

# ILLINOIS GFOA DOWNSTATE CHAPTER CONFERENCE

**February 9 - 10, 2017**

Home2 Suites by Hilton Champaign/Urbana  
2013 S. Neil St. Champaign, IL 61820

## AGENDA

### **THURSDAY, FEBRUARY 9, 2017**

- |                            |                                                                                                                                                                                                                                              |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>9:30 – 10:00 AM</b>     | <b>Check-in and Networking</b>                                                                                                                                                                                                               |
| <b>10:00 – 10:10 AM</b>    | <b>Welcome and Opening Remarks</b><br><i>Molly Talkington, MPA, Financial Services Officer/Budget Officer,<br/>City of Champaign and Vice President, IGFOA Downstate Chapter</i>                                                             |
| <b>10:10 – 11:00 AM</b>    | <b>Fundamentals of Municipal Bonds</b><br><i>Andrew Kim, Director, Public Finance, PMA Securities Inc.</i>                                                                                                                                   |
| <b>11:00 – 11:10 AM</b>    | <b>Break</b>                                                                                                                                                                                                                                 |
| <b>11:10 AM – 12:00 PM</b> | <b>Essential Elements of a Successful Investment Program</b><br><i>Michelle Binns, Senior Managing Consultant, PFM Asset Management LLC<br/>Jeff Schroeder, Managing Director of PFM Asset Management LLC</i>                                |
| <b>12:00 – 1:00 PM</b>     | <b>Networking Luncheon</b>                                                                                                                                                                                                                   |
| <b>1:00 – 1:50 PM</b>      | <b>Budget Tactics Matter</b><br><i>Richard Schnuer, Finance Director, City of Champaign</i>                                                                                                                                                  |
| <b>1:50 – 2:00 PM</b>      | <b>Break</b>                                                                                                                                                                                                                                 |
| <b>2:00 – 2:50 PM</b>      | <b>Legislative Update</b><br><i>William D. McCarty, Director, Office of Budget and Management, City of<br/>Springfield and IGFOA Executive Board Liaison and Legislative Committee</i>                                                       |
| <b>2:50 – 3:00 PM</b>      | <b>Break</b>                                                                                                                                                                                                                                 |
| <b>3:00 – 3:50 PM</b>      | <b>Cyber Security Trends</b><br><i>F. Alex Brown, CPA, Senior Manager, Information Technology Consulting,<br/>Plante &amp; Moran<br/>Patrick Flanigan, CEH, Senior Consultant, Information Technology Consulting,<br/>Plante &amp; Moran</i> |
| <b>3:50 – 4:00 PM</b>      | <b>Break</b>                                                                                                                                                                                                                                 |

**THURSDAY, FEBRUARY 9, 2017 CONTINUED**

- 4:00 – 4:50 PM**                      **Cyber Security Trends – Part 2**  
*F. Alex Brown, CPA, Senior Manager, Information Technology Consulting,  
Plante & Moran*  
*Patrick Flanigan, CEH, Senior Consultant, Information Technology Consulting,  
Plante & Moran*
- 6:00 – 8:00 PM**                      **Networking Dinner with the IGFOA Executive Board**  
Join in this opportunity to network with the IGFOA Executive Board and  
other professional colleagues from the public and private sector.

**FRIDAY, FEBRUARY 10, 2017**

- 8:30 – 9:20 AM**                      **Changes to Government Financial Statements are Likely  
Coming.....Have a Say in Them!**  
*Hope Wheeler, CPA Principal, Assurance Services, CliftonLarsonAllen LLP*
- 9:20 – 9:30 AM**                      **Break**
- 9:30 – 10:20 AM**                      **Grievance Arbitration for Police Officers**  
*Michael H. LeRoy, Professor, School of Labor and Employment Relations;  
Professor, College of Law, University of Illinois*
- 10:20 – 10:40 AM**                      **Break**
- 10:40 – 11:30 PM**                      **Municipal Bond Market Update**  
*Andrew Kim, Director, Public Finance, PMA Securities Inc.*
- 11:30 AM – 12:00 PM**                      **Open Discussion**  
*Eric J. Dubrowski, CMA, Chief Financial Officer, Peoria County and  
President of the IGFOA Downstate Chapter*
- 12:00 – 12:45 PM**                      **Luncheon with the IGFOA Executive Board**



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## Fundamentals of Municipal Bonds

Andrew Kim – Director, Public Finance  
PMA Securities, Inc.



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## Types of Bonds

## WHAT ARE THE DIFFERENT TYPES OF BONDS?

- Unlimited Tax General Obligation Bonds
- Limited Tax General Obligation Bonds
- Revenue Bonds
- Alternate Bonds
- Debt Certificates
- Refunding Bonds

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## GENERAL OBLIGATION BONDS

- Bonds for which principal and interest is secured by a pledge of the municipality's full faith and credit and taxing power.
- What does this mean?
  - Bonds have a revenue source pledged as security for the repayment of principal and interest.
  - Property tax revenue is the strongest of the pledges.
  - The municipality is also obligated to pay the debt service from any legally available revenue if the property tax is insufficient.
- Generally speaking, the maximum term is 40 years for a home rule unit of government and 20 years for all other (with some exceptions).

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## TYPES OF GENERAL OBLIGATION BONDS

- Unlimited Tax General Obligation Bonds
  - Payable from a separate property tax levy unlimited as to rate or amount
  - Provide the best security for investors
  - Issued by home rule municipalities without referendum
  - For tax capped non-home rule municipalities, must be approved by referendum
  - In non-tax capped non-home rule municipalities, are issued pursuant to specific referendum bonding statutes

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## TYPES OF GENERAL OBLIGATION BONDS

- Limited Tax General Obligation Bonds
  - Non-referendum
  - Public Hearing (BINA) required
  - Issued by tax capped non-home rule municipalities
    - Must be issued pursuant to specific non-referendum bonding statutes
  - Payable from a separate property tax levy unlimited as to rate but limited as to amount
  - Annual property tax levy cannot exceed the Debt Service Extension Base (DSEB)
  - Still a general obligation of the issuer

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## ADVANTAGES AND DISADVANTAGES OF GO BONDS

- What are the advantages of GO Bonds?
  - They provide the best overall interest rate since the bonds are secured by a separate property tax.
  - Debt service does not affect operating funds since it is payable from a separate property tax levy.
  - Allow for the combination of projects in one issue that otherwise could not be combined as pure revenue issue.

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## ADVANTAGES AND DISADVANTAGES OF GO BONDS

- What are the disadvantages of GO Bonds?
  - Referendum is required unless sufficient non-referendum capacity exists.
  - GO Bonds count against the debt limit.
  - The final payment is limited to 20 years from issuance for most non-home rule governments.
  - Too much GO debt could hurt bond ratings.

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## REVENUE BONDS

- Revenue Bonds rely on the sale of a product or service (water, sewage disposal, electricity, etc.) to generate sufficient revenues to pay operating and maintenance expenses and principal and interest on revenue bonds.

- Types of Revenue Bonds

Water	Airport	Toll Roads and Bridges
Sewer	Mass Transit	Convention Centers
Electric	Health Care (Hospital, etc.)	Parking
Sales Tax	Higher Education	Stadiums
Utility Tax	Housing	
Solid Waste	Storm Water	

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## REVENUE BONDS (CONTINUED)

- Backdoor referendum required
- Payment period cannot be longer than the lesser of 40 years or the period of usefulness of the project, as determined by the issuer
- Do not count against the 8.625% non-home rule municipal debt limit
- What is the effect of the security?
  - Longer and more detailed bond documents.
  - Covenants regarding coverage, rate setting, operating requirements as well as the creation of reserves (especially a debt service reserve).
  - Interest rates generally higher than general obligation bonds

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## ALTERNATE BONDS

- Alternate bonds are “double barreled”
  - A payment source (which may be enterprise revenues or a general source of funds available to the issuer) must be identified and pledged as the primary security for the repayment of the Bonds
  - Are “double barreled” bonds because the bonds are additionally secured by a property tax levy unlimited as to rate and amount
  - The levy is abated each year if the primary revenue is sufficient
  - Audit or feasibility report must show 1.25 times coverage (or 1.10x for a governmental revenue source)

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## ALTERNATE BONDS

- Subject to a backdoor petition period and, if issued in lieu of enterprise revenue bonds, may require a simultaneous backdoor referendum to authorize the enterprise revenue bonds
- Petition period: 30 days
  - Petitioners: greater of (a) 7.5% of registered voters or (b) 15% of registered voters or 200, whichever is less
- Petition period if bonds are payable solely from enterprise revenues (except for alternate bonds that finance public utilities, public streets and roads or public safety facilities): 45 days
  - Petitioners:
    - Lesser of 5% of registered voters or 5,000 if municipality has more than 4,000 registered voters
    - Lesser of 15% of registered voters or 200 if municipality has 4,000 or fewer registered voters

