

Accounting for the DuPage Water Commission Refunds Issued in May of 2007

The Technical Accounting Review Committee of the Illinois Government Finance Officer's Association (IGFOA) formed a subcommittee to study the DuPage Water Commission (DWC) refund and develop a recommendation for recording the refund. In preparation for this review, a brief online survey was circulated to IGFOA members working for DuPage municipalities. Ten responses were received. In addition, other information was requested and received from the DuPage Water Commission.

The DuPage Water Commission issued refund checks to its customers in good standing on May 1, 2007. The total amount refunded was \$40 million and individual customer refunds varied from \$4,500 to \$7 million each.

What fiscal year does the refund need to be recorded in?

The refunds should be recorded in the fiscal year that includes May, 2007. For example, a calendar year entity would record it in fiscal 2007; an entity with a fiscal year that begins in May, 2007 and ends in April, 2008, would record it in fiscal 2008.

How should the refunds be accounted for by the municipalities?

The DWC refund should not be recorded as a Capital Grant and Contribution, since the payment of the funds did not result in a capital asset being recorded on the municipality's books. Additionally, the refund should not be recorded in Charges for Services as a service was not received for the refund. DWC refund revenue should not be netted against expenses as the GASB Implementation Guide question 7-206 states "Q—Can revenue items, such as fines and forfeitures, licenses and permits, and intergovernmental revenues (for specific programs), be netted against expenses in the Statement of Activities? A—No. Program revenues should not be "netted" against expenses—program expenses should be reported at the gross amount." Instead, the refund should be accounted for as Other Income in the Nonoperating section of the Statement of Revenues, Expenses and Changes in Net Assets statement. It would be recorded as Operating Grants and Contributions in the program revenues under Business Type Activities on the entity-wide Statement of Activities.

Exceptions may exist to the above-mentioned guidance, and each community must evaluate their history in order to determine if an exception exists.

Exceptions:

Did your municipality issue debt to fund the initial payments to the DuPage Water Commission?

If debt was issued, a review of the debt covenants is necessary, in order to determine whether there is any requirement to apply the refund to the resources used to satisfy the debt. Various outcomes are possible, including, but not limited to, the possibility of a property tax rebate.

Did your municipality record an intangible asset on your Statement of Net Assets for payments initially made to the DWC, prior to the commencement of water service (these payments have sometimes been referred to as “water rights payments”)?

If your municipality recorded an intangible asset for “water rights payments”, the intangible asset must be written off, to the extent of the refund amount. If the refund amount exceeds the intangible asset, the excess amount should be treated as described above under the question, “*How should the refunds be accounted for by the municipalities?*”.

Is the DuPage Water Commission reported as a joint venture by your municipality?

If you report the DWC as a joint venture, the refund should be taken against the equity in the joint venture. Per GASB 14, paragraphs 73 and 74, an equity interest in a joint venture cannot be written down below zero. Therefore, if the amount of the refund exceeds the amount of equity in the joint venture, the refund in excess of the joint venture would be recorded as Other Income in the Nonoperating section of the Statement of Revenues, Expenditures and Changes in Fund Balances statement (if the equity interest is recorded in a governmental fund) or as Other Income in the Nonoperating section of the Statement of Revenues, Expenses and Changes in Net Assets statement (if the equity interest is recorded in an enterprise fund). On the entity-wide statements, the refund should be recorded as Operating Grants and Contributions in Program Revenues under either the Governmental Activities (if the equity interest is recorded in a governmental fund) or Business Type Activities (if the equity interest is recorded in an enterprise fund) on the entity-wide Statement of Activities.

Implementation Guide Chapter 7, question 176, “Q—A city has an equity interest in a joint venture (JV) and reports that equity interest as an asset of its governmental activities. How should an increase or decrease in the equity interest be reported in the statement of activities? (2003-7.176)

A—An equity interest in a JV can change (a) because the government has made additional capital contributions to the JV, (b) because the JV has made distributions back to the government, or (c) because a portion of the JV’s net income or loss has been allocated to the government. Amounts contributed to or received from the JV are not expenses or revenues, but rather are additions to or reductions of the equity interest. The only change that would be recognized in the statement of activities is the city’s share of the JV’s net income or loss. If the city’s equity interest is for investment purposes, rather than for the cooperative provision of governmental services, the net change should be reported as general revenue. However, if the objective of the city’s participation in the JV is to provide services, the substance of the change is such that it is generally more appropriate to report the increase or decrease as a program item rather than a general revenue or expense. That is, if the city was not a participant in the JV (or did not have an equity interest) but made an annual contribution to it, that expense would be a program expense. Similarly, if the activity of the JV was entirely a city function, rather than a joint

venture, the expenses, revenues, and, thus, the "net" would be included in the program section of the statement of activities rather than the general section. Therefore, the city's portion of the JV's operation should be reported in a manner consistent with the way it would report the entire operation. The net income or loss is a program result regardless of whether the city is responsible for half of the program or all of it. The city's share of the JV's net loss would be included in the direct expenses of the appropriate function or program. Its share of net income from the JV would be reported as a program revenue."