prepayments for discount issues, high prepayments for premium issues).
- Reinvestment Risk: the risk that an investor will be forced to reinvest cash flow from an issue at substantially lower rates than the yield of the original investment.

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# Glossary of fixed income terms

## Settlement

- Cash Settlement = Same day settlement
- Regular Settlement: In the United States, settlement is on the next market day after the trade date.
- Skip-Day Settlement: Settlement on the day after the next market trade day.
- T+3: Shorthand abbreviation for Trade Date plus three which is the current standard settlement time frame for equity and debt securities in the U.S.
- Delivery Versus Payment Basis: Under this settlement rule, the delivery of and payment for bonds is simultaneous.
- Domestic Settlement: Settlement according to the accepted market convention.
- Euroclear Settlement: Settlement is 7 calendar days after the trade day. As of June 1995, settlement is 3 market days after the trade day.
- Free Payment Basis: The delivery of a bond and the payment for it are not necessarily simultaneous.
- International Settlement: The settlement of securities is effected through an international clearing agency such as Euroclear or Cedel. International settlement usually assumes no local or generally recognized holidays.

## Sinking Fund

Money, either cash or an acceptable substitute, regularly set aside by a company out of its earnings at stated intervals to redeem all or part of its long-term debt as specified in the indenture. The creation of a sinking fund provides for an orderly amortization of a debt over the life of an issue. A Cash Sinking Fund can be satisfied by cash or bonds purchased in the open market or called at the sinking fund call price. A Property Additions Sinking Fund is generally satisfied by pledging a stated portion of the value of un-mortgaged property.

## STRIP

Separate Trading of Registered Interest and Principal of Securities

- A brokerage-house practice of separating a bond into its CORPUS and COUPONS, which are then sold separately as zero-coupon securities.
- A prestripped zero-coupon bond that is a direct obligation of the U.S. Treasury.

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## Glossary of fixed income terms

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### **Subordinated Debt**

Subordinated debt is junior in claim on assets to other debt, that is, repayable only after other debts with a higher claim have been satisfied. Some subordinated debt has less claim on assets than other subordinated debt; a junior subordinated debenture ranks below a subordinated debenture, for example.

### **Term Structure**

The internal structure of the yield curve; the level and shape of the yield curve; the relationship among yields on securities of varying maturities.

### **Total Return**

The aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period.

### **Trade Date**

The date when a transaction is effected or executed.

### **Tranche**

A part of a single market operation which may have shared documentation, but different terms; e.g. a \$200 million issue, one tranche of \$100 million having a maturity of 5 years and the second tranche of \$100 million having a 10-year maturity.

### **Volatility**

Measures the variation of bond returns and/or interest rates over a set time period. It can be integral to pricing many issues with call options.

### **Yankee Securities**

Dollar denominated bonds issued in the United States by foreign banks and corporations for trade in U.S. markets.

## Glossary of fixed income terms

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### **Yield**

The rate of annual income return on an investment expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price of the security.

### **Yield Curve**

A graphic depiction of interest rates across all maturities, ranging from 3 months to 30 years. The shape of the curve is largely influenced by the Federal Reserve Policy as well as factors listed under "Interest Rates".

### **Yield to Maturity**

The return a bond earns on the price at which it was purchased if it were held to maturity. It assumes that coupon payments can be reinvested at the yield to maturity.

### **Yield To Put**

The return a bond earns assuming that it is held until a certain date and put (sold) to the issuing company at a specific price (the put price).

### **Yield to Worst**

The yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields.

### **Zero-coupon Bond**

Zero-coupon bonds, usually municipal bonds, will convert into an interest bearing bond at some time before maturity. For example, a zero-coupon tax-free municipal bond would automatically accumulate and compound interest for its first 15 years at which time it would convert to a regular interest rate with a small initial investment.



## Basics of Investing

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# What Every Finance Professional Needs to Know About Cybersecurity



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## Presentation

Marc Thorson

Director of Regional Technology Services  
Adjunct Instructor – MPA Program  
Northern Illinois University



# Agenda

- Why Are We Doing This?
- Who Are Hackers?
- How Do Hackers Attack?
- What Is Your Risk?
- Steps to Lower Risk

# Why Are We Doing This?

- Oversee Information Technology
- Avoid FUD
- We Are ALL Responsible for Security

# Who are Hackers?



# Know Your Enemy

- Hackers are less likely to be:
  - Lonely kids in parent's basement
  - Loners in dark apartments

# Know Your Enemy

- Hackers are more likely:
  - Employees at well-organized criminal organizations functioning like large corporations
  - Nation-State actors or contractors
- To a lesser extent
  - Terrorist Organizations
  - Activists

Source: Lesley Carhart – Dragos Inc.

# What Do They Want?

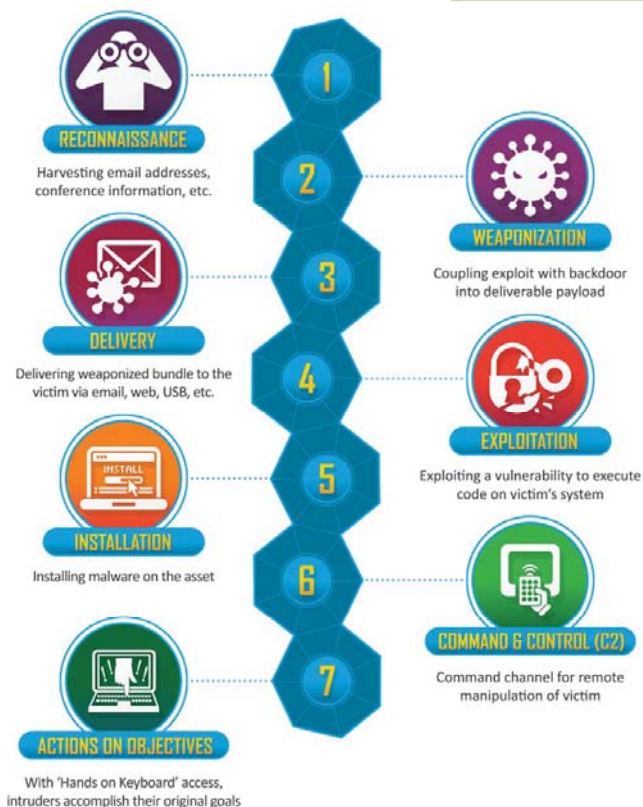
- **MONEY**
- Political or Military Objectives
- Corporate Espionage

Source: Lesley Carhart – Dragos Inc.

# How Do Hackers Attack?

- Attackers want to be quiet
- Attackers typically choose the easiest way
- Attackers will “Live off the Land”
- Social Engineering

## Cyber Kill Chain



Source: Lockheed Martin

# Recon

- Researching Websites and Other Publicly Available Info
- Harvesting Emails, Passwords, and Other Information
- Identifying Watering Holes



# Weaponization

- Creating an Exploitation and Backdoor
- Couple with Delivery Method (Payload)
- Examples:
  - Malicious Site Designed to Look Legitimate
  - Malicious Code



# Delivery

- Determining the Exploit and Coupling with Delivery
- Examples:
  - Spoofed Email with Malicious Link
  - Malicious USB Memory Stick in the Parking Lot
  - Malicious Ad on Website



# Exploitation

- Exploiting the Vulnerability
- Software, Hardware, or Human Vulnerability
- Victim Triggers Exploit





# Installation

- Installing Malicious Software on Victim's Device
- Create a point of persistence



# Command And Control

- Establishing a Foothold on Victim's Systems
- Move Laterally to Maintain Control and Avoid Detection





# Actions On Objectives

- Perform Actions to Achieve Objectives
- May Include Waiting With Periodic Check-ins



# What Is Your Risk?

- Don't Think Secure, Think Defendable
  - Build "Defense in Depth"
- Understand Your Potential Attackers
- Think About Threats, Likelihoods, Harm, and Effort

# Risk Assessment Process

- 1<sup>st</sup> Component: Risk Management Strategy
  - Assess, Respond, and Monitor Risk?
  - What Does Success Look Like?
  - Determine Scope
- 2<sup>nd</sup> Component: Assess Risk
  - Identify threats, vulnerabilities, damage, and likelihood to occur

NIST Special Publication 800-30

# Risk Assessment

- 3<sup>rd</sup> Component: Respond to Risk
  - Based on Assessment
  - Prioritized Path to Lower Risk
- 4<sup>th</sup> Component: Monitor Risk
  - Verify Changes Occurred
  - Check Success Metrics

NIST Special Publication 800-30

# Defense In Depth

## ■ Tools:

- ☐ Firewalls
- ☐ Anti-malware
- ☐ Application Whitelisting
- ☐ Intrusion Detection
- ☐ Web Content Filters
- ☐ Centralized Patch Management
- ☐ Threat Intelligence
- ☐ Access Management
- ☐ Log Aggregation

**Source: Leslie Carhart Presentation**

# Defense In Depth

## ■ Tactics and Procedures

- ☐ Documentation
- ☐ User Training
- ☐ Trained Security Staff
- ☐ Access Control Policies
- ☐ Communication
- ☐ Change Control Process
- ☐ Audits and Penetration Testing
- ☐ Processes and Plans
- ☐ Network Segmentation
- ☐ Prompt Software Updates

**Source: Leslie Carhart Presentation**

# Recap

- We Are ALL Responsible for Security
- Attackers want to work silently, look for the easiest ways, and “live off the land”
- Use the Risk Management Process to plan, assess, respond, and monitor risk
- No “Silver Bullet” to cybersecurity, build Defense in Depth

# Helpful Tips

- Password Managers – Use Them
  - 1Password, LastPass, and others
- Use Different Passwords for Different Sites
- Multi-Factor Authentication (MFA, 2FA, etc)
  - Something you have and something you know

# Helpful Tips

- Update Your Systems
  - PCs, Laptops, iPhones, Android Devices, etc
- Be Suspicious and Verify (In-person or Call Person) Before:
  - Money Transfers
  - Direct Deposit Changes
  - Giving Out PII, CC Info, and/or HIPAA

# Helpful Tips

- Have a Plan and **Practice It**
  - Incident Response Plan
  - Notification Plan

# Thank you!

Questions or Comments

Please contact me at:

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# Purchasing Fundamentals for Finance Professionals

March 20, 2019



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## Presentation Objectives

**Spend  
Analysis**

**Procurement  
Best  
Practices**

**Contract  
Management**

**Key  
Purchasing  
Statutes**

# CONFESSIONS OF A MAVERICK BUYER...

LET THESE STORIES BE A LESSON TO YOU.

## Spend Analysis

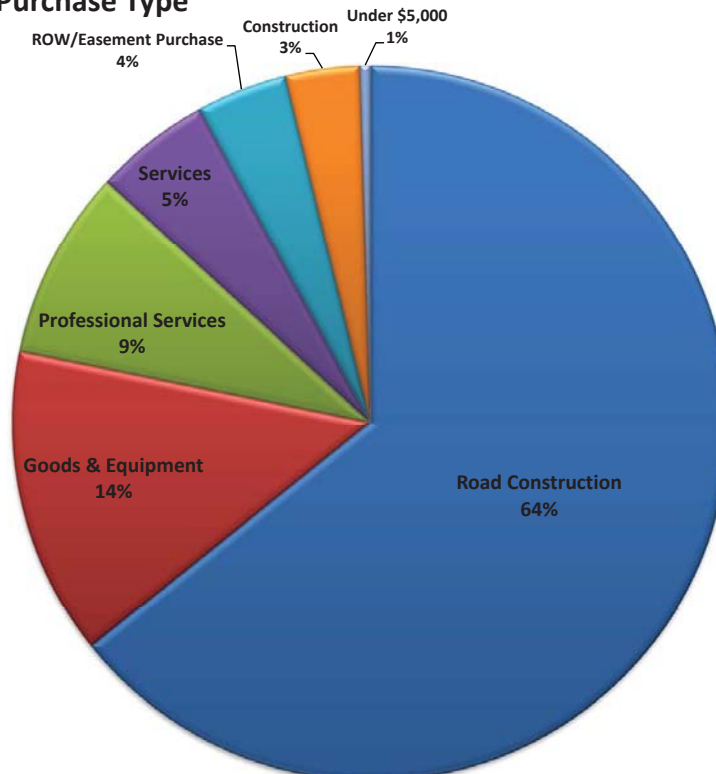
- The process of collecting, cleansing, classifying and analyzing expenditure data from all sources within the organization
  - Procurement Card
  - Accounts Payable



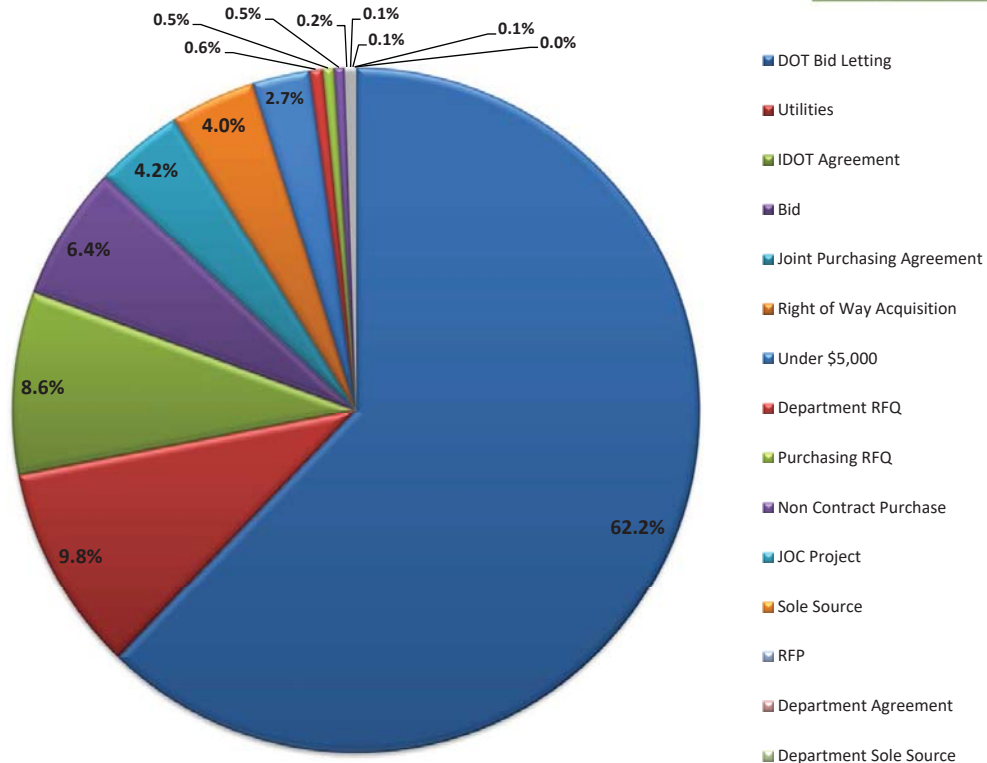
## Spend vs. Number of Transactions

Supplier Name	Transactions	Aggregate Spend	Average Invoice Value
CANON SOLUTIONS AMERICA INC	1,975	401,540.34	203.31
DIRECT ENERGY BUSINESS	1,694	3,441,699.31	2,031.70
AMERISOURCE BERGEN CORP	1,288	341,640.01	265.25
GRAINGER INDUSTRIAL SUPPLY	1,115	563,714.03	505.57
HENRY SCHEIN INC	903	531,055.20	588.10
NORTH SHORE GAS CO	846	182,424.16	215.63
Warehouse Direct	767	250,406.16	326.47
Redacted Personal Data	752	1,377,083.86	1,831.23
POPP DENTAL LABORATORY INC	707	89,205.35	126.17
RAY O'HERRON CO INC	684	149,537.09	218.62
NAPA AUTO	585	38,197.40	65.29
ADDISON PROFESSIONAL FINANCIAL SEARCH LLC	563	561,729.68	997.74
STAPLES	562	531,215.84	945.22
COMMONWEALTH EDISON CO	498	330,682.34	664.02
CDW GOVERNMENT INC	476	2,191,037.28	4,603.02
CINTAS CORP	465	18,138.28	39.01
ACE HARDWARE INC	461	22,541.08	48.90
HILLER FORD INC	458	67,645.94	147.70
REINHART FOODS INC	432	473,390.83	1,095.81
MENARDS	400	49,238.43	123.10

## Spend by Purchase Type



## Purchases on contract



## Procurement Tools

- Request for Quote
- Cooperative Procurement
- Invitation for Bid
- Request for Information
- Request for Proposal
- Statement of Interest
- Bid Exemption



# Planning for Procurement

- Planning Stage
- Selection of Procurement Process
- Market Analysis
- Development of Specifications
- Contract Negotiation
- Implementation

# Selecting Procurement Process

- Cost
- Timeframe
  - Expedited
  - Planned
  - Future Development
- Impact on staff and resources
  - Administrative support
  - Project Management
  - Contract Management



LAKE COUNTY  
FINANCE & ADMINISTRATIVE SERVICES  
PURCHASING DIVISION

BUY LOCAL  
BUILD LOCAL  
WORK LOCAL



### PARTNER BEFORE YOU PURCHASE.



GOODS & SERVICES **UNDER \$5,000**  
P-CARD OR DEPARTMENT PURCHASE ORDER



GOODS & SERVICES **BETWEEN \$5,000 - \$30,000**  
3 QUOTES & LAKE COUNTY PURCHASE ORDER



GOODS & SERVICES **OVER \$30,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING



IT EQUIPMENT **OVER \$35,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING



PROFESSIONAL SERVICES **OVER \$50,000**  
COMPETITIVE BID/RFP ISSUED BY PURCHASING

**SAVE MONEY.  
SPEND WISELY.  
SOURCE STRATEGICALLY.**  
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## Financial Benefits of PCards

- A great tool to simplify and decentralize the procurement process. However, they come with risks if there are not adequate controls in place.