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## ALTERNATE BONDS

- Outside the tax cap
- A direct referendum is not required
- Payment period generally cannot exceed 40 years
- Public hearing (BINA) required
- Must abate debt service levy annually to the extent the pledged revenue source is sufficient
- Do not count against the 8.625% non-home rule municipal debt limit unless taxes extended
- Alternate revenue bonds generally trade at the same yields as general obligation bonds

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## Bond Terms

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## PRICING TERMS

- **Coupon or Interest Rate**
  - The nominal interest rate that is used to calculate the interest payments owed on a bond
  - Usually paid semi-annually
- **Price**
  - The dollar amount to be paid for a bond is stated as a percentage of par value
- **Yield**
  - The discount rate that relates the coupon rate to the price
  - The yield represents the true cost of funds and can be understood as the annual rate of return paid to the investor
- Yield and price are inversely related

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## BANK QUALIFICATION

- Bonds are designated as bank qualified if an issuer does not expect to issue more than \$10 million of tax-exempt securities in a single calendar year
  - Taxable debt obligations are not included in the \$10.0 million
  - Current refundings of prior bonds that were designated as bank qualified are not included as well
- Allows a financial institution to deduct 80% of its interest expense allocable to the purchase of tax-exempt securities
- Allows banks to have a double tax benefit

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## ACCRUED INTEREST

### ■ Dated Date

- The date from which the bond holder is entitled to receive interest
- The date the “interest clock” starts running

### ■ Delivery Date

- The date the bonds are “delivered” to the bondholder and funds are received by the issuer
- Since the issuer pays interest from the dated date, but does not receive its funds until the delivery date, it is entitled to accrued interest

- Accrued interest is paid by the original purchaser as part of the purchase price

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## Refunding Bonds

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## NEW MONEY VS. REFUNDING BONDS

- New Money bonds
  - Issued to raise money for a capital project
- Refunding bonds are issued to:
  - Achieve cost savings
  - Remove or change burdensome bond covenants
  - Restructure debt

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## CALL PROVISIONS

- Optional Redemption
  - The right to retire an issue or a portion thereof before the stated maturity date, but after a specified amount of time
    - Typically, non bank qualified bonds are callable 10 years after issuance, and bank qualified bonds are callable eight to nine years after issuance
    - The option is exercised by the bond registrar at the direction of the issuer usually through an escrow agreement
    - The optional call provision may require the issuer to redeem the bonds at a premium stated as a percentage of par. In recent history bonds are sold without a premium
- Mandatory Redemption
  - A provision that requires an issuer to call or purchase a certain amount of a term bond one or more years before the stated maturity date

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## REFUNDING TERMINOLOGY

- Optional Redemption: The option to retire or call a bond issue (or a portion thereof) before the stated maturity date(s)
- Call date: The date the issuer can exercise its optional redemption provision.
- Yield to Maturity (YTM): The yield assuming a bond is held until the maturity date
- Yield to Call (YTC): The yield assuming a bond is held until the call date

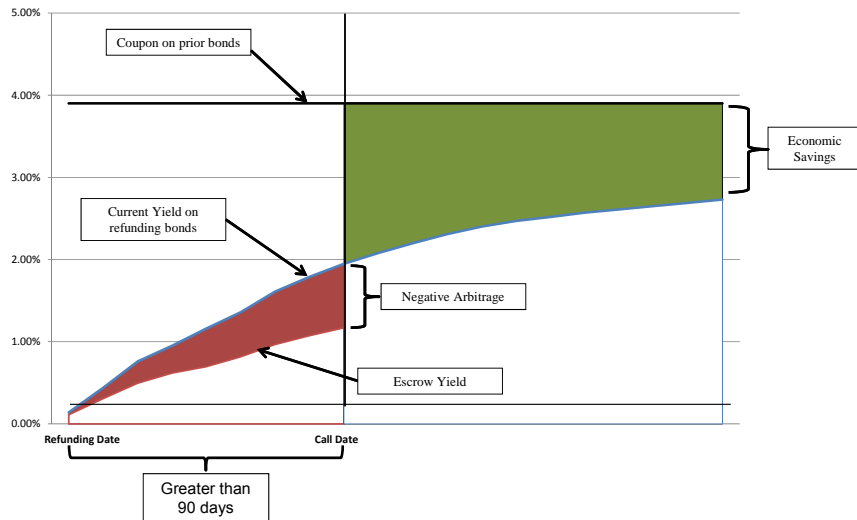
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## REFUNDING TERMINOLOGY

- Current vs Advance Refunding
  - **Current** – refunded bonds are paid or redeemed within 90 days of the issue date
  - **Advance** – refunded bonds are paid or redeemed more than 90 days from the issue date
- Refunding Escrow – the amount of bond and interest income needed at the call or maturity date

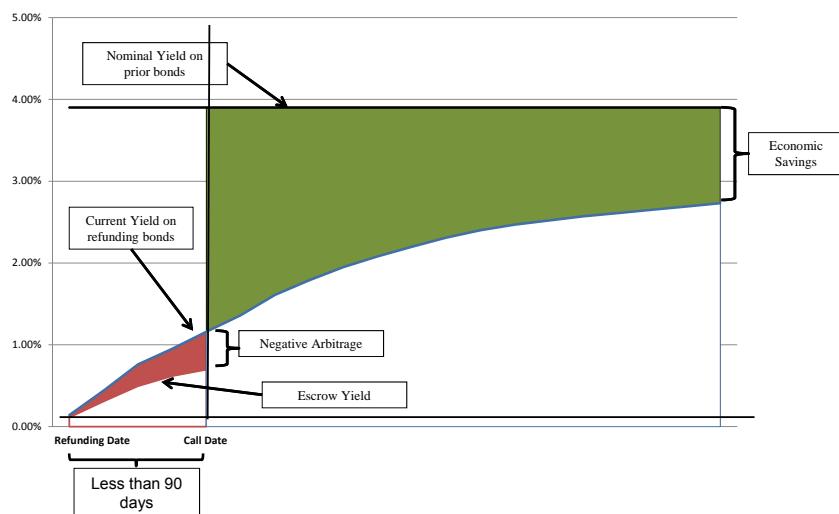
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## ADVANCE REFUNDING



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## CURRENT REFUNDING



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## REFUNDING CASE STUDY

### Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
12/01/2016	1,124,013.33	1,124,013.33	1,125,133.75	1,120.42
12/01/2017	1,391,250.00	1,391,250.00	1,568,895.00	177,645.00
12/01/2018	1,391,850.00	1,391,850.00	1,566,010.00	174,160.00
12/01/2019	1,522,150.00	1,522,150.00	1,706,040.00	183,890.00
12/01/2020	1,521,950.00	1,521,950.00	1,705,540.00	183,590.00
12/01/2021	1,525,350.00	1,525,350.00	1,707,790.00	182,440.00
12/01/2022	1,522,150.00	1,522,150.00	1,707,540.00	185,390.00
12/01/2023	1,522,550.00	1,522,550.00	1,704,790.00	182,240.00
12/01/2024	1,521,350.00	1,521,350.00	1,704,540.00	183,190.00
12/01/2025	1,523,200.00	1,523,200.00	1,706,540.00	183,340.00
12/01/2026	1,522,800.00	1,522,800.00	1,705,540.00	182,740.00
12/01/2027	1,520,150.00	1,520,150.00	1,706,540.00	186,390.00
12/01/2028	1,520,250.00	1,520,250.00	1,706,980.00	186,730.00
12/01/2029	1,517,875.00	1,517,875.00	1,704,300.00	186,425.00
12/01/2030	1,518,025.00	1,518,025.00	1,703,300.00	185,475.00
12/01/2031	1,520,475.00	1,520,475.00	1,706,250.00	185,775.00
<b>Total</b>	<b>\$23,685,388.33</b>	<b>\$23,685,388.33</b>	<b>\$26,435,928.75</b>	<b>\$2,750,540.42</b>

### PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	2,123,411.82
Net PV Cashflow Savings @ 3.314%(AIC)	2,123,411.82
Contingency or Rounding Amount	774.34
Net Present Value Benefit	\$2,124,186.16
Net PV Benefit / \$18,230,000 Refunded Principal	11.652%

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## Credit Ratings

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## WHAT IS A CREDIT RATING?