## Pros

- Improved supplier relations with expedited payment
- Online card management tool
- Rebate opportunities
- Tiered rebates for annual volume & large ticket purchases
- Reduces procurement costs
- Joint purchasing opportunity for smaller entities



## Cons

- Risk of internal and external fraud
- May reduce competitive pricing.
- Lack of notice for prevailing wage requirements
- Reconciliation process can be cumbersome
- Spend data may not be integrated with other purchase data
- May not provide the same level of budget visibility as an ERP system.

## When should Pcards be used?

- Small dollar purchases (under \$2,500)
- Qualified large ticket transactions

## When NOT to use Pcards

- Invoice and receipt approval required prior to payment
- If notice of prevailing wage is required
- No personal use

## Purchase Orders

- A purchaser's written document to a supplier formalizing all of the terms and conditions of a proposed transaction, such as a description of the requested items, cost of items being purchased, delivery schedule, terms of payment, and transportation

## Key PO Terms

- Entire Agreement
- Indemnification
- Change Order
- Default
- Transportation Charges
- Inspection
- Warranty
- Payment
- Taxes
- Termination
- Insurance
- Liability
- Prevailing Wage

## Cooperative Purchasing

Joint  
Solicitation

Piggybacking



# Joint Solicitation

- Intentional coming together of two or more agencies to aggregate their individual product and service needs (a.k.a. “purchasing volume”) into a single solicitation effort. Each participant agency is bound to the resulting contract resulting from the singular effort.



# Pros and Cons of Joint Solicitation



## Pros

- Suppliers have clear understanding of volume and service levels
- Forward looking and collaborative approach.
- Shared services by a relatively small number of agencies.



## Cons

- Must commit to participating fully in contract upfront.
- Burden to manage contract is on principal procurement agency.
- May have challenges agreeing to terms and conditions between various governmental units.



# Piggybacking

- An agency utilizes the pricing and contracting of another agency that has already procured the same product or service, saving the agency the effort of developing its own invitation to bid and going through a separate solicitation process



## Pros and Cons of Piggybacking



### Pros

- Can jump on and off during the term of the contract.
- Potential for rebates and revenues.
- Reduces staff time



### Cons

- Actual purchasing volume unknown.
- May not secure the most aggressive pricing.
- May reduce review of the marketplace.

# Governmental Joint Purchasing Act

## 30 ILCS 525/2

- Any governmental unit may purchase personal property, supplies and services jointly with one or more other governmental units. All such joint purchases shall be by competitive solicitation as provided in Section 4 of this Act.



# Intergovernmental Cooperation Act

## 5 ILCS 220/2

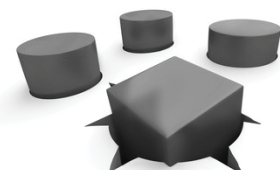
- Any power or powers, privileges, functions, or authority exercised or which may be exercised by a public agency of this State may be exercised, combined, transferred, and enjoyed jointly with any other public agency of this State and jointly with any public agency of any other state or of the United States to the extent that laws of such other state or of the United States do not prohibit joint exercise or enjoyment and except where specifically and expressly prohibited by law.

# Benefits of using cooperatives

- Reduce procurement time
- Ensures compliance with procurement procedures
- Can jump on and off as needed
- Opportunity for rebates and revenue
- Assist in budget preparation

# Things to look out for

- Terms and conditions are not negotiable.
- Cannot significantly expand the scope of goods and services to fit your needs
- Some states do not have the same procurement processes as Illinois



# Where to find a cooperative?



## Bids

- An Invitation for Bids (IFB) procurement method may be chosen when requirements are known and the award is based primarily on price, which can include total cost of ownership.

# Elements of a Bid

- Instructions to Bidders
- General Terms and Conditions
- Special Terms and Conditions
- Scope of Work and Specifications
- Required forms
- Contract documents

# Request for Information

- A non-binding method whereby a jurisdiction publishes its need for input from interested parties for an upcoming solicitation. Used to obtain comments, feedback, or reactions from potential responders (suppliers, contractors) prior to the issuing of a solicitation.

# Request for Proposal

- The document used to solicit proposals from potential providers (proposers) for goods and services. Price is usually not a primary evaluation factor. Provides for the negotiation of all terms, including price, prior to contract award. May include a provision for the negotiation of best and final offers.



# Statement of Interest

- Local Government Professional Services Act - 50 ILCS 510/
- Applies to any school district and any unit of local government of fewer than 3 million inhabitants, except home rule units.
- Governs the use of architectural, engineering and land surveying services (AES)

## Local Government Professional Services Selection Act

- Public Notice – Section 4
- Evaluation Process – Section 5
- Selection Process – Section 6
- Contract Negotiation – Section 7

## Local Government Professional Services Selection Act

- Exceptions to Sections 4, 5, and 6
  - Already has satisfactory relationship with firm(s);
  - Determines by resolution that an emergency exists and expeditious selection needed; or
  - Determines by resolution that cost of services is below the public procurement threshold of \$50,000.



# Sole Source/Bid Exemption

- Has the market been tested lately?
- Has the department documented the need for the item or service?
- How has the determination been vetted by procurement and legal counsels?

## Lake County – 6-102 Bid Exemption

- a) There is only one source for the required good, service or construction item.
- b) There exists a long standing, successful relationship for professional services, and the knowledge gained through this relationship adds value integral to the services provided.
- c) A sole supplier's item is needed for trial use or testing.
- d) The purchase is for used equipment.
- e) The purchase is made at auctions.



## Lake County – 6-103 Emergency Procurement

- Notwithstanding any other provisions of this Ordinance, the goods, services or construction items when there exists a threat to public health, welfare, or safety, or to prevent or minimize serious disruption of government services, shall be considered an “emergency.”

## Contract Negotiation

- Meet with project manager to confirm price
- Define acceptance of deliverables and contract compliance
- Understand the risks for both parties

# Key Contract Elements

- Recitals
- Agreement Documents
- Scope of Work
  - ✓ Project Plan
  - ✓ Project Resources
- Duration
- Operative Language
  - ✓ Price
  - ✓ Invoices & Payment
  - ✓ Change Orders

# Key Contract Elements


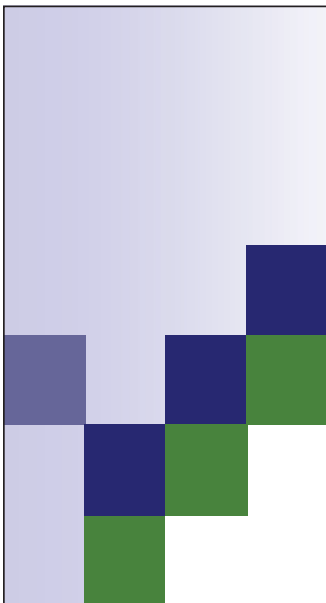
- General Terms and Conditions
  - ✓ Damages – Compensated or Liquidated
  - ✓ Termination
- Legal Provisions
  - ✓ Indemnification
  - ✓ Jurisdiction and Venue
  - ✓ Insurance
- Closing
  - ✓ Signature line

# Contract Management

- Read your contract
  - ✓ Understand deliverables
  - ✓ General Terms & Conditions
  - ✓ Legal Provisions
- Encumber Funds
  - ✓ Sets aside the funds for payments
- Communicate expectations to vendor
  - ✓ Define roles & responsibilities
  - ✓ Confirm deliverable timeframes
- Final acceptance

## Questions

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## **The ABC's of Governmental Budgeting**

**Thursday, March 21<sup>st</sup>, 2019**



## **It All Starts With a Budget**

- A Budget is a Financial, Operating, Planning, and Communication Tool.
- Budget and Accounting are different. A Budget is a law and Accounting is a set of rules for recording revenue and expense.
- Budgets look forward and analyze the past. Accounting categorizes costs and ONLY looks back.
- Budgets adapt to external influences such as population shifts, changing citizen needs, and global economic issues.



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# Why Budget?

- To plan for the future
- To allocate resources
- To define the tax burden
- To communicate with the public



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# Universal Challenges

- Balancing funds in a system that is almost **ALWAYS** structurally unbalanced.
- Responding to federal and state mandates.
- Delivering a growing myriad of goods and services.
- Doing *more with less* (or doing less with less).



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# Competing Ideologies

- Political Environment
- Community Environment
- Operating Environment
- Financial Environment



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# Before You Begin

- Identify community priorities
- Use those priorities when you budget
- Recognize there are competing priorities



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# Financial Policy Development

## ❑ Strategic planning

- *Where are we going?*
- *Short-term and long-term goals and objectives*
- *Rationale for allocating resources*

## ❑ Accountability

- *How did we do?*
- *Are we practicing what we preach?*



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# Financial Policies (external standards)

- Financial Accounting Standards Board (FASB)
- Governmental Accounting Standards Board (GASB)
- Generally Accepted Accounting Principles (GAAP)
- Single Audit Act (Circular A-133) & Circular A-87 (Now called the Super Circular)
- Internal Revenue Service
- Federal & State Grant Contracts
- Illinois Municipal Code – Financial & Budget Laws



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# Financial Policies (internal standards)

- City of Springfield Appropriation Ordinance
- City Purchasing Code
- Chart of Accounts
- Commodity Code Classification
- Reporting Requirements to City Council
- Cash Liquidity Standards
- Internal Budgetary Policies



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# Financial Planning

- Assess / project financial condition
- Historical comparisons
- Allocates resources
- Prepare for the future



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# Operations Planning

- What services will be provided?
- How will they be provided
- Department goals
- Authorized staffing levels



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# Operations Planning Elements

- Description of departmental activities
- Departmental goals & objectives
- Staffing levels
- Changed service levels



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# Communications

“If you can’t explain it to  
a six year old,  
you don’t  
understand it yourself”

-- Albert Einstein



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# Communications

## ■ Multi-party communication

- *Elected officials to management*
- *Management to staff*
- *Elected officials & staff to residents*
- *External communication*

## ■ Multi-faceted communication

- *Policy*
- *Financial*
- *Operational*
- *Historical*



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# Keep It Simple Stupid

- The layers of authority in local government are overwhelming
- Effective communication NEVER involves technical terms
- We are the financial experts, but every citizen is our boss
- Earn respect by teaching with respect



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# Common Elements

- Budget message
- Summary
- Detail
- Other Information



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# Qualities of an Effective Budget

- **REALISTIC** – *realistic projections of revenues and expenditures*
- **CONSISTENT** – *consistent with organization's long-term goals and objectives*
- **FLEXIBLE** – *monitored and amended if conditions not as expected*



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# Types of Budgeting

- **Line item**
  - *Traditional approach – focus on control*
- **Program**
  - *Costs by program*
  - *Facilitates prioritizing services*
- **Performance**
  - *Adds benchmarking to focus on outcomes*
- **Zero-based**
  - *Justify every line item every year*



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# Budget Monitoring

- Monthly reports
  - *Department*
  - *Finance*
- Updated projections
  - *Finance*
- Mid-year review
  - *With elected officials*



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# Legal Framework

- Appropriations Ordinance (65 ILCS 5/8-2-9)
  - *Adopt within 1<sup>st</sup> quarter of fiscal year*
  - *Line item detail*
  - *More cumbersome to amend*
- Budget Officer (65 ILCS 5/8-2-9.1 thru 9.10)
  - *Adopt by 2/3 majority of corporate authorities*
  - *Appoint budget officer*
  - *Adopt budget before start of fiscal year*
  - *Authority to amend can be delegated*



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# Questions???

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# IGFOA Academy Level I

## Revenue Overview



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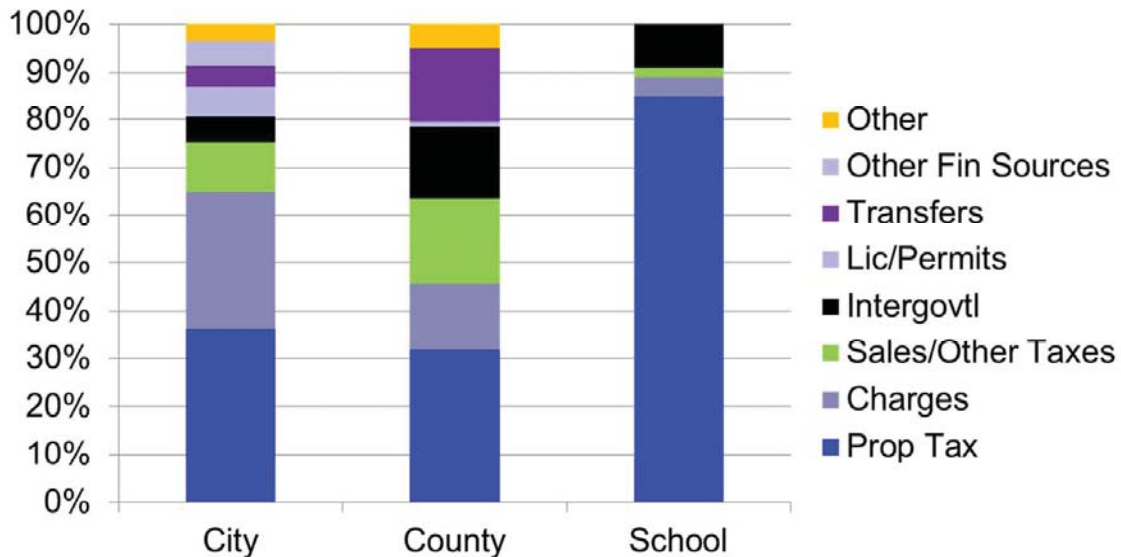
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# What are your key revenue sources?

- General Fund
- Entity Wide

Top Revenue Sources				
	Revenue Source	% of FY2019 City-wide Revenue	% of FY2019 General Fund Revenue	Estimated Growth over Prior Year
1	Property Taxes	32.50%	54.31%	4.43%
2	Internal Service Charges	11.20%	2.11%	2.50%
3	Water/Sewer Charges	9.06%	n/a	2.50%
4	Inter-fund Transfers	5.07%	n/a	n/a
5	Municipal Utility Taxes	4.12%	9.83%	n/a
6	Park/Recreation Fees	3.78%	n/a	3.5%
7	Sales Tax	3.24%	7.75%	1.88%
8	Golf Course Fees	2.03%	n/a	1.9%
9	Real Estate Transfer Tax	1.86%	n/a	n/a
10	Income Tax	1.85%	4.42%	-7.68%
11	Motor Vehicle Licenses	1.53%	3.65%	n/a
12	Building Permits	.99%	2.36%	n/a
	TOTAL	77.21%	84.43%	

# What are your key revenue sources?



## Property Tax

- Single greatest revenue source for most units of government
- **CRITICAL** to follow Statute carefully and address any nuances applicable to your County



# Tax Levy Process



*Credit: Lake County Illinois web site*

# Tax Levy Calendar

- Must adopt tax levy ordinance
- Be careful to follow proper procedures and requirements
  - Important dates
    - 20-day levy estimate requirement
    - Levy filing (last Tuesday in December)

2018 Levy	
Tax Levy Estimate	11-5-18
1 <sup>st</sup> Reading - Ordinance	11-19-18
Final Reading – Ordinance (Public Hearing, If Required)	12-3-18
File Tax Levy Ordinance with County* (* watch impact of holidays)	12-1-18

# Property Taxes

- Property Tax Extension Limitation Law (PTELL)
  - Commonly referred to as “Tax Cap”
  - Limits non-home rule communities in impacted counties
  - Property tax increases limited to lesser of 5% or CPI without referendum approval
  - Must provide residents with impact of proposed levy on average homeowner

## PTELL History

Increase under PTELL applicable to following levy year published each January.