- An opinion about credit risk
  - Ability and willingness of an issuer to meet its financial obligations in full and on time
  - Likelihood of default
- Helps investors determine whether to invest in an issuer's bond issue and at what yields

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## CREDIT RATING SCALES

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	
Investment Grade	Aaa	AAA	AAA	Extremely strong capacity to meet financial obligations.
	Aa1	AA+	AA+	
	Aa2	AA	AA	Very strong capacity to meet obligations.
	Aa3	AA-	AA-	
	A1	A+	A+	
	A2	A	A	Strong financial capacity but susceptible to adversity.
Non-Investment Grade	A3	A-	A-	
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	Adequate financial capacity but adverse conditions will lead to weakness.
	Baa3	BBB-	BBB-	
	Ba1	BB+	BB+	
	Ba2	BB	BB	Non-Investment Grade Speculative
	Ba3	BB-	BB-	
	B1	B+	B+	
	B2	B	B	Highly Speculative
	B3	B-	B-	
	Caa	CCC+		
	Ca	CCC	CCC	Extremely Speculative
	C	CCC-		
			DDD	
			DD	Default
			D	

Source: [www.standardandpoors.com](http://www.standardandpoors.com), [www.fitchratings.com](http://www.fitchratings.com) and [www.moodys.com](http://www.moodys.com)

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## MOODY'S RATING CRITERIA

EXHIBIT 1

### Scorecard Factors and Weights

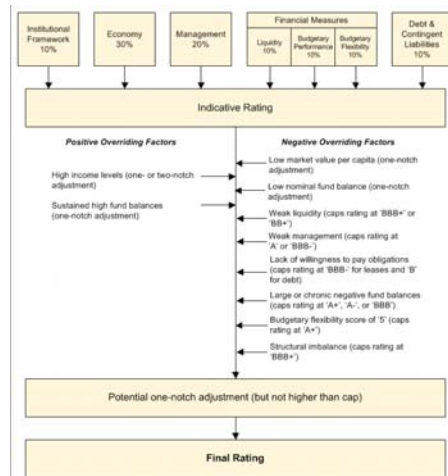
Local Governments

Broad Rating Factors	Factor Weighting	Rating Subfactors	Subfactor Weighting
Economy/Tax Base	30%	Tax Base Size (full value)	10%
		Full Value Per Capita	10%
		Wealth (median family income)	10%
Finances	30%	Fund Balance (% of revenues)	10%
		Fund Balance Trend (5-year change)	5%
		Cash Balance (% of revenues)	10%
		Cash Balance Trend (5-year change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Full Value	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Revenue	5%

Source: www.moodys.com

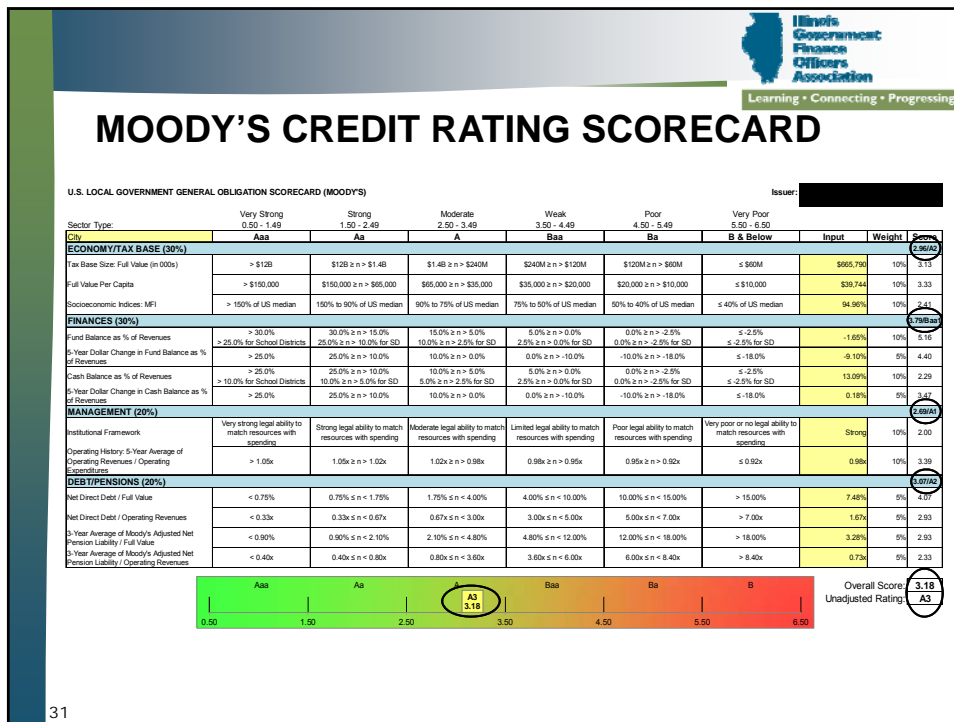
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## S&P RATING CRITERIA

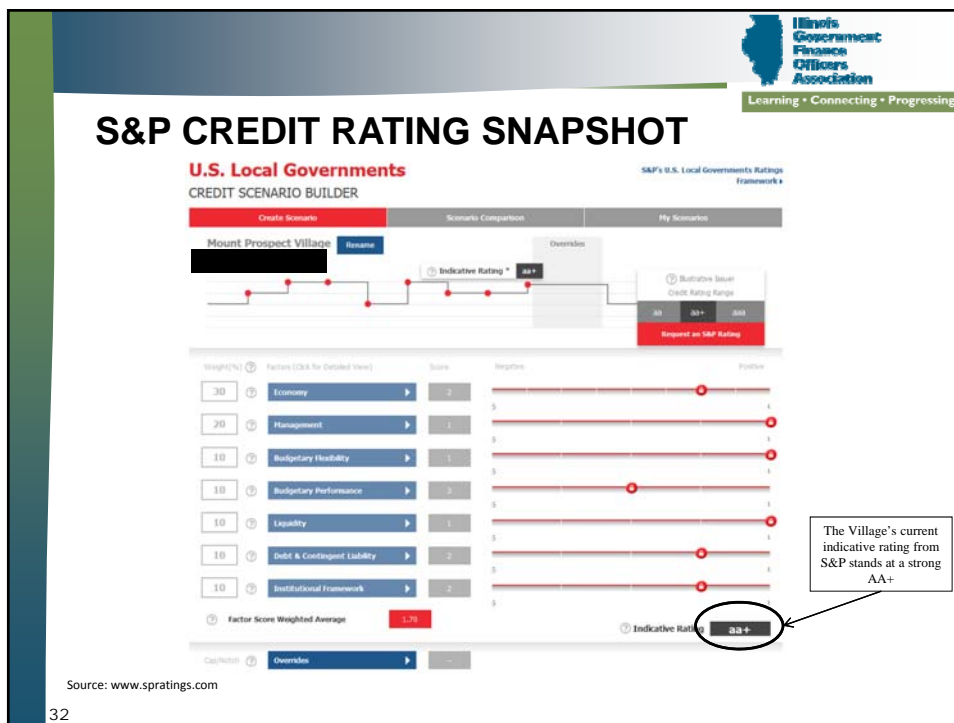


Source: www.spratings.com

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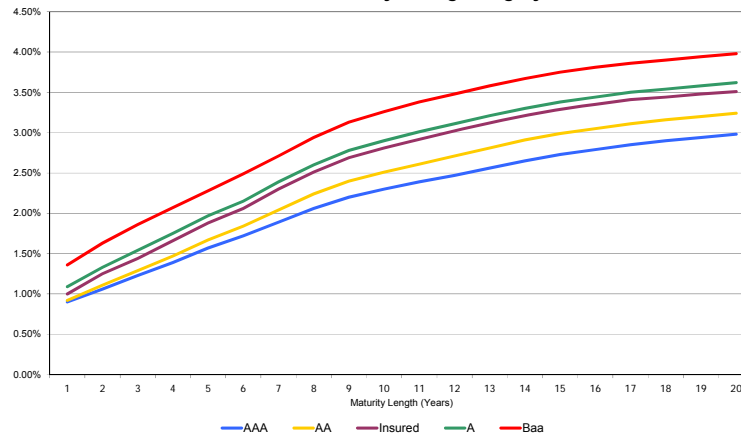
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## WHY CREDIT RATING IS IMPORTANT

ISSUER CREDIT INTEREST RATE COMPARISON  
MMD Bond Index By Rating Category



\*The Municipal Market Data "MMD" is a municipal bond market index produced by TM3. Data provided as of February 6, 2017.

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## Participants in a Bond Transaction

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## Professionals Involved in a Competitive Municipal Bond Financing Transaction



This chart illustrates the various professionals involved in a competitive municipal bond financing transaction.  
\* The type and feature of the bond transaction will determine the participation of these professionals.

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## Professionals Involved in a Negotiated Municipal Bond Transaction



This chart illustrates the various professionals involved in a negotiated municipal bond financing transaction.  
\* The type, size and feature of the bond transaction will determine the participation of these professionals.

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## MUNICIPAL ADVISORS

- Issuers often seek the advice of a municipal advisor. Municipal advisors perform a variety of tasks, including:
  1. Analyzing the financing needs and options of the issuer;
  2. Helping the issuer in selecting a broker dealer and other financing professionals;
  3. Advising on the issuer's debt plans relating to its capital needs;
  4. Structuring the bond issue;
  5. Organizing the issuance of the bonds;
  6. Working with rating agencies and credit enhancers;
  7. Preparing the disclosure document for the bond sale; and
  8. In a negotiated sale, negotiating with the purchaser of the bonds on the interest rates for the bonds.
- Issuers do not have to hire a municipal advisor, but the GFOA "recommends that the issuer hire a municipal advisor prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information." <sup>(1)</sup>

(1) Source: <http://www.gfoa.org/selecting-and-managing-municipal-advisors>

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## BOND COUNSEL

- Almost all municipal bonds are accompanied by a bond opinion of bond counsel who assists/represents not only the issuer, but the legal interests of the bondholders.
- The bond opinion addresses the main legal issues, whether:
  1. The bonds constitute legal, valid and binding obligations of the issuer; and
  2. Interest on the bonds is exempt from federal (and in some cases state) income taxation under applicable tax laws.
- In rendering the bond opinion, bond counsel:
  1. Undertakes a review and examination of all applicable laws authorizing the issuance of bonds;
  2. Ascertains that all required procedural steps have been completed to assure proper authorization and issuance of the bonds; and
  3. Determines that all federal (and in some cases state) tax laws governing the issuance of the bonds have been complied with.