2019 levy increase under PTELL is 1.9%.

Illinois Department of Revenue  
History of CPI's Used for the PTELL  
01/11/2019

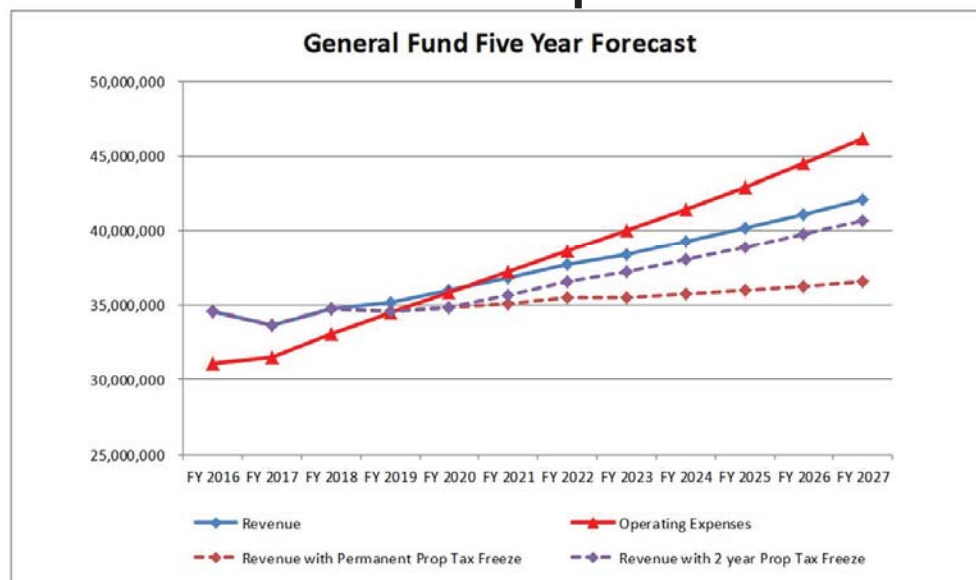
Year	December CPI-U	% Change From Previous December	% Use for PTELL	Comments	Levy Year	Years Taxes Paid
1991	137.900	--				
1992	141.900	2.9%	2.9%		1993	1994
1993	145.800	2.7%	2.7%	(5 % for Cook)	1994	1995
1994	149.700	2.7%	2.7%		1995	1996
1995	153.500	2.5%	2.5%		1996	1997
1996	158.960	3.6%	3.6%		1997	1998
1997	161.300	1.5%	1.5%		1998	1999
1998	163.900	1.6%	1.6%		1999	2000
1999	168.300	2.7%	2.7%		2000	2001
2000	174.000	3.4%	3.4%		2001	2002
2001	176.700	1.6%	1.6%		2002	2003
2002	180.900	2.4%	2.4%		2003	2004
2003	184.300	1.9%	1.9%		2004	2005
2004	190.300	3.3%	3.3%		2005	2006
2005	196.800	3.4%	3.4%		2006	2007
2006	201.800	2.5%	2.5%		2007	2008
2007	210.036	4.08%	4.1%		2008	2009
2008	210.228	0.1%	0.1%		2009	2010
2009	215.949	2.7%	2.7%		2010	2011
2010	219.179	1.5%	1.5%		2011	2012
2011	225.672	3.0%	3.0%		2012	2013
2012	229.601	1.7%	1.7%		2013	2014
2013	233.049	1.5%	1.5%		2014	2015
2014	234.812	0.8%	0.8%		2015	2016
2015	236.525	0.7%	0.7%		2016	2017
2016	241.432	2.1%	2.1%		2017	2018
2017	246.524	2.1%	2.1%		2018	2019
2018	251.233	1.9%	1.9%		2019	2020

<https://www2.illinois.gov/rev/localgovernments/property/Documents/cpihistory.pdf>

# Property Tax – Current Issues

- Will units of government in Illinois be faced with two-year or permanent property tax freeze as part of State budget discussions in Springfield?
- What will that mean to your agency?

## Lake Forest example



The chart above depicts General Fund revenue and operating expenses for FY2016 audited and projections for FY2017 through FY2027. Due to growth in operating expenses outpacing growth in revenues, it is projected that operating expenses in the General Fund will exceed revenues in FY2021. Secondary revenue projection lines are provided assuming that the State imposes either a 2-year (FY19 and FY20) or permanent property tax freeze.

# State Administered Revenues

- Income Tax (LGDF)
- Personal Property Replacement Tax
- Use Tax
- Local Share – State Sales Tax
- Home Rule or Non-Home Rule Sales Tax
- Motor Fuel Tax
- Telecommunications Tax

# State Administered Revenue

- Local Revenues/State Revenue Sharing
  - Income Tax – Percent of state income tax receipts (currently 5.757%); distributed on per capita basis through Local Government Distributive Fund (LGDF)
  - Personal Property Replacement Tax – 2.5% income tax on corporations; distributed 8 times per year

# State Administered Revenue

- Local Revenues/State Revenue Sharing
  - Use Tax – 20% of 6.25% use tax on general merchandise and 100% of 1.0% use tax on qualifying food and drugs; distributed on per capita basis; South Dakota vs. Wayfair
  - Motor Fuel Tax – Rates of \$.19/gallon on motor fuel and \$.215/gallon on diesel fuel is disbursed by Illinois Dept of Transportation

[www.idot.illinois.gov](http://www.idot.illinois.gov)

# Forecasting State Shared Revenue

Illinois Municipal League – Review Magazine

[www.iml.org](http://www.iml.org)

SUMMARY TABLE - DISTRIBUTIONS TO MUNICIPALITIES						
	MFY 2018 Actual	MFY 2019 February Revised Estimate	MFY 2019 May Revised Estimate	MFY 2019 September Revised Estimate	MFY 2019 December Revised Estimate	MFY 2020 Forecast
Income Tax (Per Capita)	\$90.70/\$105.90*	\$89.00	\$94.87	\$94.87	\$97.90	\$100.75
State Use Tax (Per Capita)	\$25.93	\$26.75	\$27.50	\$27.50	\$29.00	\$31.70
Motor Fuel Tax (Per Capita)	\$25.43	\$25.55	\$25.25	\$25.25	\$25.55	\$25.45
Total Per Capita	\$142.06/\$158.20*	\$141.30	\$146.87	\$147.62	\$152.45	\$157.90
CPPRT (\$ thousand)	\$1,190,185	\$1,160,000	\$1,160,000	\$1,160,000	\$1,200,000	\$1,280,000
* \$90.70 and \$142.06 for municipalities using accrual accounting; \$105.90 and \$158.20 per capita for municipalities using cash accounting.						



# State Administered Revenue

## ■ Locally Authorized

- ☐ Local Share of State Sales Tax – 1.0% of 6.25% State Sales Tax; distributed monthly
- ☐ Home Rule or non-Home Rule Sales Tax – approved in .25% increments – does not include same sales categories as Local Share of State Sales Tax (ie. auto sales)
- ☐ Telecommunications Tax – Approved in .25% increments up to 6.0%
- ☐ Auto Rental Tax – up to 1.0%



Search...

Individuals ▾ Businesses ▾ Tax Professionals ▾ Local Governments ▾ Forms ▾ Research ▾

Revenue ▸ Local Governments ▸ Local Tax Allocation

## Local Tax Allocation

- Most Frequently Used Links
- Research and Statistics
- Tax Rate Changes

### Distribution Information

- Monthly Detailed Disbursement Amounts
- Tax Types Distributed to Local Governments
- Changes in Disbursements

### Resources

- Forms and Agreements
- Taxpayer Location Verification by Local Governments
- Rebate Sharing
- Local Government Workshops
- Electronic Deposit
- Contacts
- Links to Local Official Organizations

#### LOCAL TAX ALLOCATION

Frequently Used Links

Research and Statistics

Tax Rate Changes

<https://www2.illinois.gov/rev/localgovernments/LocalTaxAllocation/Pages/default.aspx>

# Locally Administered Revenue

## ■ Utility Taxes

- ☐ Natural Gas, Electric and Water

## ■ Franchise Fees

- ☐ Cable TV (5% + 1% PEG Fee)
- ☐ Electric – Cash or Free Service Options
- ☐ Natural Gas – Cash or Free Service Options

# Locally Administered Revenue

## ■ Real Estate Transfer Tax

## ■ Miscellaneous Taxes

- ☐ Local Motor Fuel Tax
- ☐ Food & Beverage Tax
- ☐ Packaged Liquor Tax

\*Imposition of these local taxes require home rule or referendum.

# Locally Administered Revenue

- Business and Other License/Fees:
  - ☐ Motor Vehicle Licenses
  - ☐ Business Licenses; Liquor Licenses
  - ☐ Red Light Camera Fees
  - ☐ Video Gaming and licensing fees
  - ☐ Ambulance Fees; 911 revenues
  - ☐ Court Fines and Fees; Administrative Hearing
  - ☐ Parking Permits; Parking Tickets

# Enterprise Funds - Rates

- Water and Sewer Fund
  - ☐ Revenue Estimates
  - ☐ Rate Structure/Methodology
  - ☐ Cash Flow Analysis
  - ☐ Capital Funding – Cash vs. Financing
  - ☐ Long Term Forecasting
- Golf Course Fund – Lake Forest



# Lake Forest Cost of City Services

<u>Fiscal Year:</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Property Taxes (\$800,000 home in 2011)	2,568.44	2,618.49	2,695.59	2,737.27	2,860.31
Deduct: Library Portion	(348.29)	(354.52)	(357.89)	(361.40)	(369.97)
City Portion of Property Tax	2,220.15	2,263.97	2,337.70	2,375.87	2,490.34
Utility Taxes - Electric/Gas/Water	240.00	240.00	240.00	240.00	240.00
Telecommunications Tax	54.00	54.00	54.00	54.00	54.00
Cable Franchise Fees	45.00	45.00	45.00	45.00	45.00
Vehicle Stickers (2 vehicles)	170.00	170.00	170.00	170.00	170.00
Water Charges	1,148.00	1,180.00	1,206.00	1,239.20	1,263.20
Sanitary Sewer Charges	136.00	136.00	136.00	136.00	136.00
Public Safety Pension Fee				40.00	80.00
Sanitation Fee	96.00	96.00	96.00	96.00	96.00
Total	4,109.15	4,184.97	4,284.70	4,396.07	4,574.54
Change from prior year	\$203.85	\$75.81	\$99.73	\$111.38	\$178.47

## Questions?

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City of Lake Forest  
847-810-3612  
hollebe@cityoflakeforest.com



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# Pension Primer

Presented by Jason Franken, Foster & Foster  
Christina Coyle, Village of Glen Ellyn



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## Learning Objectives

- Explore the basics of IMRF and Downstate Police and Fire pension plans
- Gain knowledge of Government Accounting Standards Board (GASB) reporting requirements for pensions
- Learn about the actuarial means and methods and how they affect the annual contribution and funding status

# Basics of IMRF Plan

Two Tiers – January 1, 2011 is cut-off date between two tiers.

	<b>Tier 1</b>	<b>Tier 2</b>
Vesting period	8 years	10 years
Retirement age	60	67
Years of service for full retirement	35	35
Employee contribution rate	4.5%	4.5%
Salary to calculate pension	Highest total earnings during any consecutive 48 months within your last 10 years of service	Highest total earnings during any consecutive 96 months within last 10 years of service
Salary cap	None	Started at \$106,800 (2011) and is indexed to lower of half CPI or 3%
Pension	1.667% of final earnings for each of the first 15 years; 2% for each year over 15 years; max 40 years or 75%	1.667% of final earnings for each of the first 15 years; 2% for each year over 15 years; max 40 years or 75%
Increase in retirement	3% of original pension amount.	Lower of half CPI or 3% of original pension amount.

# Basics of IMRF Plan

- IMRF employees work a minimum of 600 or 1000 hours, depending on employer rules
- IMRF is determined by position, not individual
- Each year, IMRF calculates a rate of IMRF payroll that municipalities must pay to IMRF on a monthly basis
- IMRF does conduct periodic audits of IMRF employers

# Basics of Downstate Police

Two Tiers – January 1, 2011 is cut-off date between two tiers.

	<b>Tier 1</b>	<b>Tier 2</b>
Vesting period/Retirement Age	8 years (age 60); 20 years (age 50)	10 years (age 55)
Years of service for full retirement	20	30
Employee contribution rate	9.91%	9.91%
Salary to calculate pension	Salary at time of retirement (does not include overtime)	Highest 96 consecutive months within the last 120 months of service (does not include overtime)
Salary cap	None	Started at \$106,800 (2011) and is indexed to lower of half CPI or 3%
Pension	50% of salary with 20 years of service and additional 2.5% of salary for each year over 20 years, for a max of 75%	2.5% of final average salary for each year of service, max 75%
Increase in retirement	3% compounded	Lower of half CPI or 3% of original pension amount.

# Basics of Downstate Fire

Two Tiers – January 1, 2011 is cut-off date between two tiers.

	<b>Tier 1</b>	<b>Tier 2</b>
Vesting period/Retirement Age	8 years (age 60); 20 years (age 50)	10 years (age 55)
Years of service for full retirement	20	30
Employee contribution rate	9.455%	9.455%
Salary to calculate pension	Salary at time of retirement (does not include overtime)	Highest 96 consecutive months within the last 120 months of service (does not include overtime)
Salary cap	None	Started at \$106,800 (2011) and is indexed to lower of half CPI or 3%
Pension	50% of salary with 20 years of service and additional 2.5% of salary for each year over 20 years, for a max of 75%	2.5% of final average salary for each year of service, max 75%
Increase in retirement	3% compounded	Lower of half CPI or 3% of original pension amount.

## Basics of Downstate Police & Fire

- Governed by a separate Board
  - Two current active members
  - Two appointed by municipality
  - One elected from retirees
  - Board invests funds, approves pension decisions and expenses
  - In many municipalities, the Finance Director serves as treasurer (either appointed as a trustee with voting rights or in an advisory capacity)
  - Trustees have continuing education requirements
- Municipality contribution determined by an actuarial model.
- State minimum is target of 90% funding by 2040.
- Must file an annual report with the Department of Insurance.
- Department of Insurance conducts periodic audits of pension funds.

## GASB No. 67 & 68

- Most recent pension standards are 67 (pension fund) and 68 (pension employers)
- Notable requirements
  - Requires employer to recognize a net pension asset or liability, which was not formerly reported
  - Requires a host of information in Required Supplementary Information (RSI) and in the notes to the financial statements.
  - Information must be calculated by an actuary
- Comprehensive Annual Financial Report Review

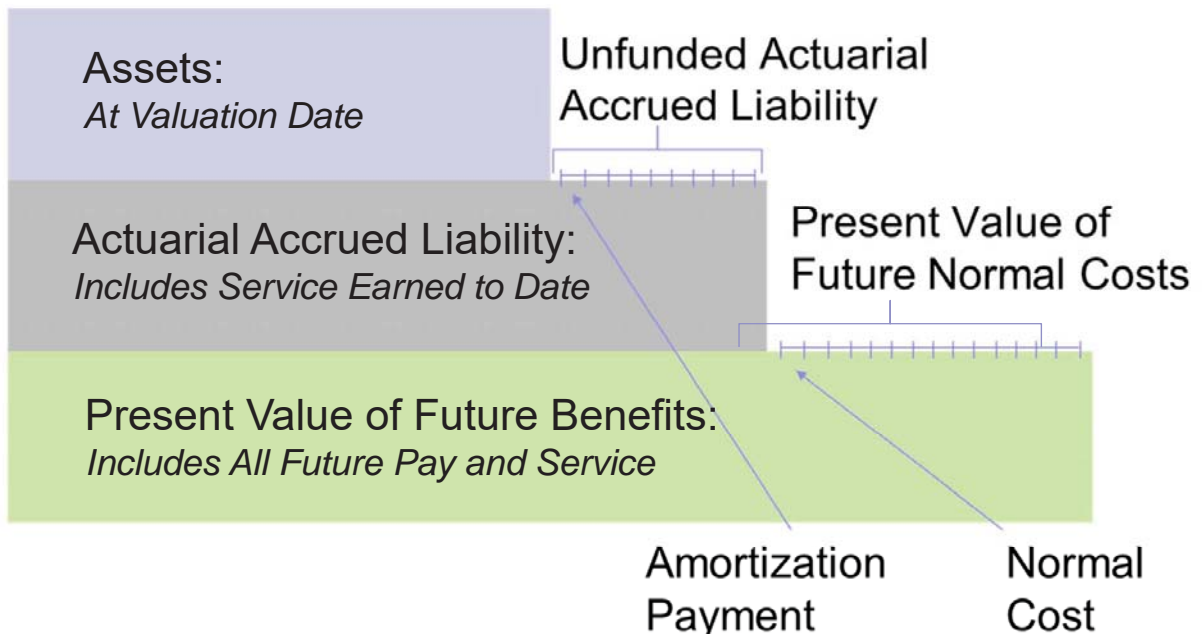
# FUNDING BASICS

## The Fundamental Truth of Pension Funds...

$$\text{Benefits} + \text{Expenses} = \text{Contributions} + \text{Investment Earnings}$$



# FUNDING BASICS



## FUNDING BASICS

### GLOSSARY OF TERMS



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- Present Value of Future Benefits
  - The single sum value at the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees, and Vested Terminations.
- Normal Cost
  - The current year's cost for benefits yet to be funded.
- Actuarial Accrued Liability
  - Determined according to the plan's actuarial cost method. This amount represents the portion of the anticipated benefit allocated to years prior to the valuation date.

## FUNDING BASICS

### GLOSSARY OF TERMS



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- Actuarial Value of Assets
  - The value of assets determined after smoothing investment gains and losses over a defined time period (e.g. five years).
- Unfunded Actuarial Accrued Liability (UAAL)
  - The excess of the Accrued Actuarial Liability over the Actuarial Value of Assets.



# FUNDING BASICS

## ANNUAL PENSION CONTRIBUTION



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- The annual pension contribution consists of two pieces:
  - Normal cost
    - The amount of benefits that are earned by the active workforce each year, reflecting increases in pay and service earned during the year
    - Includes administrative expenses paid out of the pension trust
  - Amortization payment
    - The amount paid each year to eliminate the unfunded liabilities of the plan
- The contribution needs to reflect the timing of the payment so it should include interest from the valuation date to the estimated payment date

## OVERVIEW OF ACTUARIAL PROCESS



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- Data Collection
  - Member Data
  - Asset Information
  - Plan Provisions
- Method Selection
  - Cost Allocation Methods
  - Asset Smoothing
  - Amortization Methods
- Assumption Setting
- Liability Calculations and Contribution Determination
- Delivery of Recommended Actuarial Contribution



## DATA COLLECTION

- Member Data
  - Collected at a snapshot date in time
  - Includes indicative data such as gender, birth date, and hire date
  - Current Status in the fund
  - Pay or benefit information
- Asset Information
  - Ideally final audited assets
- Plan Provisions
  - In Illinois, see Illinois Compiled Statutes (ILCS) Chapter 40 Act 5
  - Recent laws not yet included in the ILCS database are found under Public Acts

## METHOD SELECTION

### ASSET SMOOTHING

- Asset smoothing is standard actuarial practice.
  - As of March 30, 2011, Illinois Pension Code requires investment gains and losses to be recognized over a five year period.
- Reduces impact of year over year fund volatility, which can help to achieve a more level funding pattern.
- The actuarial value of assets (smoothed assets) is used in determining the funded ratio, unfunded liability and contribution requirement.

## METHOD SELECTION

### ACTUARIAL COST METHOD



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- An actuarial cost method is a budgeting mechanism used to accumulate money over a member's working career so that there is enough money to pay their pension benefits in retirement.
- The actuarial cost method determines the normal cost and the actuarial accrued liability.
- The characteristics of each method are different.
- There is not one cost method that is "correct."

## METHOD SELECTION

### ACTUARIAL COST METHOD



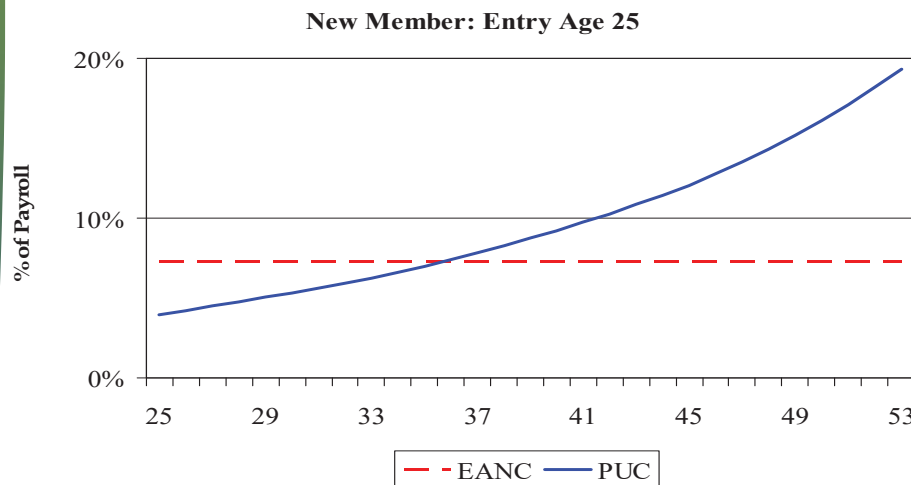
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- Entry Age Normal Cost Method
  - Creates a level contribution pattern during a member's career.
  - Used by over 90% of public pension funds since it produces a more predictable contribution pattern.
- Projected Unit Credit Cost Method
  - Contributions are based on the value of the benefits that accrue each year.
  - Benefits accruing near retirement are much more valuable than those early in a member's career.
  - Contribution pattern is back-loaded.

## METHOD SELECTION

### ACTUARIAL COST METHOD

- Entry Age Normal vs. Projected Unit Credit:



## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

- The actuarial cost method determines the actuarial accrued liability.
- In the actuarial valuation, the accrued liability is compared to the actuarial value of assets.
- If the accrued liability is larger, unfunded liabilities exist and need to be paid down, similar to a mortgage.
- Currently, the amortization period in Illinois Pension Code ends in 2040 (target is 90% of accrued liability).

## METHOD SELECTION

### *AMORTIZATION OF UNFUNDED LIABILITIES*

- Many considerations when selecting an amortization method:
  - Length of the amortization period?
  - Open (rolling) or closed amortization?
  - Level dollar or level percentage of payroll basis?
    - If level percentage basis, what is the payroll growth assumption?

## METHOD SELECTION

### *AMORTIZATION OF UNFUNDED LIABILITIES*

- Length of amortization period?
  - Typically, funds rely on the Illinois Pension Code.
  - Currently, the amortization period is through the year 2040.
    - This is an arbitrary date arrived at through the political process.
  - Amortization periods that end at an arbitrary date can be dangerous.
    - The plan is going to be around for a lot longer than this “end date.”
    - This date is often pushed back without any consideration of the effect on the plan or the municipality.
- Increasing contributions and volatility as you approach the end of the amortization period will be difficult for the municipality to manage.

## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*



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- Open (rolling) or closed amortization?
  - An amortization with a finite period is called a closed amortization.
    - 2040 is a closed amortization.
    - Or is it?!?! The date will be moved at some point in the future.
  - An open amortization is one that always uses the same number of years.
    - For example, IMRF is going to an open 15 year amortization.
    - Opponents do not like it because it does not get you to 100% by any specific date.

## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*



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- Level dollar or level percentage of payroll basis?
  - The level dollar approach produces an amortization payment that is always the same amount.
    - Becomes a smaller percentage of payroll over time.
  - The level percentage of payroll produces a payment stream that is designed to increase based on the expected growth in payroll.
    - Payments start out small and increase over time.
    - The actuary uses a payroll growth assumption to determine the payment pattern; the higher the assumption, the more the payment will increase over time.
    - The current payment is less than the level dollar approach since future payments get larger each year.
    - The level dollar method is the same as the level percentage approach with a 0% payroll growth assumption.

## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

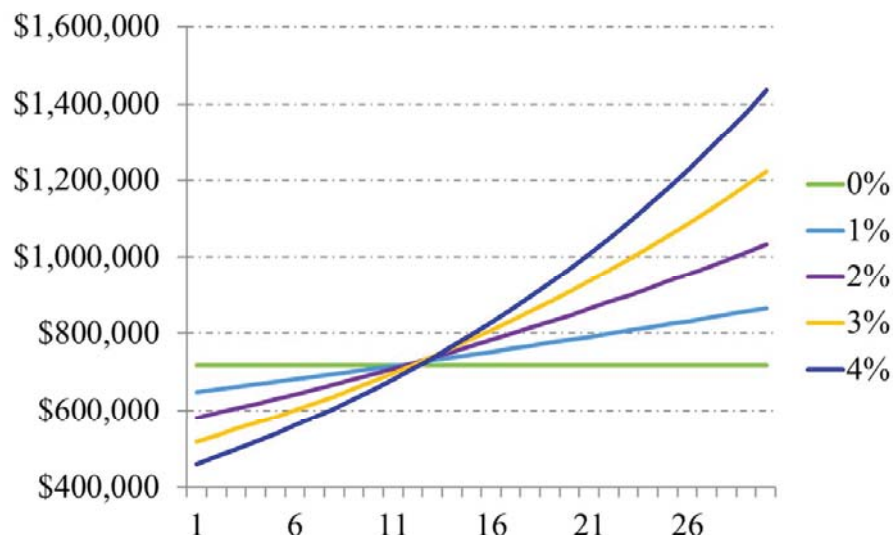
- The payroll growth assumption determines how unfunded liabilities are paid off.
- Example – 30-Year Amortization
  - Unfunded Actuarial Liability = \$10,000,000
  - Interest Rate = 6.50%

Payroll Growth Rate	UAL Payment (1 <sup>st</sup> year)
0% (Level \$)	\$719,037
1%	\$648,601
2%	\$581,886
3%	\$519,150
4%	\$460,600

## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

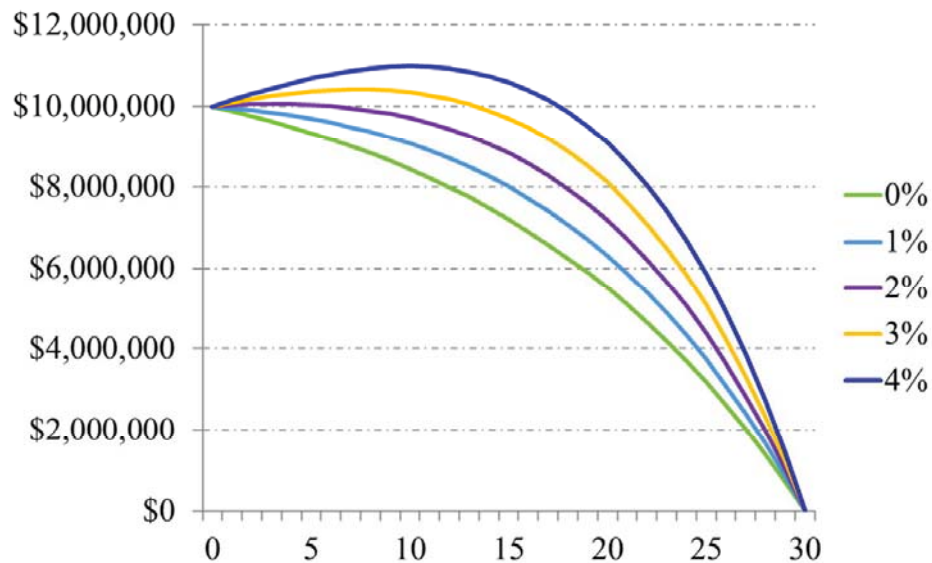
- How do the amortization payments change over the 30-year period with various payroll growth assumptions?



## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*

- What happens to the unfunded liabilities under various payroll growth assumptions?



## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*

- Each municipality should select its own amortization approach rather than relying on pension legislation from Springfield.
- Need to consider how all of the factors work together and select those that will help you succeed.
  - Cannot cherry pick the “cheapest” approach from each category.
- Once you have made a selection, stick with it and do not change the rules along the way.
  - Changing the rules will set you up for failure.



## ASSUMPTION SETTING

- Assumptions Used by the Actuary to Determine Liabilities:
  - Investment Return
  - Salary Increase
  - Payroll Growth
  - Mortality
  - Retirement
  - Turnover
  - Disability
  - Others



## LIABILITY CALCULATIONS AND CONTRIBUTION DETERMINATION

- After collecting all of the necessary data and making all of the decisions about methods and assumptions, an actuary will determine the results.
- The resulting contribution will be:

$$\begin{array}{ccccccc} \text{Normal} & & & & & & \\ \text{Cost,} & & & & & & \\ \text{including} & + & \text{Amortization} & \text{Expected} & = & \text{Actuarial} \\ \text{expenses} & & \text{of Unfunded} & \text{Member} & & \text{Recommended} \\ & & \text{Liability} & \text{Contributions} & & \text{Contribution} \end{array}$$





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## **Essentials of Debt Issuance**

March 21, 2019

Mark Jeretina, Vice President- Speer Financial, Inc.

Mark Huddle, Senior Counsel- Ice Miller LLP



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# **The Process**

## **■ Determine the need for financing**

- ☐ Project
- ☐ Working capital
- ☐ Refinancing

## **■ Hire the "players" (to be discussed)**

## **■ Adopt ordinance**

- ☐ Authorizing ordinance
- ☐ Referendum ordinance

## **■ Conduct public hearing**

## **■ Determine purchaser of bonds**

## **■ Adopt bond ordinance (parameters/day of sale)**

## **■ Close**

# Players and Their Roles

## ■ Issuer

- ☐ Main participant
- ☐ Generally responsible for the repayment of the debt

## ■ Municipal Advisor

- ☐ Fiduciary relationship with the issuer
- ☐ Works closely, and coordinates tasks, with the issuer, bond counsel and the other participants in a debt transaction
- ☐ Can be hired in both competitive and negotiated sales
- ☐ Prepares the financing plan, recommends method of sale, manages the transaction, coordinates the sale and closing, prepares the issuer for the rating process
- ☐ May draft the official statement or other offering documents
- ☐ Issuer decision on whether to hire municipal advisor (GFOA best practice)

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# Players and Their Roles (cont'd)

## ■ Underwriter

- ☐ A bank, investment banking firm or broker-dealer that purchases the debt from the issuer in a competitive or negotiated transaction
- ☐ Assumes the risk of purchasing the bonds for re-sale to investors
- ☐ No fiduciary relationship
- ☐ In a negotiated sale
  - Assists in structuring the debt
  - Assists the municipal advisor and issuer with the rating preparation
  - Reviews bond documents
  - May be sole manager, senior manager, co-manager, or in a selling group
- ☐ In a competitive sale
  - Submits a bid based on the information presented in the Notice of Sale
  - Does not participate in preparing an issue for market

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# Players and Their Roles (cont'd)

## ■ Local Counsel

- ❑ Represents the issuer
- ❑ May be on staff, or brought into the transaction for a specific issue – i.e. in-house attorney is not familiar with the transaction
- ❑ Involvement varies depending on desire of issuer

## ■ Underwriter's Counsel

- ❑ Typically retained by the underwriter in a negotiated transaction
- ❑ Often conducts due diligence as requested by the underwriter – reviews relevant issuer disclosure information
- ❑ May prepare the official statement or other offering documents
- ❑ Reviews the issuer's bond ordinance and other documentation on behalf of the underwriter
- ❑ Prepares the bond purchase agreement

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# Players and Their Roles (cont'd)

## ■ Placement Agent

- ❑ A broker-dealer that acts as agent to place a new issue directly with investors
- ❑ May be used for small, risky, or more complex issues

## ■ Bond Counsel

- ❑ Law firm retained by the issuer to give a legal opinion stating that the issuer is authorized to issue the proposed debt, and that the issuer has met all legal requirements necessary for the issuance of the debt
- ❑ Ensures the debt is a legal, valid, and binding obligation of the issuer
- ❑ Provides a legal opinion as to the federal tax status of the interest on the debt – tax-exempt or taxable – and, where applicable, as to state and local taxation
- ❑ Prepares authorizing ordinances, bond ordinances, trust indentures, and other legal proceedings of an issue
- ❑ Represents the issuer but also drafts bond documents

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## Players and Their Roles (cont'd)

### ■ Bond Registrar

- ☐ Bank that is responsible for maintaining records of the owners of the registered bonds

### ■ Paying Agent

- ☐ Bank that is responsible for transmitting payment of principal and interest from a issuer to the holder of the security
- ☐ Typically the paying agent and the bond registrar are the same entity, but they do not have to be

### ■ Escrow Agent

- ☐ Bank that holds in escrow the securities purchased in a refunding issue or holds tax levy money pursuant to a tax depository agreement

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## Players and Their Roles (cont'd)

### ■ Disclosure Counsel

- ☐ Serves the issuer on an issue to review or prepare the disclosure information provided in the official statement.
- ☐ Renders an opinion that the official statement does not contain any untrue statement of a material fact or omit to state a material fact (as described under Rule 10b-5 of the Securities Exchange Act of 1934).