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## UNDERWRITERS

- Underwriters typically purchase the bonds from the issuer, unless there is a direct purchase of the bonds such as by a local bank
  - Bonds are usually purchased through a **competitive** or **negotiated** sale
  - Underwriters then sell the bonds to their investor base
- Competitive sale
  - In a competitive sale, bids by competing underwriters for the bonds are submitted to the issuer at a specific date and time
  - Broker dealers will sometimes bid on bonds as a syndicate of two or more broker dealer firms
  - The bidder with the lowest true interest cost is selected on the sale date to serve as the broker dealer

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## UNDERWRITERS

- Negotiated sale
  - In a negotiated sale, one or more broker dealers are selected at the beginning of a bond issue, often through an RFP process
  - The broker dealer, along with the municipal advisor, assists the issuer in coordinating and managing the bond issue

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## COMPETITIVE VS NEGOTIATED SALE

Competitive Sale	Negotiated Sale
<ul style="list-style-type: none"> <li>✓ <b>Market Familiarity:</b> Market recognizes the issuer as a stable and regular borrower in the public market with an active secondary market.</li> <li>✓ <b>Strong Credit Rating:</b> Issue has a strong unenhanced credit rating.</li> <li>✓ <b>Strong Security:</b> General obligation bonds backed by the issuer's full faith and credit or revenue bonds with a historically sound revenue stream.</li> <li>✓ <b>Issue Size:</b> Transaction is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort.</li> <li>✓ <b>Structure:</b> Short to medium term structure often attracts more interest in a competitive sale, since there is inherently more risk with a longer structure.</li> <li>✓ <b>Traditional Features:</b> Bonds do not have overly complex characteristics.</li> <li>✓ <b>Stable Market:</b> Relatively stable market conditions and evidence of market demand.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Weaker Credit Rating:</b> Issue has a low unenhanced credit rating.</li> <li>✓ <b>Weaker Security:</b> Revenue stream is newly established or coverage is lean for a revenue bond.</li> <li>✓ <b>Issue Size:</b> Issue is too large to be easily absorbed at competitive sale or too small to attract sufficient attention.</li> <li>✓ <b>Long Structure:</b> Longer maturities naturally carry more risk than shorter maturities and can be more difficult for an underwriter to sell without the ability to pre-market.</li> <li>✓ <b>Complex Features:</b> Includes a complicated refunding or has other factors, such as a short call, that make the issue market sensitive.</li> <li>✓ <b>Volatile Market:</b> Market volatility increases perceived risk and makes sale date flexibility important.</li> <li>✓ <b>Retail Participation:</b> Issuer wants to encourage and prioritize retail participation within its boundaries.</li> <li>✓ <b>Underwriter Selection:</b> Issuer wants to have input on how the bonds are allocated between underwriting firms to ensure distribution to local, minority or woman owned firms.</li> </ul>

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## RATING AGENCIES AND CREDIT ENHANCERS

- Especially after the Great Recession and with certain recent municipal bond defaults, bond ratings are playing a more prominent role in the municipal bond market. A rating is almost obligatory for the sale of any major bond issue in the public market.
- Issuers prepare rating agency presentations, with the help of their municipal advisor and their broker dealer (negotiated sale).
- Rating agencies also review their ratings periodically and analyze the issuer's current financial and operational information.
- Credit enhancement denotes the credit of a stronger, more highly rated entity (such as a bond insurer), that is used to strengthen or enhance the credit of a lower-rated issuer.
  - Many bond insurers have left the market, but recently the use is growing for issues rated in the "A" or lower categories.

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## What is an Official Statement?

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## OFFICIAL STATEMENT

- The official statement is a document prepared by, or on behalf of, the Issuer in connection with a primary offering of its bonds
- The official statement is required to disclose all material information on the offering
- The official statement is the main source of anti-fraud liability in a municipal transaction
- The obligation for the accuracy and completeness of the disclosure lies with the Issuer
  - Experts may assist, but cannot completely discharge, the Issuer's obligation
  - Issuer, Underwriter, Financial Advisor, Attorneys (Underwriter's Counsel/Disclosure Counsel/Issuer's Counsel) all have potential anti-fraud liability for material misstatements and omissions in an official statement

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## WHY THE OFFICIAL STATEMENT IS IMPORTANT

- Reviewed by rating agencies and insurers when evaluating credit
- Used to market the securities to prospective investors
  - Gauge interest prior to sale
  - Provides material disclosure information needed to make an informed investment decision
  - The Official Statement has become more important in light of insurer downgrades and current credit environment

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## WHY THE OFFICIAL STATEMENT IS IMPORTANT

- The OS is the ISSUER'S document
  - YOU are the expert on YOUR municipality!
- Stringent legal disclosure requirements
  - The Issuer's elected officials and administration are held accountable for the adequacy of the information disclosed

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PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 16, 2014

**Competitive Sale Date and Time**

**Sale Date and Time:**  
October 7, 2014  
10:00 A.M. CDT

**Dated Date**

**Dated:** As of Date of Issuance

**Legal Use of Bond Proceeds**

**Optional Redemption Feature**

**Official Date of Offering Document (Sale Date of Bonds)**

**Bond Rating**

**RATING:** S&P: "AA"

**Total Par Amount, Legal Name of Issuer and Bond Title**

**\$3,500,000\***  
**WHEELING PARK DISTRICT**  
**COOK AND LAKE COUNTIES, ILLINOIS**  
**GENERAL OBLIGATION PARK BONDS (ALTERNATE REVENUE SOURCE), SERIES 2014A**

**Interest Payment Dates**

**Due:** November 1, As Shown on the Inside Cover

**Bond Security and Authority**

**Delivery Date**

**The date of this Official Statement is October 7, 2014**

\*See "Bond Rating" herein.  
\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to change without notice. The information contained herein is not intended to constitute an offer of securities. No offer of securities can be made until the date of the final Official Statement. The information contained herein is not intended to constitute an offer of securities. No offer of securities can be made until the date of the final Official Statement.

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## CONTINUING DISCLOSURE

- Securities and Exchange Commission Rule 15c2-12 (the "Rule") requires dealers who underwrite municipal securities to obtain certain information about the securities and issuers
- In addition, underwriters must make sure that the issuer provides certain information about the securities on an ongoing basis
- This agreement is called the continuing disclosure undertaking (CDU), which is executed at the closing of a bond issue
- Continuing disclosure information is provided to the secondary market through a portal called Electronic Municipal Market Access (EMMA)
- This information can be grouped into three categories:
  - Financial Data or "Annual Financial Report"
  - Operating/Statistical Data or "Annual Financial Information" which is typically 10 to 12 tables of information originally provided to the market in the issuer's official statement
  - Reportable Event Filing (10 business days to file a "Reportable Events Notice")

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## REPORTABLE EVENTS

There are 14 enumerated reportable events under the Rule 15c2-12:

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the issuer
13. The consummation of a merger, consolidation, or acquisition
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

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# Essential Elements of a Successful Investment Program

February 9, 2017

PFM Asset  
Management LLC

222 N. LaSalle  
Suite 910  
Chicago, IL 60601

312-977-1570  
[pfm.com](http://pfm.com)



## Agenda

### ■ Starting Points

- Investment Policy
- Cash Flow

### ■ Implementation

- Identify/invest "core" balance, then target known cash flow dates
- Look for relative value among available investment options
- Assess current and historical market conditions



### Challenges

- Yields are low
  - Deposits likely earning less than 1.00% (for the past 8+ years)
  - Extra liquidity hurts
- Loss of purchasing power
  - Inflation is around 2.0%
- Every basis point of earnings and costs have been magnified
- Budgets are tight
- Staffing can be thin = doing more with less = people are busy



### Opportunities: You Can Prudently Add Value

	Individual	Public Entity
Amount to Invest	\$10,000	\$10,000,000
Investment Rate	1.00%	1.00%
Earning Earnings	\$100	\$100,000

#### Common Fallacies

- It is too much work
- We don't have enough staff (or time!)
- The additional income is not enough



**"I'm a fun-loving shopaholic trapped in the body of a prudent investor!"**



## Maximizing Your Investment Program: Starting Points

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### Define Investment Objectives

**For general operating, reserves, and bond proceeds:**

Protect principal



To meet ongoing and  
uncertain needs

Maximize earnings  
While simultaneously providing safety and liquidity

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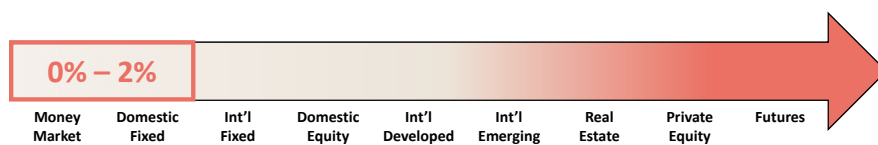
## Investment Policy Statement

**Develop, Review, Amend, Improve ...**  
**Then Review, Amend, and Improve again ☺**

- Objectives
- Standard of Prudence
- Ethics & Conflicts
- Delegation of Authority
- Selection of Broker / Dealers
- Competitive Selection
- Safekeeping and Custody
- Internal Controls
- Authorized Investments
  - Specifically define
- Belts and Suspenders
- Diversification
  - Sector
  - Issuer
- Maximum Maturity
- Security Downgrades
  - What to do?
- Performance and Standards
- Reporting



## Public Funds – High Quality Fixed Income



- The overall market is made up of a broad spectrum of asset classes
- Most public funds are invested in conservative and liquid assets
- Diversified asset classes may be used for pensions, OPEBs, endowments, foundations, etc.



### Permitted Investments

- Define general universe
- Complies with the Illinois Public Funds Investment Act
- Set diversification limits
  - Term
  - Sector
  - Credit Quality
- Restrictive clauses

Sector	% Allowed
U.S. Treasuries	?
Federal Agencies	?
Deposit Accounts	?
Certificates of Deposit	?
Repurchase Agreements	?
Local Government Investment Pools	?
Municipal Securities	?
Commercial Paper	?



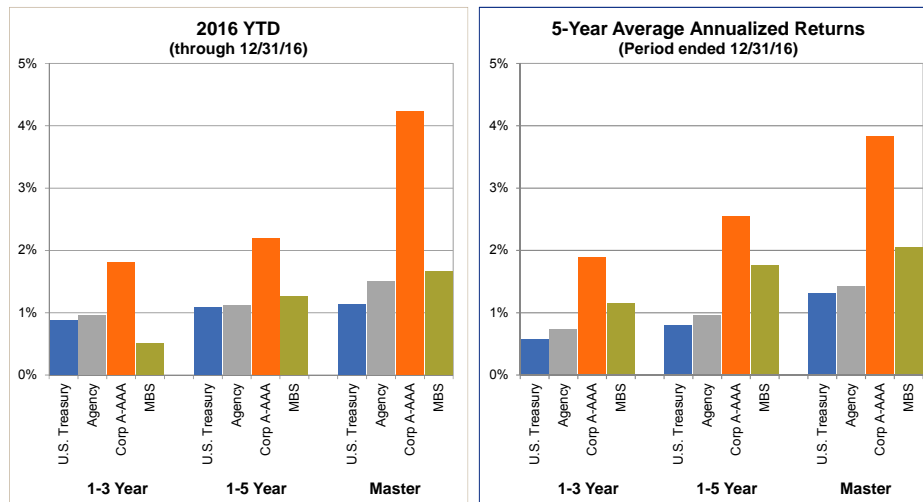
### Local Government Investment Pools (LGIP)

Illinois LGIPs	Rating
Illinois Funds	AAAm (S&P)
Illinois Trust, IIIT Class	AAAm (S&P)
IMET Convenience Fund	Not Rated
IMET 1-3 Year Fund	Aaa/MR1 (Moody's)





## Corporate Notes as a Possible Permitted Investment?



Source: BofA Merrill Lynch Indices.

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## Just Because It is Allowed, Doesn't Mean You Should Do It

- Do your homework
- Analyze the risks / rewards and your capacity to manage each investment being considered
- In 2007, public entities lost millions of dollars by investing in obscure asset backed commercial paper
  - Mainsail
  - Rhinebridge
  - Cheyne Finance



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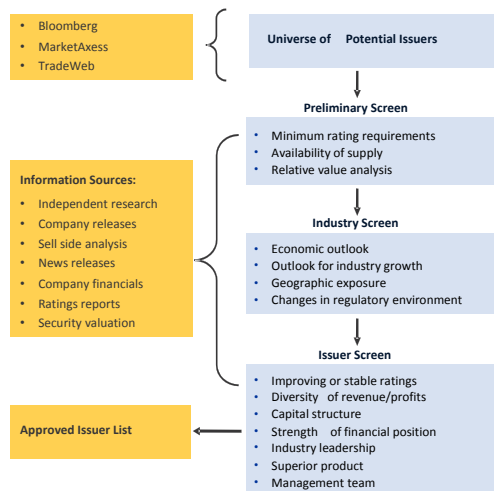


## Credit Ratings

<u>S&amp;P</u>	<u>Moody's</u>	<u>Explanation of Rating</u>
AAA	Aaa	High quality. Smallest degree of investment risk
AA	Aa	High quality. Differs only slightly from highest-rated issues.
A	A	Adequate capacity to pay interest and repay principal.
BBB	Baa	More susceptible to adverse effects of changes in economic conditions.
BB	Ba	Has speculative elements; future not considered to be well-assured.
B	B	Generally lack characteristics of desirable investment.
CCC	Caa	Poor standing. Vulnerability to default.
C	C	Extremely poor prospects.
D	D	In default.



## Sample Credit Screening Process





### Addressing Liquidity

"Who knows when a payment request will come through"

"Last month, Public Works walked in at 10:00am with a voucher for \$4 million ... they wanted it paid immediately"

"Treasury is responsible for investing, but we don't have any information on spending"

"No one tells us anything"

Thanks,  
make mine  
a double!

What you need  
is liquidity.



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### Cash Flow Analysis is the Key

- Identifies "core" vs liquid funds
- Protects liquidity and enhances cash management techniques
- Identifies trends in cash balances
- Can increase investment income
  - Amounts available for investment
  - Period of time to hold the investment
  - Assists with investment strategies
- Forecasts potential deficits



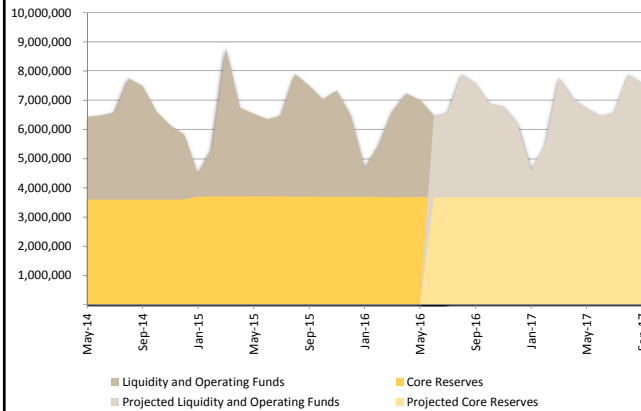
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## Analysis of Historical Cash Flows

Sample Cash Flow Analysis



### Liquidity and Operating Funds

- Daily Liquidity
- Funds to cover specific, predictable cash flows
- Investment horizon less than 12 months

### “Core” Reserves

- Funds with stable balances
- Investment horizon more than 1 year

### Bond Proceeds

- Funds dedicated for a specific use
- Investments matched to draw schedule



## Maximizing Your Investment Program: Implementation



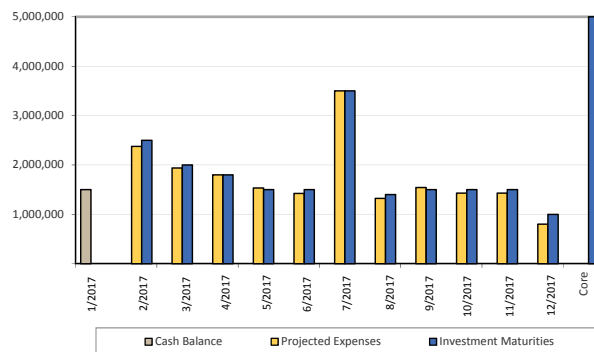
### 3 Basic Principles of Portfolio Structuring

1. Identify/invest “core” balance, then target known cash flow dates
  - Payroll
  - Debt service
  - Capital project expenditures
2. Look for relative value among available investment options
  - Shape of the yield curve
  - Value among sectors
3. Assess current and historical market conditions



#### Principle 1: Identify/ invest “core” balance then target known cash flow dates

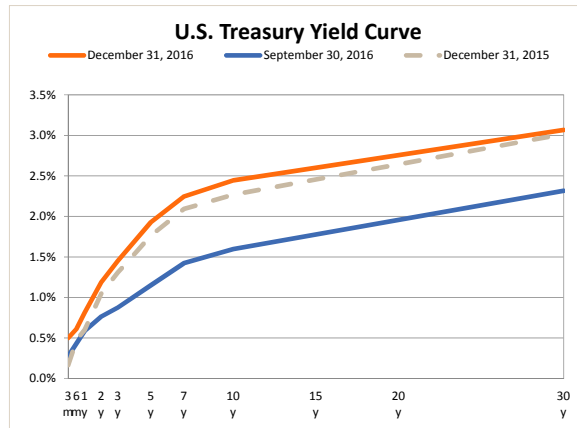
- Payroll
- Debt service
- Capital project expenditures