### ■ Rating Agency

- ☐ A company that provides ratings which indicate the relative credit quality or liquidity characteristics of a debt issue
- ☐ Moody's Investors Service, Standard & Poor's, Fitch Ratings, and Kroll Bond Rating Agency are the agencies which provide ratings on municipal debt issues
- ☐ Requires certain information from the issuer in order to conduct its analysis – audits, budgets, strategic plans, etc.

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# Players and Their Roles (cont'd)

## ■ Bond Insurance Company

- ❑ Issues a bond insurance policy that guarantees the payment of principal and interest to the holders of the security
- ❑ Assured Guaranty and Build America Mutual are the main bond insurers with investment grade ratings from the rating agencies
  - AGM's financial strength is rated "AA" (stable outlook) by S&P, "AA+" (stable outlook) by Kroll and "A2" (stable outlook) by Moody's
  - BAM's financial strength is rated "AA/Stable" by S&P
- ❑ Used where insurance reduces interest cost to issuer
- ❑ Provides security to investors
- ❑ Provides higher rating to a issuer than could be achieved on its own
- ❑ This industry has changed drastically in recent years

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# Players and Their Roles (cont'd)

## ■ Depository Trust and Clearance Corporation – DTCC

- ❑ DTCC, through its subsidiaries, provides clearing, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments and over-the-counter derivatives
- ❑ Certain documents from most municipal debt issues must be submitted to DTCC in order to close the transaction
- ❑ Serves as a central location or depository where bonds or certificates are maintained
- ❑ Changes of ownership using "book-entry" accounting methods where no certificates actually change hands are recorded in a central location

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## Players and Their Roles (cont'd)

### ■ Electronic Bidding Platforms

- ☐ Ipreo and Grant Street are the two most widely used in Illinois
- ☐ Providers of deal execution platforms and investor communication tools
- ☐ Receive official statements for dissemination to potential bidders of debt issues in a competitive sale
- ☐ Bidders submit their bids through a central location
- ☐ Provide bid and results information to market publications – i.e. TM3 and The Bond Buyer
- ☐ Allows for a more efficient review of bids

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## Players and Their Roles (cont'd)

### ■ Other Professionals

- ☐ Engineers or accounting firms – prepare a feasibility study or analysis to show sufficiency of revenues for enterprise fund debt issues, if one is required
- ☐ TIF consultants – prepare a report and analysis to show sufficiency of revenues for tax increment bond issues and business development district bond issues

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# How Debt is Issued

## Public Offering

- Bonds are sold using an underwriter to market and sell the bonds to investors.
- Official statement prepared.
- Bonds are typically rated and may be insured.
- Typically result in higher costs of issuance (more transaction participants) but lower interest rate.
- Can be sold using either a competitive or negotiated sale method.

### Competitive Sale

- An underwriter is selected via a competitive sale in which bids are received for the purchase of the bond issue.
- Bonds are awarded based on the lowest true interest cost, which takes into account an underwriter's fee and the interest rates.

### Negotiated Sale

- The issuer selects an underwriter to sell the issue ahead of the bonds sale and negotiates terms with the selected underwriter.

## Direct/Private Placement

- Bonds are sold directly to a bank or other investor.
- No official statement, rating or underwriter is required.
- A term sheet is typically prepared and sent to banks and other potential investors that can provide a proposal to purchase the bonds directly.
- Typically results in lower issuance costs, but higher interest rates. Can be cost effective for very small or short term issuances.

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# Choosing A Method of Sale in A Public Offering

Competitive	Negotiated
Adequate size	Size – very small or very large
Common security	Complex issues/story
Good name and credit	Poor name and credit
Stable market	Volatile market
Favored for transparency and “best” results	Favored for refundings and target specific “fair” results

- ☐ Bank Qualified vs Non-Bank Qualified

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# Sample Timetable

## ■ General Obligation Bonds

- ☐ Debt limit
  - Non-home rule cities/villages
    - 0.5% (non-referendum debt)
    - 8.625% (referendum and non-referendum debt)
  - Counties
    - 2.875% (non-referendum debt)
    - 5.750% (referendum and non-referendum debt)
  - Park districts
    - 0.575% (non-referendum debt)
    - 2.875% (referendum and non-referendum debt)
- ☐ BINA hearing
- ☐ Adopt bond ordinance
- ☐ Close/Fund

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# Sample Timetable (cont'd)

## ■ G.O Alternate Revenue Bonds (not subject to debt limit)

- ☐ Adopt authorizing ordinance
- ☐ Publish authorizing ordinance and notice of intent
- ☐ Wait 30 days
- ☐ BINA hearing
- ☐ Adopt bond ordinance
- ☐ Close/Fund

## ■ Referendum Bonds

- ☐ Adopt referendum ordinance
- ☐ Publish and post election notice
- ☐ Pass with majority vote of taxpayers
- ☐ Adopt bond ordinance
- ☐ Close/Fund

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# State Law Requirements

## ■ Illinois Municipal Code ("Municipal Code")

### □ Home Rule

- Under the 1970 Illinois Constitution, home rule power shifts decision making from the state level to the local level enabling more flexibility.
- Home rule communities are granted a broad range of powers unless exempted by the State. Municipalities with populations over 25,000 are automatically granted home rule status, while smaller communities can put the question on a ballot and let voters decide. Home rule units can issue general obligation bonds not to exceed 40 years without the need to secure voter approval through a referendum or backdoor referendum.

### □ Non-Home Rule

- *Authority:* Unless an exception applies, the Municipal Code requires that general obligation bonds secured by an ad valorem tax must be approved by voters of a non-home rule municipality in a referendum.
- *Exceptions:*
  - Alternate revenue bonds (as discussed below)
  - Refunding bonds
  - Bonds to fund or refund debt related to judicial judgments

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# State Law Requirements (cont'd)

- Working cash fund bonds
- Bonds used to pay pollution abating costs mandated under the Environmental Protection Act
- Bonds issued to pay for costs related to improvements of water or wastewater treatment facilities mandated by federal or state regulators
- Bonds issued pursuant to the Municipal Code in an amount not to exceed one-half of one percent of the equalized assessed value ("EAV") of the taxable property of the municipality

***Non-home rule municipalities generally have no authority to mortgage municipal property.***

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# Forms of Debt Issuance

## ❑ *Promissory Notes*

- Municipalities (with the exception of counties) are legally permitted to borrow money from a financial institution pursuant to a promissory note or similar debt instrument that is a lawful direct general obligation of the municipality payable from the general funds of the municipality and other sources of payment as are otherwise lawfully available, subject to the statutory debt limit.

## ❑ *Revenue Bonds*

- Municipalities have the ability to issue revenue bonds for a proper public and corporate purpose, which includes a variety of potential revenue-producing undertakings such as facilities financed with tax increment, transportation facilities, water and sewer systems, solid waste operations, libraries, sports facilities, exhibition facilities, housing, parking, and jails. Revenue bonds generally do not require voter approval.
- Revenue bonds are not considered debt for purposes of statutory debt limits.

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# Forms of Debt Issuance (cont'd)

## ❑ *Debt Certificates*

- Issued pursuant to the Local Government Debt Reform Act ("Debt Reform Act").
- Municipalities are authorized to borrow money by entering into installment finance agreements.
- The Debt Reform Act authorizes municipalities to purchase or lease either real or personal property through the use of installment contracts not exceeding 20 years in length.
- Debt certificates may be issued by a municipality to evidence the payment obligations of the municipality under a lease or installment contract subject to the statutory debt limit.
- There is, generally, no separate tax levy available for the purpose of making such installment payments; it is considered a promise to pay by way of budgetary appropriation.
- However, a municipality not subject to PTELL (discussed later in this presentation) may enter into an installment contract payable from the levy of a direct, unlimited ad valorem property tax sufficient to pay the installments, if certain backdoor referendum requirements are satisfied.

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# Forms of Debt Issuance (cont'd)

## □ *Alternate Revenue Bonds*

- Alternate revenue bonds, or "double-barreled" bonds, are essentially revenue bonds issued under the Debt Reform Act with the general obligation of the municipality serving as backup security for the bonds.
- The intent of the Debt Reform Act is to permit the issuance of the alternate bonds assuming the pledged revenue source is sufficient so that the tax levy relating to the debt service on the alternate bonds does not need to be extended.
- The coverage requirements provide that the municipality must demonstrate that such pledged revenue source will be sufficient in each year the bonds remain outstanding to provide not less than 1.25 times (1.10 times if the revenue source is either (i) federal or state funds that the municipality has received in some amount during each of the three fiscal years preceding the issuance of the alternate bonds or (ii) revenues to be received from another governmental unit under an intergovernmental cooperation agreement) debt service on all outstanding alternate bonds payable from such revenue source and on the alternate bonds proposed to be issued.

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# Forms of Debt Issuance (cont'd)

- Apart from coverage requirements, the alternate bonds must meet two other conditions before being issued:
  - First, the alternate bonds must be issued for a lawful corporate purpose and be payable from a revenue source limited to that purpose. Such pledge of more than one source of revenue, "multi-barreling," is a common practice used to supplement system revenues so as to meet coverage requirements.
  - Second, alternate bonds are subject to a backdoor referendum. The backdoor referendum gives registered voters the opportunity to petition the municipality to submit the question of issuing the alternate bonds to referendum. However, the petition must be submitted within 30 days after publication of the authorizing ordinance and be signed by the greater of (i) 7.5% of the registered voters of the municipality or (ii) the lesser of 200 of the registered voters or 15% of the registered voters. Non-public works projects have more rigid requirements (forty-five day notice and lower voter threshold).

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## Other Illinois Law

### ■ Bond Issue Notification Act ("BINA")

- ☐ Public hearing required not less than 7 days prior to bond sale
- ☐ Notice of hearing must be published not less than 7 days nor more than 30 days prior to hearing

### ■ Open Meetings Act

- ☐ Notice of meeting, including agenda, must be posted:
  - Not less than 48 hours prior to meeting
  - At principal office of the municipality

### ■ Freedom of Information Act ("FOIA")

- ☐ Public access to information held by public authorities
  - Public authorities must publish certain information
  - Public is entitled to request information from public authorities
  - Applies to agencies of government – not to governments themselves

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## Other Illinois Law (cont'd)

### ■ Avoidance of Conflicts re: gifts

- ☐ *Consider:*
  - How does it look in the newspaper?
  - Many municipal officials will not take any gifts because of appearance of impropriety.

### ■ Sales Tax (Home Rule)

- ☐ Summer 2017: The Illinois General Assembly approved a new local borrowing program permitting home rule municipalities ("HRMs") to bypass weak general obligation ratings by securitizing their state-supplied sales tax, or other state revenue, utilizing a bankruptcy-remote securitization structure.
- ☐ The legislation is designed to allow Illinois home rule issuers to access capital using an alternative borrowing structure that achieves higher credit ratings than would otherwise be available under a general obligation borrowing.
- ☐ This program is particularly valuable to lower-rated home rule units.

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# Bankruptcy and Statutory Liens

## ■ Bankruptcy

### ☐ General Overview

- Municipalities are ineligible for bankruptcy – under Federal law
- Exception:
  - Specific authorization under state law, or
  - Governmental officer or organization empowered by state law authorizes issuer to be a debtor in a bankruptcy

### ☐ Authorized in many states but not in Illinois

### ☐ Detroit

- Anything can happen
- Settlement; bondholders did not get favorable outcome

## ■ Statutory Liens

### ☐ Rhode Island

### ☐ Michigan

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# Limitations

## A. State

### ■ Debt Limit

- ☐ Non-home rule municipalities are subject to the statutory debt limit of 8.625% of EAV as set forth in the Municipal Code. Obligations excluded from the debt limit include alternate revenue bonds, revenue bonds, special assessment bonds and tax anticipation warrants.

### ■ Property Tax Extension Limitation Law ("PTELL" or "Tax Cap")

- ☐ PTELL was created to slow the growth of property tax. County voters have to vote in PTELL.
- ☐ 39 (out of 102) counties currently are under PTELL, with DuPage, Kane, Lake, McHenry and Will included with the original 1991 legislation, and Cook added in 1994.

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# Limitations (cont'd)

## ■ Debt Service Extension Base ("DSEB")

- ❑ DSEB is a number based on the existing non-referendum bond payment in the Debt Service (Bond and Interest) Fund the year PTELL is passed. DSEB is the maximum amount of annual payment a capped district can levy for non-voted bonds.
- ❑ If the municipality had no non-voted debt when capped – they have no DSEB. If they had a lot of non-voted debt, they have a high DSEB.
- ❑ Since 2009, a municipality's DSEB is subject to increase by no more than the lower of 5% or the current CPI from one year to the next.
- ❑ Exceptions: "New Growth". New property or improvements can be added at full value the first year they are assessed.



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# Limitations (cont'd)

## B. Federal

### ■ Income tax exemption

### ■ Securities

- ❑ *Fraud (10(b)(5))*
- ❑ *Continuing disclosure*
  - Rule 15c2-12 governs the preparation and distribution of official statements for municipal securities. While this Rule applies primarily to directly-regulated entities such as underwriters, broker-dealers and dealer-banks, a significant portion of the burden of compliance with Rule 15c2-12 falls on the municipality to supply certain information and disclosure and to take the proper steps to comply with Rule 15c2-12 in a timely fashion.
  - MCDC Initiative.
  - Role of Disclosure Counsel/Underwriter's Counsel.
  - Negotiated vs. Competitive.

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# Limitations (cont'd)

## ■ *Dodd-Frank*

- Regulation of Municipal Advisor
  - Municipal Advisor definition
  - Registering of Municipal Advisor
- Regulation of Underwriter
  - Financial Industry Regulation Authority role is to license and regulate broker-dealer
  - Securities and Exchange Commission role is to protect investors
  - While underwriters have long been regulated by the SEC and other regulatory bodies, the regulation of municipal advisors pursuant to Dodd-Frank is new.



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## Summary of Village/City Bonds Under Illinois Law

Type of Debt	Security	General Requirements
General Obligation — <i>Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the issuer.	No statutory debt limit and no need for voter approval to issue bonds. Flexibility.
General Obligation — <i>Non Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the issuer.	Referendum unless exception. Statutory debt limit of 8.625% of EAV. BINA required.
Alternate Revenue Bonds	"Double-barreled" – payable from a specific revenue source with the general obligation of the municipality serving as backup security.	Pledged revenues must meet 1.25 times debt service coverage requirement. Backdoor referendum procedures and BINA required.
Debt Certificates	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into installment contract agreement. Statutory debt limit of 8.625% of EAV.
Promissory Note payable to financial institution	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into promissory note or similar debt instrument. Statutory debt limit of 8.625 % of EAV.
Revenue	Specific revenue source.	Varies by type of revenue. Neither referendum nor BINA is required.
Special Service Area	Full faith and credit of the taxable real property in the special service area.	Need hearings, notice and various other requirements.
Tax Increment Finance Revenue	Future incremental property tax growth from project, TIF area or contiguous TIF district.	Validly created TIF; TIF eligible costs only.

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## Security or Loan (Relevant to Bank Purchased Deals)

- ❑ Many banks will purchase bonds only if internal requirements regarding status of bonds as security or loan are satisfied. Preference as to loan or security varies by bank.
- ❑ Exchange Act Section 3(a)(10) includes "notes" within the definition of "security".
- ❑ Based on facts and circumstances of the financing transaction.
- ❑ The principal legal authority on the distinction between a note that is a security from one that is not is the U.S. Supreme Court case of *Reves v. Ernst & Young, Inc.*, which held that a note is presumed to be a security unless it is of a type specifically identified as a non-security.
- ❑ *Reves* established a four-part family resemblance test for determining whether a note is a security composed of the following factors: (i) the motivations of the buyer and seller; (ii) the plan of distribution; (iii) the reasonable expectations of the investing public; and (iv) the existence of an alternate regulatory regime.

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## Security or Loan (Relevant to Bank Purchased Deals)

- ❑ FINRA Regulatory Notice 2016-12 provides that simply labeling a financing as a "loan" is not dispositive of whether it is a loan or a security. For example, firms should review the transaction documentation in considering whether a particular financing instrument is a municipal security or a loan. FINRA has found instances of financing arrangements that firms have concluded are loans even though the *Reves* factors indicated otherwise. In some instances, the transaction documentation described the instruments as "bonds," or contained language consistent with bond offerings, such as: (i) references to "purchasers" or "sellers"; (ii) the debt instruments were to be sold in separate denominations; (iii) the purchasers made representations regarding their knowledge and experience in investments and willingness to take on risk; and (iv) the debt instruments could have been resold. Contrary to the firms' views, in many instances the banks and municipal issuers involved in the transactions considered the instruments as municipal securities.