## Principle 2: Look for Relative Value Among Investment Options

### ■ Shape of the yield curve



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Yield Curve History

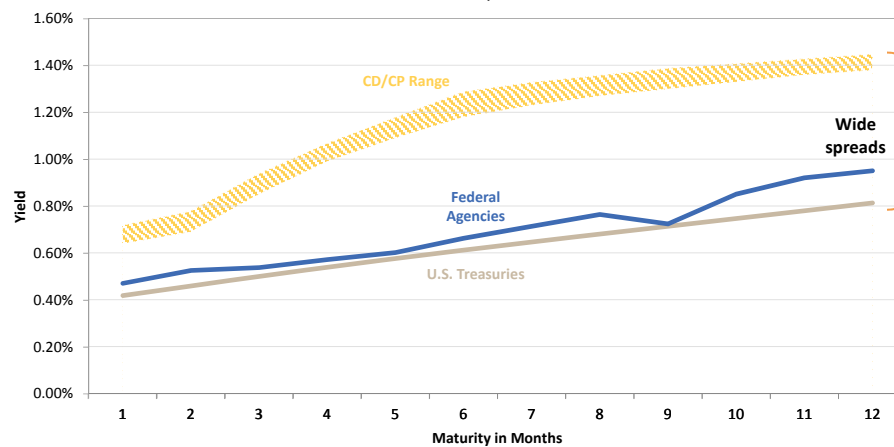
	12/31/16	09/30/16	12/31/15
1-Mo.	0.42	0.19	0.13
3-Mo.	0.50	0.28	0.17
6-Mo.	0.61	0.43	0.48
1-Yr.	0.81	0.59	0.60
2-Yr.	1.19	0.76	1.05
3-Yr.	1.45	0.88	1.31
5-Yr.	1.93	1.15	1.76
7-Yr.	2.25	1.42	2.09
10-Yr.	2.45	1.60	2.27
30-Yr.	3.07	2.32	3.02

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## Principle 2: Look for Relative Value Among Investment Options

Money Market Yield Curves  
December 31, 2016



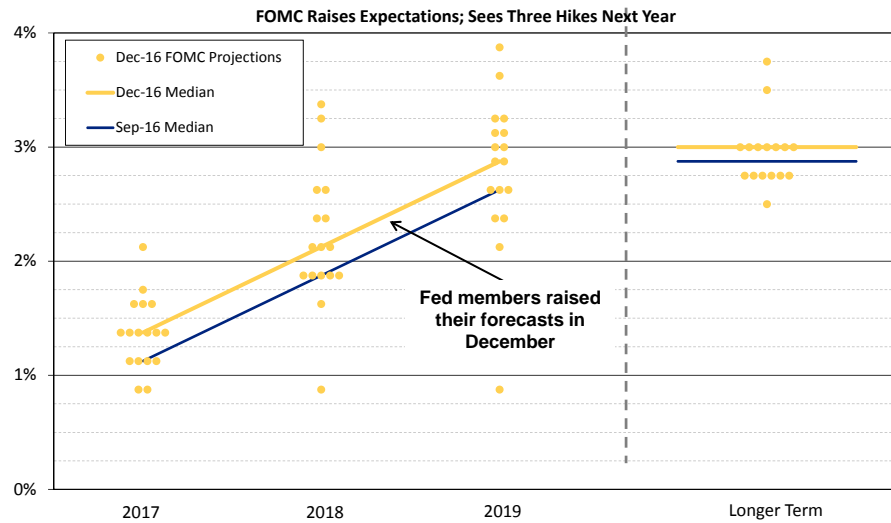
Source: Bloomberg and PFMAM Trading Desk.

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### Principle 3: Assess Market Conditions - Fed Funds Target Rate



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### U.S. Economic & Market Highlights



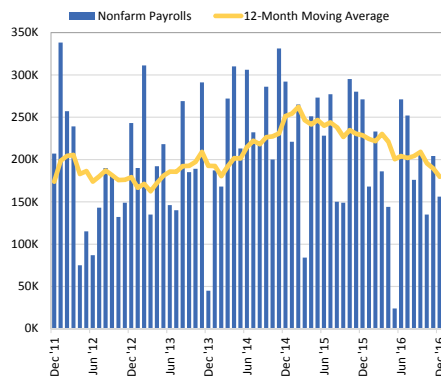
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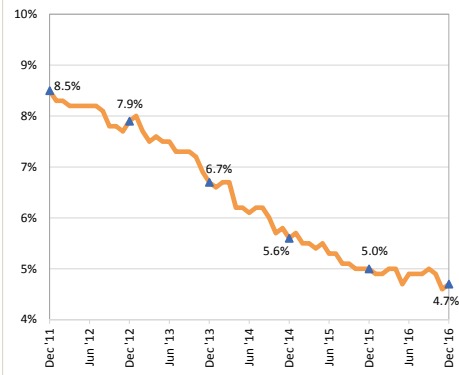
## Labor Market Strength Continues

- The U.S. labor market added 156,000 jobs in December, and averaged 180,000 per month in 2016.
- The unemployment rate ticked up to 4.7% while the U6 unemployment rate, which includes part-time and discouraged workers for economic reasons, ticked down to 9.2%, the lowest since 2008.
- Average hourly earnings grew at 2.9% for the year, the strongest since 2009.

Monthly Change in Nonfarm Payrolls



Unemployment Rate



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Source: Bureau of Labor Statistics, as of 01/06/17.

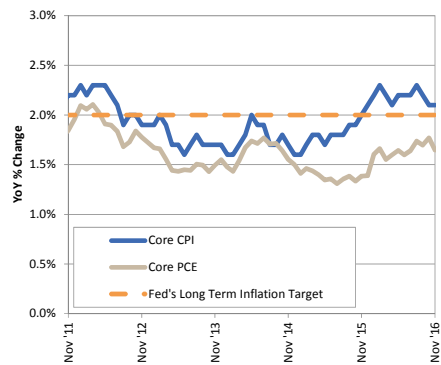
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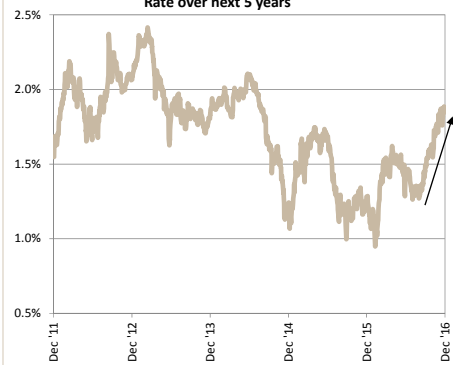
## Inflation Rising, but Slowly

- The core personal consumption expenditures (PCE) price index, the Fed's preferred gauge of core inflation, stayed around 1.7% year-over-year through November, continuing to modestly undershoot the Fed's 2% target.
- However, investors are expecting inflation to pick up, with market expectations for inflation over the next five years recovering back to levels last seen in 2014; a tightening labor market together with President-elect Trump's proposed spending policies could add to price pressures and prompt the Fed to raise rates faster.

Current Inflation Measures



Expectations for Average Inflation Rate over next 5 years



Source: Bloomberg as of 12/31/2016. Five year breakeven rate measures market expectations for inflation over next 5 years, as indicated by difference between yields on 5 year TIPS and 5 year Treasury notes.

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## Potential Impact of the Trump Administration

Policy	Proposed Platform	Potential Impact
Fiscal	<ul style="list-style-type: none"><li>Massive infrastructure spending</li><li>Increased military spending</li><li>Entitlement changes (but not Social Security)</li></ul>	<ul style="list-style-type: none"><li>Boost economic growth over mid-term</li><li>Increase borrowing and Federal deficit</li><li>Higher inflation</li></ul>
Monetary	<ul style="list-style-type: none"><li>Fill two vacancies on Federal Reserve Board</li><li>Increase Congressional oversight of Fed</li><li>Replace Chair (Yellen) and Vice Chair (Fischer) when terms expire in February 2018</li></ul>	<ul style="list-style-type: none"><li>Tighter monetary policy</li><li>Less regulation of banks</li><li>Higher bond yields</li></ul>
Regulatory	<ul style="list-style-type: none"><li>Reduce corporate and personal income taxes</li><li>Simplify tax code</li><li>Repeal Dodd-Frank</li><li>Repeal Affordable Care Act</li><li>Withdraw from Paris Climate Accord</li><li>Promote fossil fuel-based energy production</li></ul>	<ul style="list-style-type: none"><li>Increase corporate earnings</li><li>Change the risk profile of the financial services industry</li><li>Disrupt the healthcare industry</li><li>Lower energy prices</li></ul>
Immigration	<ul style="list-style-type: none"><li>Restrict immigration</li><li>Deport undocumented immigrants</li><li>"Force Mexico to pay"</li></ul>	<ul style="list-style-type: none"><li>Labor shortages in some industries</li><li>Exacerbate trade tensions with Mexico</li><li>Push up U.S. consumer prices</li></ul>
Trade	<ul style="list-style-type: none"><li>Challenge China's economic policy</li><li>Renegotiate NAFTA, abandon TPP</li><li>Impose taxes or tariffs to pressure nations to negotiate bilateral agreements</li></ul>	<ul style="list-style-type: none"><li>Stronger U.S. dollar</li><li>Higher inflation</li><li>Possible trade wars</li></ul>