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# THANK YOU

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# Local Government Reporting Due Dates



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## Introduction / Learning Objectives

- Understand the various reporting deadlines applicable to Illinois municipalities
  - What is the requirement?
  - Created by who/what?
  - To whom does it apply?
  - When is it due and extensions available?
  - What penalties are there for failing to file or filing late?
- Walkthrough of required filings and reports

# Types of Reporting Requirements

- Financial Reporting
- Single Audit
- Pension Reporting – Police and Fire Pensions
- Pension Reporting – IMRF
- Property Tax Levy

# Types of Reporting Requirements (cont.)

- Annual Budget / Appropriation
- Unemployment Reporting
- Affordable Care Act (ACA)
- Grant Accountability and Transparency Act (GATA)

## Types of Reporting Requirements (cont.)

- Federal Tax Filings
- State Tax Filings
- Debt Disclosures
- Other Reporting Requirements

## Financial Reporting

# Illinois Comptroller's Office Annual Financial Report (AFR)

- **What:** Local government entities are required to file the AFR and the entity's annual audit with the Illinois Comptroller's Office
- **Created By:** Illinois Municipal Code (65 ILCS 5/Art. 8 Div. 8)
- **Who:** Most governmental entities (some governmental entities may be included with a "primary government" AFR)

# Illinois Comptroller's Office Annual Financial Report (AFR)

- **When:** Within 180 days of fiscal year-end
  - One 60 day extension; must be filed before initial 180 days has passed
- **Penalties:** Separate daily fines for AFR and Audit submissions as follows:
  - Delinquent 1 – 15 days: \$5 per day
  - Delinquent 16 – 30 days: \$10 per day
  - Delinquent 31 – 45 days: \$15 per day
  - Delinquent 46 days or more: \$20 per day

# Annual Treasurer's Report

- **What:** Municipal treasurers are required to publish an accounting of moneys received and expenditures incurred within the preceding fiscal year. The report must include statements of:
  - ☐ All moneys received and from what sources received
  - ☐ All moneys paid out (except payroll) where the total amount paid during the fiscal year exceeds \$2,500 in the aggregate
  - ☐ All monies paid out as compensation for personal services organized by salary ranges
  - ☐ Summary statement of operations for all funds and account groups
- **Created by:** Public Funds Statement Publication Act (30 ILCS 15/1)

# Annual Treasurer's Report

- **Who:** All governmental entities
- **When:** Within 6 months of fiscal year-end
  - ☐ To be published in newspaper of general circulation
  - ☐ Alternative: Publication of Notice of Availability
  - ☐ Shall include 1) time period covered, 2) name of audit firm, and 3) address/business hours where audit may be publicly inspected
- **Penalties:** For each offense, public officer and/or shall forfeit the sum of not less than \$25 nor more than \$500 to be recovered in a civil action in the name of the People of the State of Illinois
  - ☐ Shall be deemed guilty of a Class A misdemeanor

# Annual Tax Increment Financing (TIF) Report

- **What:** Annual report filed with the Comptroller's Office, including auditor's compliance opinion and financials (either separate issued financial statements or non-audited information).
- **Created by:** 65 ILCS 5/11-74.3-5
- **Who:** Local governments utilizing tax increment financing districts
  - Compliance opinion required only when individual Redevelopment Area receives over \$100K of cumulative incremental revenue

# Annual Tax Increment Financing (TIF) Report

- **When:** Within 180 days of fiscal year-end
  - Extension may be granted if TIF administrator provides sufficient evidence that audit is in process
- **Penalties:** Late fees mirror AFR penalties
  - Delinquent 1 – 15 days: \$5 per day
  - Delinquent 16 – 30 days: \$10 per day
  - Delinquent 31 – 45 days: \$15 per day
  - Delinquent 46 days or more: \$20 per day

# Management Letter Publication

- **What:** Beginning January 1, 2015, a copy of the financial statements and management letter must be presented to each member of the governing body, including a presentation of the audit to the governing body by the external auditors
- **Created by:** Public Act 98-0738 (applies to County Code and Illinois Municipal Code)
- **Who:** All municipalities and counties
- **When:** Presentation to Governing Body and publish to website within 60 days of audit issuance

# Management Letter Publication

- **Penalties:** None noted per statute
- **Note:** Management letter required to be published on the entity's website
  - “Management letter” is not defined by any audit or accounting standards
  - Informally refers to the communications from the auditors to the governing body
  - Sensitive information may be not be appropriate for publication
  - Work with legal counsel and auditors to ensure compliance with law



## GFOA Certificate of Achievement for Excellence in Financial Reporting

- **What:** Award recognizing governments that succeed in preparing a comprehensive annual financial report (CAFR) that goes beyond the minimum requirements of generally accepted accounting principles and evidences the spirit of transparency and full disclosure
- **Created by:** GFOA
- **Who:** Any government preparing a CAFR in accordance with GFOA guidelines
- **When:** Within 6 months of fiscal year-end
  - Extensions provided for extraordinary circumstances

## GFOA Popular Annual Financial Reporting Award

- **What:** Award to recognize governments that are successful in producing a high quality popular annual financial report (PAFR) specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance
- **Created by:** GFOA
- **Who:** Any government that makes available to the general public a PAFR
- **When:** Within 6 months of fiscal year-end
  - Extensions provided for extraordinary circumstances

# GFOA Award Program for Small Government Cash Basis Reports

- **What:** Award designed for the thousands of small governments for which financial reporting in conformity with generally accepted accounting principles (GAAP) is not a viable option.
- **Created by:** GFOA
- **Who:** Governments with
  - ☐ Less the \$25 million in revenues reported in government-wide financial statements
  - ☐ No GAAP financial reports issued in past 5 years
  - ☐ Prepared in conformity with general guidelines for program
- **When:** Within 6 months of fiscal year-end

## Single Audit

# Single Audit Report

- **What:** A report on federal expenditures incurred during the fiscal year completed by an independent auditor
- **Created by:** 2 CFR 200.501(a) in accordance with Uniform Guidance
- **Who:** Non-federal entities expending \$750K or more in federal awards during a fiscal year
- **When:** Within 9 months of fiscal year-end

# Single Audit Report

- **Penalties:**
  - ☐ Entity cannot be considered a “low risk auditee” for next 2 fiscal years
    - May result in additional scope of testing by auditors and increased audit fees
  - ☐ Federal departments and pass-through agencies may pose penalties or withhold future funding

## Data Collection Form

- **What:** The federal government requires all non-federal entities requiring a single audit to submit the form and the single audit report for publication in the Federal Audit Clearinghouse
- **Created by:** Uniform Guidance 2 CFR 200.512(a)
- **Who:** All non-federal entities requiring a single audit
- **When:** The earlier of
  - ☐ 30 days after receipt of audit report
  - ☐ 9 months after the fiscal year-end
- **Penalties:** Same as single audit requirements

## Pension Reporting – Police and Fire Pensions

# Illinois Department of Insurance (IDOI) Report

- **What:** An annual statement required to be filed with the Illinois Department of Insurance by all Police and Fire Pensions
  - 4 Primary Sections: Financial Data, Investment Activity, Participant Data, Interrogatories
- **Created by:** Illinois Pension Code (40 ILCS 5/1A-109)
- **Who:** All Police and Fire pension funds

# Illinois Department of Insurance (IDOI) Report

- **When:** Within 6 months of fiscal year-end
- **Penalties:** Failure to file, without just cause, shall result in a penalty to be determined by the IDOI, which shall not exceed \$100 for each day's delay.
  - Unpaid fees after filing will increase 5% per month, not to exceed 25% of original fee

## Annual Pension Report to the Board/Council

- **What:** Pension boards are required to report to the council/board on the condition of the fund at the end of its most recent fiscal year
- **Created by:** Police Pension (40 ILCS 5/3-143) and Fire Pension (40 ILCS 5/4-134)
- **Who:** All police and fire pension funds related to municipalities with population less than 500K
- **When:** Prior to the Council/Board meeting to appropriate and levy taxes for the year for which the report is made
- **Penalties:** None identified in statutes

## Annual Pension Treasurer's Report

- **What:** Sworn statement to the pension board and governing body of municipal employer of all moneys received and paid out from the pension fund during the year and amount of funds on hand and owed to the pension fund
- **Created by:** 40 ILCS 5/3-141 (Police Pension) and 40 ILCS 5/4-130 (Fire Pension)
- **Who:** Municipal treasurer appointed treasurer of the police and fire pension boards
  - No actual reporting requirement in Fire Pension statutes; limited to books and accounts being subject to inspection of the board or any member thereof

# Annual Pension Treasurer's Report

- **When:** 2nd Tuesday in May
- **Penalties:** None identified in statutes

## Pension Reporting - IMRF

## Monthly Report of IMRF Member Wages and Contributions (Form 3.11)

- **What:** Monthly report by IMRF employers including the following information
  - ☐ Name and SSN of each member
  - ☐ Member contributions withheld for each member
  - ☐ Non-cash compensation (if any)
  - ☐ Elected official stipend
  - ☐ Negative earnings / contributions
  - ☐ New members and terminations
  - ☐ Members with no wages
  - ☐ Employer-paid member contributions

## Monthly Report of IMRF Member Wages and Contributions (Form 3.11)

- **Created by:** IMRF
- **Who:** All governments employing IMRF members
- **When:** 10th day of each month
- **Penalties:** 20th day of each month – 1% monthly interest charge;  
50th day after due date – \$25 delinquent filing fee



## IMRF Monthly Deposit Report Summary (Form 3.10)

- **What:** Form used to report IMRF wages and contributions by plan type (Regular, SLEP, ECO) and tier
- **Created by:** IMRF
- **Who:** All governments employing IMRF members
- **When:** 10th day of each month
- **Penalties:** Same as Monthly Report of IMRF Wages and Contributions
  - 20th day of each month – 1% monthly interest charge
  - 50th day after due date - \$25 delinquent fee

## Projected Employee Compensation Report (Employees Equal to or Over \$150K)

- **What:** Requirement for all IMRF employers to report compensation packages for each employee in excess of \$150K per year on the municipality's website
  - May also post notice on website, providing directions to where physical copies may be publicly viewed
- **Created by:** Public Act 97-0609 amending the Illinois Open Meetings Act (5 ILCS 120/7.3) and Illinois Pension Code (40 ILCS 5/)
- **Who:** Any government providing compensation packages in excess of \$150K to employees

## Projected Employee Compensation Report (Employees Equal to or Over \$150K)

- **When:** 6 days before budget approval
- **Penalties:** Any person in violation of the Open Meetings Act shall be guilty of a Class C misdemeanor and civil action may be taken

## Projected Employee Compensation Report (Employees Over \$75K)

- **What:** Requirement for all IMRF employers to report compensation packages for each employee in excess of \$75K per year on the municipality's website
- **Created by:** Illinois Open Meetings Act (5 ILCS 120/7.3) and Illinois Pension Code (40 ILCS 5/)
- **Who:** Any government providing compensation packages in excess of \$75K to employees
- **When:** Within 6 days of budget approval
- **Penalties:** Any person in violation of the Open Meetings Act shall be guilty of a Class C misdemeanor and civil action may be taken

# Property Tax Levy

## Property Tax Levy Process & Truth in Taxation Requirements

- **What:** The Truth in Taxation Law provides requirements for public hearings and notices related to the annual property tax levy
- **Created by:** Property Tax Code
  - Levying Process (35 ILCS 200/Art. 18 Div. 1)
  - Truth in Taxation (35 ILCS 200/Art. 18 Div. 2)
- **Who:** Applies to all levying bodies of government (special rules may apply to certain entities)
- **When (Counties w/ Pop. < 3 Million):** Levy amount must be determined at September session
- **When (Taxing Districts):** Certify to the County Clerk on or before the last Tuesday in December

# Property Tax Levy Process & Truth in Taxation Requirements

## ■ **When (Truth in Taxation):**

- ☐ Proposed Aggregate Levy – 20 days before adoption of levy ordinance
- ☐ Newspaper Public Notice – No more than 14 days nor less than 7 days before hearing date
  - Required if levy is 5% greater than prior year levy extension
- ☐ Public Hearing – late November / early December
  - Open to the public; cannot coincide with budget hearing

# Property Tax Levy Process & Truth in Taxation Requirements

## ■ **When (Truth in Taxation):**

- ☐ Second Notice – Within 15 days of levy adoption
  - Only required if final aggregate tax levy adopted is larger than the amount stated in published notice (or if requirements for first notice only met after adoption of levy)
- ☐ Certification of Compliance – Before last Tuesday of December
  - Required to be submitted with Levy Ordinance if levy more than 5% greater than prior year levy extension
  - Must be certified by presiding officer of taxing district

## ■ **Penalties:** Varies by County

- ☐ If documents not filed properly, County Clerk may not bill for any taxes

# Property Tax Abatements

- **What:** Any taxing district may determine that a surplus of funds is available for any purpose, may adopt a resolution/ordinance to reduce its tax levy for the year
- **Created by:** Property Tax Code (35 ILCS 200/18-20)
- **Who:** Any taxing district receiving funds under Section 12 of the State Revenue Sharing Act
- **When:** Prior to extension of taxes by the County Clerk (specific to each county)
- **Penalties:** N/A

# Annual Budget / Appropriation

## Annual Budget / Appropriation

- **What:** Ordinance adopted by the governing body identifying sums of money necessary to defray all necessary expenses / expenditures and liabilities of a municipality
- **Created by:**
  - Illinois Municipal Budget Law (50 ILCS 330/1) – Townships and other small units of government
  - Illinois Municipal Code (65 ILCS 5/8) – Cities, villages, and incorporated towns
  - Counties Code (55 ILCS 5/6-1001) – Counties other than Cook
  - 70 ILCS for Special Districts
- **Who:** All governmental entities

## Annual Budget / Appropriation

- **When:** Within or before the 1st quarter of each fiscal year
  - Appropriation/budget document made available for public inspection 10 days before adoption of ordinance
  - At least one public hearing must be held with notice provided at least days before hearing
- **Penalties:**
  - According to State Statutes
    - Illinois Municipal Budget Law – No effect on validity of tax levy or penalties identified in statute
    - Illinois Municipal Code – No penalties identified in statute
    - Counties Code – County board commits Class B misdemeanor
    - 70 ILCS for Special Districts – Variable based on type of entity
  - Individual counties may assess other penalties, such as not billing for property taxes

## GFOA Distinguished Budget Presentation Award

- **What:** Award to recognize individual governments that succeed in preparing budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting
- **Created by:** GFOA
- **Who:** Any government that makes available to the general public an operating budget document regardless of length of budget.
- **When:** Within 90 days of date when budget was proposed/adopted

## Unemployment Reporting

# Illinois Form UI-3/40: Employer's Contribution and Wage Report

- **What:** Quarterly report filed by employers subject to the Illinois Unemployment Insurance Act along with required contribution payments
- **Created by:** Illinois Unemployment Insurance Act (820 ILCS 405/100)
- **Who:** All employers
- **When:** Last day of the month following the end of each quarter
  - Employers with more than 25 employees must file electronically

# Illinois Form UI-3/40: Employer's Contribution and Wage Report

- **Penalties:**
  - Late Filings / Payments – Lesser of 1) \$5 for each \$10,000 or fraction thereof of the total wages for insured work paid by it during the period or 2) \$2,500 per month
  - Willful Failure with Intent to Defraud – May be subject to a penalty equal to 60% of the amounts due, with minimum penalty of \$400
- **Note:** For months in which the quarterly report is not filed, the wage report must be submitted online by the last day of the subsequent month



# Affordable Care Act

## Form 1095-B and 1095-C

- **What:** Forms used to report information about offers of health coverage and enrollment in health coverage for their employees, including those covered by minimum essential coverage
  - Prepared for each employee
- **Created by:** IRS Section 6055 and 6056
- **Who:**
  - Form 1095-B – Employers providing minimum essential coverage or self-insured employers not qualifying as Applicable Large Employers (ALEs)
  - Form 1095-C – Employers qualifying as ALEs (i.e., more than 50 full-time employees)
    - ALEs can use Form 1095-B for part-time employees

## Form 1095-B and 1095-C

- **When:** Statements provided to each covered employee by January 31
  - 30 day extensions allowed through submission of Form 8809
  - Extension provided by IRS for 2018 forms until March 4<sup>th</sup>
- **Penalties:** Subject to penalty provisions under Section 6722
  - Failure to provide correct statement - \$100 per violation, with total penalty not to exceed \$1.5 million
  - Penalties increase to \$250 per violation, with total penalty not to exceed \$3 million, for statements required to be provided after December 31, 2015
  - Special rules apply that increase per-statement and total penalties if intentional disregard of requirements to furnish statement exists

## Forms 1094-B and 1094-C

- **What:** Transmittal forms used by employers to submit forms 1095-B and 1095-C
- **Created by:** IRS Section 6055 and 6056
- **Who:**
  - Form 1094-B – Employers providing minimum essential coverage (i.e. provides Forms 1095-B to employees)
  - Form 1094-C – Must be filed when an employer files one or more Forms 1095-C
    - Multiple Forms 1094-C may be submitted; one Form 1094-C is designated “Authoritative Transmittal” and must report aggregate employer-level data for all employees

## Forms 1094-B and 1094-C

- **When:** February 28 (March 31 if filed electronically)
  - 30 day extensions through submission of Form 8809
- **Penalties:** Subject to penalty provisions under Section 6721
  - Failure to file a return - \$100 per violation, with total penalty not to exceed \$1.5 million
  - Penalties increase to \$250 per violation, with total penalty not to exceed \$3 million
  - Special rules apply that increase penalties if intentional disregard of requirements to furnish statement exists

## Grant Accountability and Transparency Act

## Audit Certification Form

- **What:** Report submitted by grantee to confirm nature of audit to be completed to meet GATA requirements
- **Created By:** 30 ILCS 708 (Grant Accountability and Transparency Act)
- **Who:** All entities receiving grant funding from the State (i.e. all Illinois governments)
- **When:** Within 60 days of fiscal year-end

## Audit Report Packet

- **What:** Bundle of documents and reports required to be submitted through the grantee portal under GATA, including the Comprehensive Year-End Financial Report (CYEFR) and State Data Collection Form
- **Created By:** 30 ILCS 708 (Grant Accountability and Transparency Act)
- **Who:** All entities receiving grant funding from the State (i.e. all Illinois governments)
- **Note:** Submission of CYEFR “in-relation-to” opinion not required for fiscal year-ends before 12/31/18.

# Audit Report Packet

- **When (Federal Expenditures > \$750K):** Earlier of 30 days after receipt of auditor's report or 9 months after year-end
- **When (State and Federal Expenditures > \$500K):** Earlier of 30 days after receipt of auditor's report or 6 months after year-end
- **When (State and Federal Expenditures b/w \$300K and \$500K):** Earlier of 30 days after receipt of auditor's report or 6 months after year-end
- **When (State and Federal Expenditures < \$300K):** Earlier of 30 days after receipt of auditor's report or 6 months after year-end

# Federal Tax Filings

# IRS Form W-2: Wage and Tax Statement

- **What:** Form to be provided to every employee receiving remuneration of \$600 or more for the year for services performed
- **Created by:** 26 CFR 31.6051-1
- **Who:** All employers providing wages to employees
- **When:** Provided to each employee on or before January 31
  - Extensions may be obtained through submission of Form 8809, indicating at least one of the criteria on the form for an extension and sign under penalty of perjury
  - Must also be submitted to State of Illinois by January 31

# IRS Form W-2: Wage and Tax Statement

- **Penalties:**
  - Payee Statement Penalties (per 26 US Code Section 6722)
  - Failure to furnish payee statement / furnishing incorrect information - \$250 per violation, not to exceed \$3 million
  - Correction within 30 days – penalty reduced to \$50 per violation and shall not exceed total of \$500K
  - Correction before August 1 – penalty reduced to \$100 per violation and shall not exceed total of \$1.5 million
  - Intentional disregard of requirements - \$500 per violation with no limitation on total penalties
  - Willful fraudulent filings - \$5,000 or more in damages and potential criminal sanctions
  - Amounts may adjust for inflation

# IRS Form W-2: Wage and Tax Statement

## ■ **Penalties (cont'd):**

- Filing Penalties (per 26 US Code Section 6721)
- Failure to file return / return includes incorrect information - \$250 per violation not to exceed total of \$3 million
- Correction within 30 days – penalty reduced to \$50 per violation and shall not exceed total of \$500K
- Correction before August 1 – penalty reduced to \$100 per violation and shall not exceed total of \$1.5 million
- Intentional disregard of requirements – minimum of \$500 per violation with no limitation on total penalties
- Amounts may adjust for inflation

# IRS Form W-3: Transmittal of Wage and Tax Statements

- **What:** Form used to transmit paper Copy A of Forms W-2
- **Created by:** 26 CFR 31.6051-2
- **Who:** Employers filing paper W-2s
- **When:** No later than January 31
- **Penalties:** Penalties are tied to submission of Forms W-2

# IRS Form W-4: Employee's Withholding Allowance Certificate

- **What:** Form to be furnished to each employee upon hiring to determine correct withholding; must be submitted to the IRS with Form 941
- **Created by:** 26 CFR 31.3402(p)-1
- **Who:** All governments and employees

# IRS Form W-4: Employee's Withholding Allowance Certificate

- **When:** Multiple dates
  - ☐ Employee completion – Upon employment
  - ☐ Employer maintenance – First quarterly Form 941 after employment; kept on file and submitted upon IRS request
  - ☐ Employees may submit a new form at any time with changes to withholdings
- **Penalties:** Multiple penalties
  - ☐ Statements to reduce tax withheld with no reasonable basis - \$500
  - ☐ Willfully supplying false or fraudulent information – Criminal penalty fine up to \$1,000 and/or imprisonment for up to 1 year



# IRS Form 941: Employer's Quarterly Federal Tax Return

- **What:** Federal form used to report wages paid, federal income tax withheld, social security / Medicare taxes paid and withheld, and other related information
- **Created by:** 26 CFR 31.6011(a)-4
- **Who:** Employers with annual liabilities for social security, Medicare, and withheld federal income tax greater than \$1,000
- **When:** Last day of month that follows the end of the quarter

# IRS Form 941: Employer's Quarterly Federal Tax Return

- **Penalties:** Identified in IRS Publication 15
  - ☐ Failure-to-file (FTF) penalty of 5% of unpaid tax due with return for each month late with a maximum penalty of 25% of the tax due
  - ☐ Failure-to-pay (FTP) penalty of 0.5% per month of the amount of tax with a maximum of 25%
  - ☐ If both penalties apply, FTF penalty is reduced by amount of FTP penalty
  - ☐ In addition to penalties, interest accrues from due date on any unpaid balances

# IRS Form 944: Employer's Annual Federal Tax Return

- **What:** Form filed by certain employers with small payrolls who have been notified by the IRS that they can file on an annual basis
- **Created by:** 26 CFR 31.6011(a)-4
- **Who:** Employers with annual liabilities for social security, Medicare, and withheld federal income tax less than \$1,000
- **When:** January 31

# IRS Form 944: Employer's Annual Federal Tax Return

- **Penalties:** Identified in IRS Publication 15
  - Failure-to-file (FTF) penalty of 5% of unpaid tax due with return for each month late with a maximum penalty of 25% of the tax due
  - Failure-to-pay (FTP) penalty of 0.5% per month of the amount of tax with a maximum of 25%
  - If both penalties apply, FTF penalty is reduced by amount of FTP penalty
  - In addition to penalties, interest accrues from due date on any unpaid balances

# Federal Income Tax Deposits

- **What:** In many scenarios, federal income, social security, and Medicare taxes are required to be deposited more often than federal returns are required to be filed.
- **Created by:** 26 CFR 31.6011(a)-4
- **Who:** All employers

# Federal Income Tax Deposits

- **When:** Varies based on taxes withheld
  - Monthly (15th day of the following month) – Less than \$50,000 for the 4 quarters in the “lookback period”
    - Lookback period – For 2019, 4 quarters from July 1, 2017 through June 30, 2018
  - Semiweekly (similar to state income tax semiweekly deposits) – More than \$50,000
  - Next Day - \$100,000 or more accumulated tax liability on a given day
- **Penalties:** Accuracy and timeliness
  - Accuracy – Penalties may be avoided if shortfalls are within 2% of amount required and paid on makeup date (varies based on deposit schedule)
  - Timeliness – Increases incrementally from 2% to 15%

## IRS Form 945: Annual Income Tax Withholding Return

- **What:** Form to report withheld federal income tax from non-payroll payments, including 457(b) deferred compensation plans
- **Created by:** 26 CFR 31.6011(a)-4
- **Who:** Employers making non-payroll payments to employees; i.e. stand-alone pension plans
- **When:** January 31
- **Penalties:** Same as penalties for IRS Forms 941 and 944

## IRS Form 1099-G: Certain Government Payments

- **What:** Form used by federal, state, or local governmental entities to report payments of unemployment compensation, tax refunds, taxable grants, and certain other payments
- **Created by:** 26 CFR 1.6041
- **Who:** Any government making payments as noted above

# IRS Form 1099-G: Certain Government Payments

- **When:**

- ☐ Provide to participant – January 31
- ☐ File paper forms with IRS – February 28
- ☐ Electronically file with IRS – March 31
- ☐ 30 day extension through submission of Form 8809
- ☐ Additional 30 day extension may be requested if filed before expiration of initial extension

- **Penalties:** Same as Form W-2 in accordance with Sections 6721 and 6722

# IRS Form 1099-MISC: Miscellaneous Income

- **What:** Form filed by any payer, including a government entity, who makes certain payments for services to recipients who are not employees
- **Created by:** 26 CFR 1.6041
- **Who:** Any government making payments to recipients who are not employees

# IRS Form 1099-MISC: Miscellaneous Income

- **When:**
  - ☐ Provide to participant – January 31
  - ☐ File paper forms with IRS – February 28
  - ☐ Electronically file with IRS – March 31
  - ☐ 30 day extension through submission of Form 8809
  - ☐ Additional 30 day extension may be requested if filed before expiration of initial extension
  - ☐ Due to IRS on January 31 if non-payroll compensation included
- **Penalties:** Same as Form W-2 in accordance with Sections 6721 and 6722

# IRS Form 1096: Annual Summary and Transmittal of U.S. Information Returns

- **What:** Form used to transmit various Form 1099s and other forms to IRS
- **Created by:** 26 CFR 1.6041-1
- **Who:** Any government filing Forms 1099 and other forms
- **When:** January 31
- **Penalties:** Tied to forms being transmitted, usually under Sections 6721 and 6722

# State Tax Filings

## Illinois Form IL-941: Employer's Quarterly Illinois Withholding Tax Return

- **What:** Form filed on a periodic basis to report Illinois income tax withholding made by the employer
- **Created by:** Illinois Income Tax Act (35 ILCS 5/)
- **Who:** All governments paying wages subject to Illinois withholding income tax
- **When:** Last day of the month following the end of each quarter

## Illinois Form IL-941: Employer's Quarterly Illinois Withholding Tax Return

- **Penalties:** Determined by Publication 103, Penalties and Interest for Illinois Taxes, and result from, but are not limited to,
  - ☐ Late filing or non-filing
  - ☐ Failure to file correct information
  - ☐ Fraud
  - ☐ Negligence

## Illinois Form IL-501: Monthly State Income Tax Payment Form

- **What:** Form prepared and sent with periodic payments of income tax payments
  - ☐ Payments may also be made online at [tax.illinois.gov](http://tax.illinois.gov)
- **Created by:** Illinois Income Tax Act (35 ILCS 5/)
- **Who:** All governments paying wages subject to Illinois withholding income tax



# Illinois Form IL-501: Monthly State Income Tax Payment Form

- **When:** Determined by Illinois Department of Revenue based on amounts withheld each month and day the employer pays employees from whom taxes are withheld
  - ☐ Semi-weekly (required to be submitted electronically)
    - Payments due by Wednesday for amounts withheld on the preceding Wednesday through Friday
    - Payments due by Friday for amounts withheld on the preceding Saturday through Tuesday
  - ☐ Monthly – 15th day of month – If quarterly withholdings are less than \$12K

# Illinois Form IL-501: Monthly State Income Tax Payment Form

- **Penalties:** Determined by Publication 103, Penalties and Interest for Illinois Taxes
  - ☐ 1 to 30 days – 2% of amount owed
  - ☐ 31 days or more – 10% of amount owed
  - ☐ Additional penalties may result from hearing and if amounts not paid in full within 30 days of completion of court proceedings, review, or final assessment of liability

# Debt Disclosures

## Continuing Disclosure Requirements

- **What:** A requirement set forth for issuances of municipal securities wherein certain information is required to be publicly disclosed after the initial issuance of the bonds
  - Generally reflects the financial or operating condition of the issuer as well as specific events that may have an impact on the ability of the issuer to pay amounts owed on the bonds, the value of the bonds if it is bought or sold prior to its maturity, the timing of repayment of principal, and other key features of the bonds
- **Created by:** Securities Exchange Act Rule 15c2-12

# Continuing Disclosure Requirements

- **Who:** Municipal entities with an issuance of debt in excess of \$1 million entered into after July 1, 2009
  - Certain issuances are exempt due to size, term to maturity, persons to whom securities are sold ability of investors to “put” the bonds to the issuer, or when securities were issued
- **When:** Defined in issuance’s Continuing Disclosure Agreement
  - Usually aligns with financial reporting deadlines
  - EMMA allows an option for governments to select 120 or 150 days; however, GFOA recommends use of a longer timeline to ensure compliance

# Continuing Disclosure Requirements

- **Penalties:** Under the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative
  - If self-reported, the Division of Enforcement will recommend that the SEC accept a settlement in which there is no payment of any civil penalty by the issuer if certain requirements are agreed
  - If settlement not accepted or agreed, enforcement action may be taken against the governmental entity and, potentially, individuals associated with the entity (such as municipal officers) under federal securities laws

# Other Reporting Requirements

## Sales Tax Incentive Agreements

- **What:** All rebate sharing agreements are required to be filed with the Illinois Department of Revenue
- **Created by:** Public Act 97-0976 (ILCS 5/5-1014.3)
- **Who:** Any municipality with rebate sharing agreements
- **When:** Within 30 days following execution of agreement
- **Penalty:** \$20 per day

# Unclaimed Property Reporting (Illinois Only)

- **What:** Report to be submitted to the Illinois State Treasurer including:
  - ☐ Name, SSN/TIN, and last known address of owner of property over \$5
  - ☐ Full name of the insured and any beneficiary at their last known address
  - ☐ Date when the property became payable, demandable, or returnable and the date of the last transaction with the owner with respect to the property
  - ☐ Any other information the State Treasurer prescribes
- **Created By:** Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/26)

# Unclaimed Property Reporting (Illinois Only)

- **Who:** Any governmental entity holding unclaimed property
- **When:** Before November 1
  - ☐ Extension may be granted if written request made before date report or remittance due
- **Penalties:**
  - ☐ Late submission of report – Lesser of \$100 or \$1 per day
  - ☐ Refusal to remit property to State Treasurer – 1% monthly interest charge or annualized interest rate 3% above the prime rate published by the Wall Street Journal on 1st day of the month in which property was remitted

## Important Links

- AFR Website:  
<http://www.comptrollerconnect.ioc.state.il.us/AFR/LOGIN/>
- TIF Report Upload Website:  
<https://illinoiscomptroller.gov/services/local-government-division/upload-tif-reports/>
- GFOA Award Programs Website: <http://www.gfoa.org/awards>
- IMRF Employer Portal:  
<https://www.imrf.org/employeraccessv2/MenuHome.do>

## Important Links

- IDOI Pension Report Website:  
<https://insurance.illinois.gov/Applications/Pension/Default.aspx>
- Data Collection Form Website (Federal Audit Clearinghouse):  
<https://harvester.census.gov/facweb/>
- 2019 Illinois Tax Withholding Forms:  
<https://www2.illinois.gov/rev/forms/withholding/Pages/currentyear/withholding.aspx>

## Important Links

- Federal Tax Information for Local Governments:  
<https://www.irs.gov/government-entities/federal-state-local-governments>
- Unemployment Reporting Forms:  
<http://www.ides.illinois.gov/SitePages/Employer%20Forms%20and%20Publications.aspx>
- Continuing Disclosure Website (MSRB):  
<http://www.msrb.org/Market-Transparency/Continuing-Disclosure.aspx>





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**What Communities Are Seeking in a Finance Director**  
**Presented by Heidi Voorhees, President, GovHR USA**



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## **A Looming Crisis**

*“The local government management profession is at a crossroads. The baby boomers that comprise the majority of local government managers are approaching retirement...while a much smaller group of young professionals are in line...to fill their shoes. With up to 20 million fewer people in the generation following the boomers, competition for talent is likely to be fierce and global in nature.”*

*International City Manager’s Association*



## Public Sector Workforce Trends

- ☐ Fewer candidates for senior positions
- ☐ Fewer candidates willing to relocate
- ☐ High expectations of elected officials and residents
- ☐ Constant focus on “doing more with less”