## 2017 Outlook

### Key Takeaways:

- U.S. economy expected to show improving growth
- Interest rates are likely to continue rising at modest pace
- Inflation will rise from historic lows
- 35-year bull market in bonds likely over

### Upside Opportunity:

- Faster economic growth creates a virtuous cycle of improving productivity and lower deficits, boosting equities and bonds

### Downside Risks:

- Rising political uncertainty around the world
- Increasing trade frictions

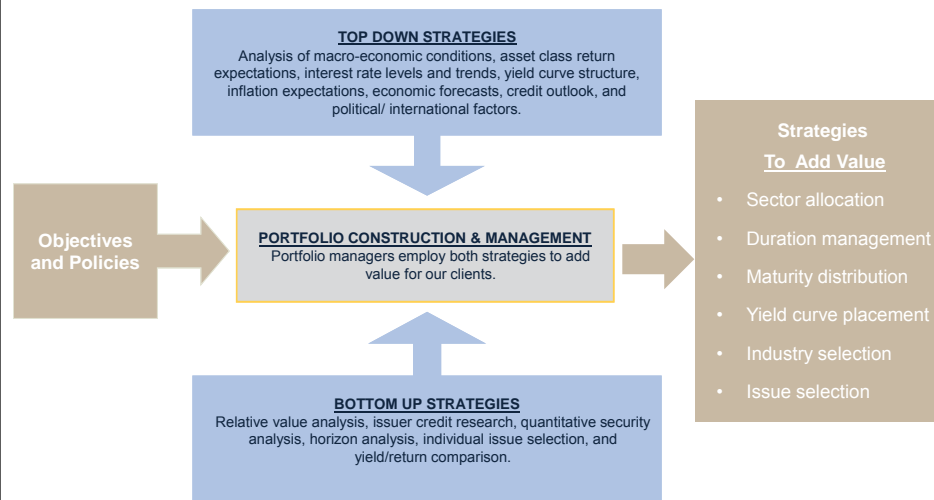


### Fixed Income Portfolio Strategy Implications

- Returns driven by Fed policy and economic landscape
- Increased volatility in the bond market due to political uncertainty
- Continue to emphasize use of credit and other spread products



## Portfolio Management Process



## Potential Benefits of Utilizing an Investment Advisor

- Complement to Internal Resources.
- Independent Audit of Investment Program.
- Enhanced Internal Controls and Potential Audit Savings.
- Transaction Cost Savings.
- Enhanced Portfolio Return.
- Diversification.
- Continuity.
- Personnel Time.
- Access to Technology and Outside Data Sources.



### Wrap Up: Investment Dos and Don'ts

#### DON'T

- Invest beyond your cash flow requirements
- Expect higher returns without higher risks
- Invest in securities you can't explain

#### DO

- Devote the time to develop an investment strategy
- Follow your investment policy
- Make sure that your broker and/or investment advisor knows and understands your policies and objectives
- Review your policies and practices periodically



### Questions





### PFM Disclaimer

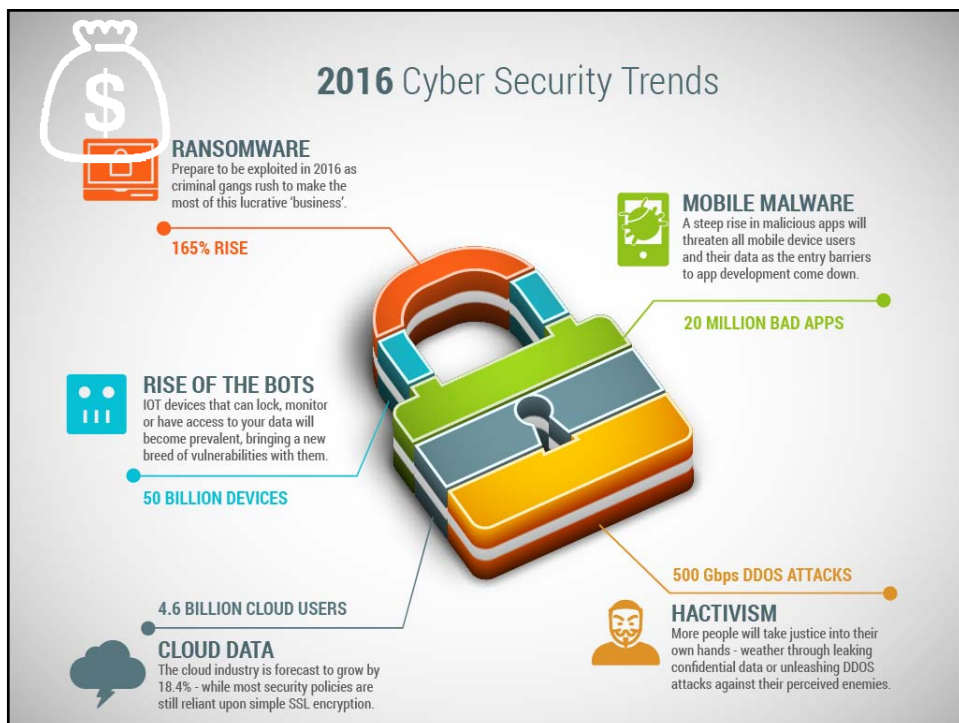
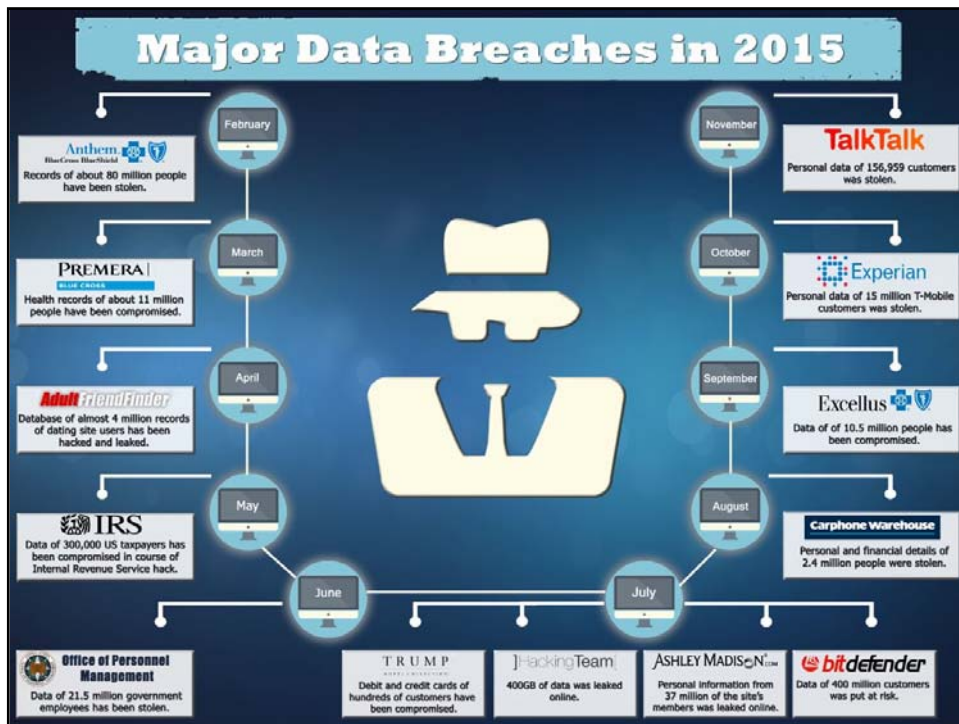
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# Thank You







## Public Sector Threats



- Misuse of Data and Systems
- Phishing Attacks
- Malware
- Spam
- Data Leakage

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## Data Records Lost or Stolen in 2016