## Getting Ready for Advancement...

- ☐ Participate in professional development
- ☐ Every contact is a potential employer/reference
- ☐ Conduct at professional conferences
- ☐ Self improvement and growth are your personal responsibilities

## Getting Ready for Advancement...

- ☐ Dress for the job you aspire to...
- ☐ Treat people with dignity and respect
- ☐ Follow up and follow through
- ☐ Be respectful of authority

## What Hiring Authorities Look for in Candidates

- ☐ Degree - BA a minimum; MPA, MA, or MBA is a plus
- ☐ Credentialed –CPFO, CPA
- ☐ Similar size or type of organization and issues
- ☐ Finance and budgeting experience
- ☐ Experience in interdepartmental projects
- ☐ Reputation as a problem solver

# What Hiring Authorities Look for in Candidates

## Financial Management Skills

- ☐ Budget development and administration
- ☐ Financial forecasting
- ☐ Tax structure and fund accounting
- ☐ Efficient use of resources
- ☐ General knowledge of local financial climate

# What Hiring Authorities Look for in Candidates

## Other Finance Related Experience

- ☐ TIF knowledge and/or experience
- ☐ Collective bargaining analysis
- ☐ Capital improvement program budgeting
- ☐ Improved customer service through technology

# Communication Skills

- ☐ Interpersonal skills - Communication in all directions
- ☐ Relationship building skills
- ☐ Writing skills
- ☐ Verbal skills
- ☐ Public speaking skills
- ☐ Leadership

# Integrity and Honesty

- ☐ Integrity through reputation
- ☐ Honesty
- ☐ Trust
- ☐ Earn respect of employees and community

# Management Style

- ☐ Problem solver
- ☐ Team builder
- ☐ Empowerment
- ☐ Not a micro-manager
- ☐ Managing people/delegating/accountability

# Resume/Experience Gaps

- Assess importance
- Secure training – GFOA, Webinars,
- Request assignments
- Consider a mentor

## Are you a micromanager?

- Never satisfied with deliverables
- You often feel you would have done it differently
- You focus on details and take pride/pain in making corrections
- You constantly need to know location of team and what they are working on
- You ask for frequent updates
- You prefer to be copied on emails

Source: Signs That You're a Micromanager by Muriel Maignan Wilkins, Harvard Business Review, November 11, 2014

## Do You Micromanage -- Poll

- \_\_\_ I get anxious if I do not know everything that is going on with my subordinates.
- \_\_\_ I worry about taking days off – I am concerned people will not do their jobs.
- \_\_\_ I have to proof everything that comes out of my office.
- \_\_\_ I don't think anyone reporting to me is capable of making decisions in my absence.
- \_\_\_ I still do jobs that I was hired to do as an early career professional even though I have advanced.

# How To Break the Micromanager Cycle

- Get Over Yourself
- Let It Go
- Give the “What” not the “How”
- Expect to Win

Source: Signs That You're a Micromanager by Muriel Maignan Wilkins, Harvard Business Review, November 11, 2014

# Visionary

- ❑ Big picture thinker
- ❑ Sees through the forest to the trees
- ❑ Attacks problems with solutions
- ❑ See trends
- ❑ Strategic planning

# What Hiring Authorities Look for in Candidates

## Personal Traits

- ☐ Commit to at least 5 years employment
- ☐ High level of energy/enthusiasm
- ☐ Sense of humor
- ☐ Look and dress professionally
- ☐ Stability in positions

# Common Sense Career Builders

- ☐ Be accountable – a “go to” person
- ☐ Aim for excellence – not perfection
- ☐ Be concerned with your image/professional reputation
- ☐ Self improvement and growth are your personal responsibilities



## Common Sense Career Builders

- ❑ Choose your battles carefully
- ❑ Never be complacent with your skills and performance
- ❑ Develop a sense of timing
- ❑ Don't ever lie or make excuses
- ❑ Anticipate problems and be prepared within reason

## Resume Writing Tips

- ❑ Chronological Order vs. Competency Based Resume
- ❑ Quantify! Quantify! Quantify!
- ❑ Gaps
- ❑ Experience – Be specific!
- ❑ Presentation, Length and Tone
- ❑ Other Activities
- ❑ Cover Letter
- ❑ Attachments

## Quantifying Experience

**Instead of:** *Coordinated the implementation of an ERP for the village.*

**Say this:** *Led the team that implemented a \$2 million ERP in all departments including finance, human resources, public safety, public works and community development. Worked closely with department directors to troubleshoot issues and trained 15 employees on the new system.*

## Working with a Recruiter

- ☐ Interactions with the recruiter
- ☐ The recruiter's role
- ☐ Going around the recruiter
- ☐ Recruiters and internal candidates

# Top Ten Interview Blunders

1. Poor Initial Impression
2. Appearance Issues
3. Dated Language
4. Failure to Answer the Questions
5. Longwinded Answers

# Common Mistakes People Make During the Interview Process

6. Inability to Convey Your Accomplishments
7. Failure to Prepare
8. Use of the Word “Retire”
9. Failure to Ask Thoughtful Questions
10. Failure to Exhibit Energy

## How to Answer the Tough Questions

- ❑ What is your greatest strength?
- ❑ In what area are you seeking improvement?
- ❑ What achievement are you most proud of?
- ❑ Give us an example of a customer service improvement you initiated.

## Negotiating Your Package

- ❑ Be prepared to state your salary/benefits requirements when you go in for the first interview.
- ❑ Make recruiter/human resources director aware of any unusual benefit requirements.
- ❑ Know your “bottom line”.
- ❑ Take one bite at the “negotiation apple”.

## At the interview, be sure to:

- ☐ Smile...
- ☐ Exhibit sincere energy...
- ☐ Ask for the job! (If you want it)
- ☐ Send a thank you note!

**Anthony Cervini, CPA, Partner, Sikich LLP**

Anthony M. Cervini, CPA, CFE, is responsible for providing technical services to Sikich's governmental clients in all areas of governmental accounting, auditing, financial reporting, budget development, internal controls, revenue and expenditure forecasting, and cash and debt management. Anthony has participated in hundreds of audits of municipalities and other governmental entities since beginning his career with Sikich in 2005. He also has been responsible for serving as lead instructor for governmental accounting, auditing, financial reporting, cash management and internal control courses internally and for the Illinois Government Finance Officers Association (IGFOA), Wisconsin Government Finance Officers Association (WGFOA) and Illinois CPA Society. Anthony serves on the GFOA Special Review Committee and the Illinois CPA Society Government Report Review Committee, is a contributor to the IGFOA Legislative Committee and has served as a budget reviewer for the Government Finance Officers Association Distinguished Budget Presentation Award. Mr. Cervini holds a Bachelor's degree in Accounting from the University of Iowa and an MBA from Benedictine University.

**Christina Coyle, Finance Director, Village of Glen Ellyn, IL**

Christina is the Finance Director at the Village of Glen Ellyn. She oversees the Village's \$70 million annual budget, accounting, financial reporting, and financial planning. Christina was the Village of Glen Ellyn's Assistant Finance Director before serving as Finance Director. Prior to joining the Village, Christina was an Audit Manager at Baker Tilly Virchow Krause, LLP. Christina is also the Chair of the Technical Accounting Review Committee (TARC) of the Illinois Government Finance Officers Association (IGFOA). Christina is a Certified Public Accountant and a graduate of University of Illinois at Urbana-Champaign, where she double-majored in Finance and French.

**Jason Franken, Consulting Actuary, Foster & Foster**

Jason Franken is a consulting actuary and principal with Foster & Foster in Oakbrook Terrace, IL. Jason is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries and is an Enrolled Actuary per ERISA. He earned a B.S. degree in actuarial science from the University of Iowa. He has over 20 years of actuarial consulting experience.

**RuthAnne K. Hall, CPPO, Purchasing Manager, Lake County, IL**

RuthAnne K. Hall, CPPO has worked in municipal and county government for over 17 years and is currently serving as the Purchasing Manager for Lake County since 2011. In her role as the Purchasing Manager, RuthAnne oversees a staff of purchasing officers that procures over \$250 million annually on various goods, contracted services, construction and professional services for 26 county departments. She currently serves as the President of the Midwest Association of Public Procurement (MAPP), has served as a Board Member for the Illinois Association of Public Procurement Officials (IAPPO) and is an active member the National Institute of Governmental Purchasing (NIGP). RuthAnne is a graduate of Augustana College in Illinois and holds a MS degree from Columbia University in New York.

**Elizabeth A. Holleb, Director of Finance/Information Technology, City of Lake Forest, IL**

Elizabeth Holleb is the Finance Director and Treasurer for The City of Lake Forest, Illinois, having joined the City staff in June of 2012. She has her BS in Accounting from Ball State University, where she was a Cum Laude graduate of the Honors College. She is a Certified Public Accountant with more than 25 years of work experience in municipal finance. Previous employers include the Government Finance Officers Association, the Village of Northbrook, the Village of Oak Park and the City of Highland Park. Current professional contributions include serving on the GFOA Governmental Budgeting and Fiscal Policy Committee, the Intergovernmental Risk Management Agency's Administration and Finance Committee and its Board of Directors. She has previously served in various roles with the Metro Chapter of the Illinois GFOA and the Illinois Metropolitan Investment Fund Board of Trustees. She is a member of the Government Finance Officers Association and the Illinois GFOA.

**Mark Huddle, Senior Counsel, Ice Miller LLP**

Mark Huddle is a Senior Counsel in the Municipal Finance Group at Ice Miller. He regularly acts as bond counsel, underwriter's counsel and issuer's counsel in public finance transactions for public and private issuers in Illinois, including, municipalities, airport authorities and manufacturers. Mark also counsels the Firm's public affairs clients on matters relating to local and state governments including: land use and zoning, public affairs, legislative and administrative proceedings, licensing and strategic public policy development.

**Mark Jeretina, Vice President, Speer Financial, Inc.**

Mark is a Certified Independent Public Municipal Advisor by the National Association of Municipal Advisors and a Qualified Municipal Advisor Representative (Series 50) with the Municipal Securities Rulemaking Board. He has a B.S. from DePaul University, with a major in Finance and a minor in Economics. His prior experience includes equity trading and research with a private Chicago based firm. He is a member of the Illinois Government Finance Officers Association and his clients include numerous counties, cities, villages, park districts, schools and other special districts. He has been employed by Speer Financial since 2010.

**Kurt Maekawa, Sales Director, Wells Fargo**

Kurt Maekawa is a Sales Director within the Wells Fargo Asset Management team. Kurt is responsible for business development for the Balance Sheet Asset Management team at Wells Fargo Asset Management. He provides financial solutions to both clients and prospects in the Midwest. Kurt joined Wells Fargo Asset Management in 2001, and previously served as a regional director with the Funds Management Group and most recently as an associate sales director for the Balance Sheet Asset Management team.

**Michael Malatt, CPA, Senior Manager, Baker Tilly Virchow Krause, LLP**

Michael has been a member of the firm's Public Sector Practice Group since 2007. Michael has extensive experience providing financial and compliance audits, accounting services, and consulting services to state and local government organizations, including counties, municipalities, and special districts. In addition to providing services to clients, Michael is responsible for assisting in the application of new GASB pronouncements, including the development of practical implementation tools and providing in-depth training to firm staff and clients. Michael is a member of the IGFOA Professional Education Committee and the GFOA Special Review Committee. Michael obtained a Bachelor of Business Administration in Accountancy and Mathematics and a Master of Science in Accountancy from the University of Notre Dame. Michael received the 2008 Excel Award from the Illinois CPA Society for outstanding achievement on the Uniform CPA Examination in Illinois.

**Michael Rodgers, Managing Director, Senior Portfolio Specialist - Global Fixed Income, Wells Fargo**

Mike serves as head of the Fixed Income Portfolio Specialist team with the Wells Fargo Asset Management Global Fixed Income team. He provides leadership to and coordination of activities for Fixed Income Portfolio Specialists who serve as the primary investment contact for our Global Fixed Income Platform. His team is also responsible for developing thought leadership pieces and client materials, act as proxies for portfolio managers in meetings with clients, prospects, and consultants, and assist in the development of new products/strategies. Prior to his current role, he served as practice leader for the Balance Sheet Assets Client Relations team.

**Adam Simon, Partner, Ancel Glink**

Adam emphasizes responsiveness and pragmatic solutions when counseling clients. Adam combines his experience in economic development and public finance to counsel municipalities on public private partnerships which leverage public financing and private investment to create new public improvements and enhance economic development opportunities. He has helped to organize special service areas, business redevelopment districts and tax increment financing (TIF) districts. With respect to general public finance, Adam has presented seminars and counsels the firm's clients on the preparation and calculation of the annual tax levy, preparation of the annual budget ordinance and cooperates with independent financial advisors to create capital expenditure plans. Adam serves as issuer's counsel for the sale of general obligation, revenue and alternate revenue bonds. He has also counseled a number of clients on successful referendum campaigns.

**Jeffrey Svien, Vice President, Wells Fargo**

Jeffrey Svien is a Vice President and Relationship Manager for the Wells Fargo Government and Institutional Banking division with specific focus on counties, cities, k-12 public education and municipal special districts across the state of Illinois. Prior to his current role, Jeffrey was a Relationship Manager within Wells Fargo's Corporate Banking group.

**Marc Thorson, Information Technology Director, City of DeKalb**

Marc has worked in the public sector technology field in just about every capacity for over 20 years including desktop support, developer, network administrator, network architect, manager, and director. He is passionate about Information Security, data-driven decision making, and open data access. In 2016, Marc joined the Information Technology team in DeKalb as the Director of IT. His role includes IT strategy, planning, governance, and operations with an emphasis on data collection and use. Marc began teaching for the nationally-ranked Northern Illinois University Master of Public Administration program in 2017. The course focus is educating current and future local government leadership on what Information Technology does, why it is a critical competency for local government, and how to utilize it to its greatest potential in an era of shrinking budgets. Marc has a Master of Business Administration from Northern Illinois University with a focus on Management of Information Services and Marketing. He is the Marketing Director GMIS International, Committee Chairperson for GMIS Accreditation, and Past President for GMIS Illinois. Marc is also an adjunct instructor for the Northern Illinois University Master of Public Administration program.

**Heidi J. Voorhees, Co-owner, GovHRUSA**

Ms. Voorhees has more than 35 years' experience in executive recruitment, general management consulting and local government administration. She has led more than 250 recruitments for local government entities across the country including Finance Director and CFO recruitments for the City of Fort Worth, Texas, the Cities of Elgin, Lake Forest, Highland Park, Glencoe, Winnetka, Wauwatosa, Rockford and Park Forest. She has also conducted several recruitment processes for GFOA, including Executive Director. She served as the Village Manager for Wilmette, Illinois for ten years. She also worked for the City of Kansas City, Missouri, and the Village of Schaumburg, Illinois. She recently completed the recruitment for the Executive Director for GFOA. She is the Co-owner of GovHRUSA a management consulting, executive recruitment and temporary staffing business. Ms. Voorhees has been an Adjunct Instructor for Northwestern University Master's Degree Program in Public Policy and Administration and also at Northwestern's Center for Public Safety. Ms. Voorhees holds a Master's Degree in Public Affairs from the School of Public and Environmental Affairs at Indiana University. She also has a Bachelor of Science degree in Political Science from Illinois State University.

**Susan Wade, Vice President of Public Funds, First Midwest Bank**

Susan has over 27 years of banking experience almost exclusively in the public funds market. She manages banking relationships for governmental entities and is a frequent speaker and volunteer at association events. She is a graduate of Eastern Illinois University with a bachelor's degree in Political Science. Susan is a member of the Illinois Association of School Business Officials, Illinois Government Finance Officers Association, Will County Governmental League, appointed to the Financial Advisory Board for the City of Naperville and sits on the Foundation Board of Directors for Moraine Valley Community College.

**Julie Zolghadr, Budget Division Manager, City of Springfield, IL**

Julie Zolghadr is the manager of the Budget Division for the City of Springfield, Illinois. She has served in this capacity since 1991. The division monitors spending for twelve City agencies with a total annual appropriation in excess of \$250 million dollars across 40 funds. The division provides analysis, training, and support to field fiscal personnel as well as ongoing monitoring of external and internal financial trends. The staff provides impact analysis for pending legislation at the federal, state and local level and works to stay current with major economic trends that may impact local government activities. She serves as a forecaster for collective bargaining activities and provides training for all internal budget functions. Ms. Zolghadr has been a presenter at the Illinois Government Finance Officers Association, the Illinois Municipal Treasurers Association, the Illinois Municipal League, and the Illinois Municipal Clerks Association. She serves as a budget reviewer for Government Finance Officers Association.



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