**1,023,108,267**

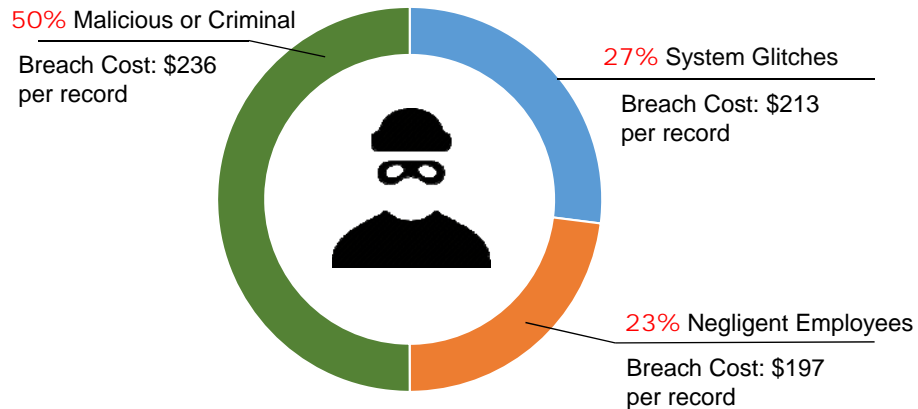


**2,803,036** every day  
**116,793** while we meet here today

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## Breaches by Source



Source: Seefit.com

## Data Breach Facts the Numbers

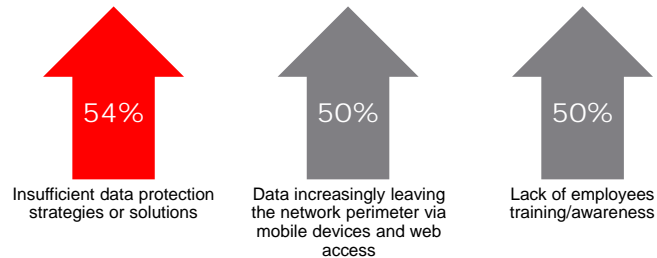
- 200** The median number of days that attackers stay dormant within a network before detection
- 52%** Percent of respondents that felt that a successful cyberattack against their network would take place within the year.
- 70%** As much as 70 percent of cyberattacks use a combination of phishing and hacking techniques and involve a secondary victim
- 81%** The majority of data breach victims surveyed, 81 percent, report they had neither a system nor a managed security service in place to ensure they could self-detect data breaches, relying instead on notification from an external party.

Source: Swimlane.com





## What Keeps IT Management Awake?... Data Security



### Key Drivers to Increased Cybersecurity Threats

- Increasing number of devices with access to sensitive data
- More employees, contractors, partners accessing the network
- Increased public knowledge or visibility of insider threats that were previously undisclosed
- Increasing amount of sensitive data
- Technology is becoming more complex



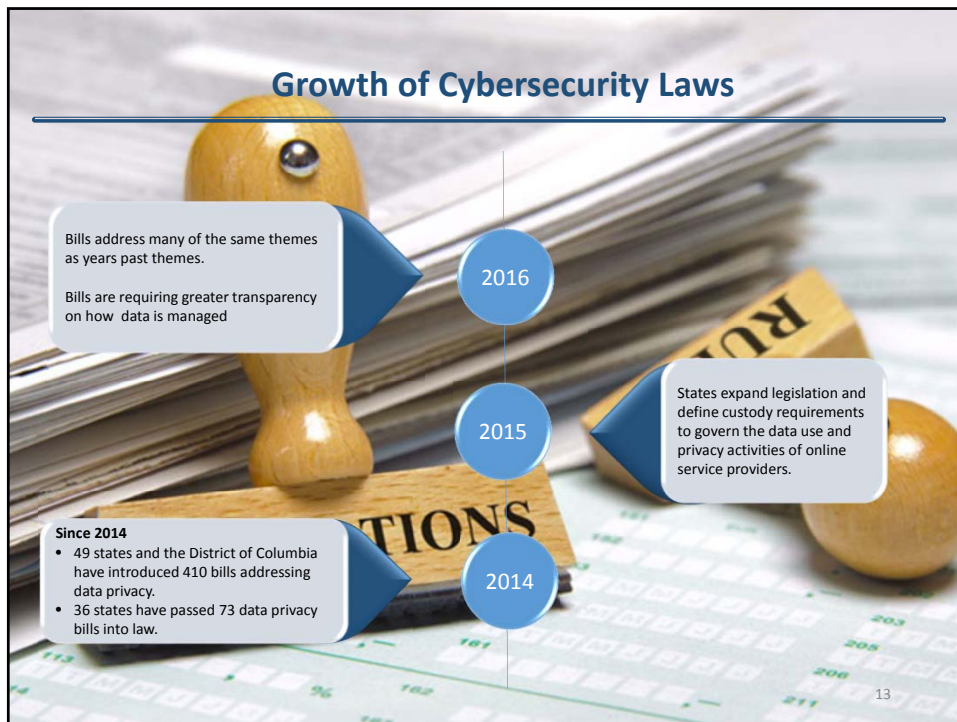
Source: CSID: Bitglass Insider Threat Report

## Shortage of Cybersecurity Technical Resources



**CYBERATTACKS ARE GROWING, BUT THE TALENT POOL OF DEFENDERS IS NOT KEEPING PACE.**

- 2 Million – Global Shortage of Cybersecurity Professionals by 2019
- 53% of Organizations Experience Delays as Long As **6 months** in Finding Qualified Security Professionals
- 84% of Organizations Believe Half of Fewer of Applicants for Open Security Jobs Are Qualified.



In recent years, we have gotten more aware and are smarter about

# CYBERSECURITY

and yet, the incidents have become larger, more frequent and worse

## WHY?

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# Our #1 defense is our weakest link

- 89%** 89% of consumers feel secure with their current password management use habits, yet 1 in 5 has had an online account compromised
- 49%** Almost half of consumers use the same password to access multiple accounts
- 49%** If a consumer account is compromised, there is a 49% chance that it can be used to gain access on their other accounts
- 50%** Consumers with more than 20 accounts are nearly 50% more likely to experience fraud

12345678

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## There is Strength in Numbers

A long alphanumeric password with punctuation increases the time it takes to crack your password

dietcoke	instantly
di3tcoke	5 minutes
di3tcoke!	4 days
ilikedi3tcokealot!	125,000 years
ilikedi3tcokealot!!	2 quadrillion years

Source: CSID: Data Breaches

## USERS

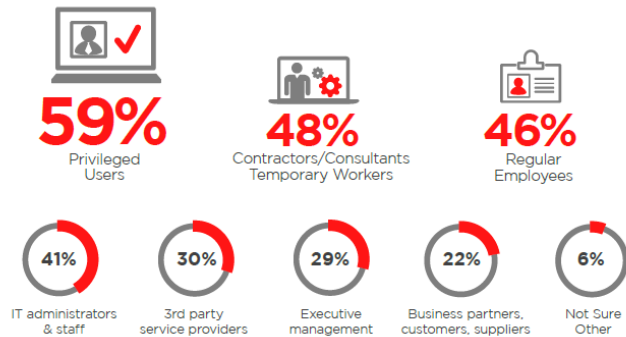
Our #2 defense is  
our 2<sup>nd</sup> weakest link



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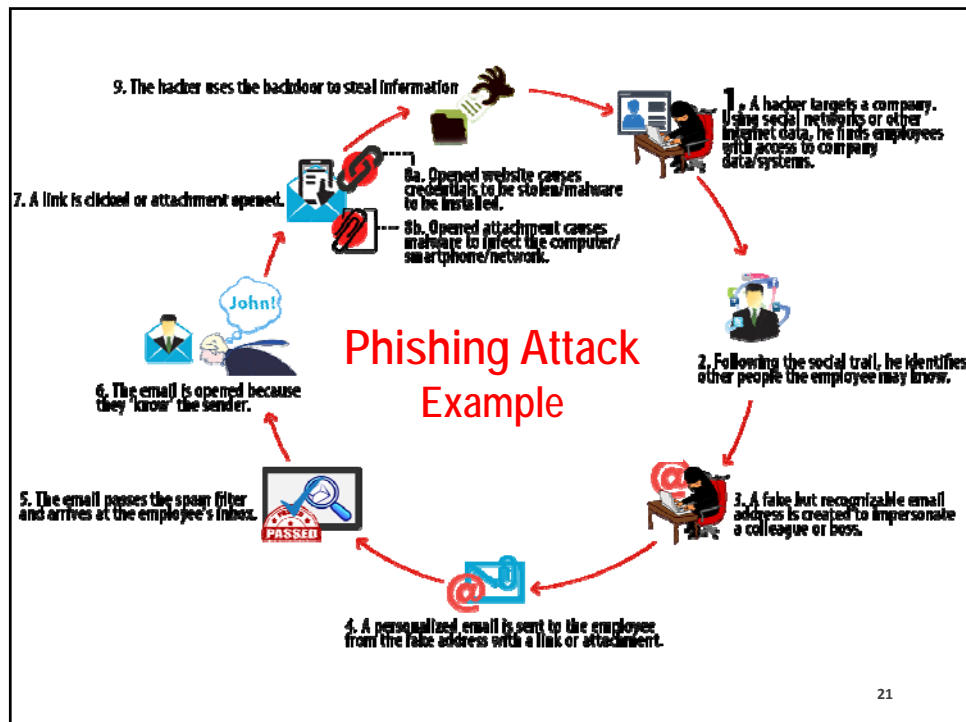


## 25% of Incidents Reported Due to Accidental Loss (e.g. Employee Error)



Source: Bitglass Insider Threat Report





## Best Practice Tips, Suggestions, and Recommendations



### All those devices create many entry points

What controls does your organization have to protect data?

- Formal security policies
- Mobile Device Management (MDM) Policy
- Review of vendor service contract terms for security and data protection
- Periodic testing of network and infrastructure security
- User awareness training
- Strong passwords
- Review of security design for proposed new technology

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## Best Practice Tips, Suggestions, and Recommendations

THE FUTURE IS  
THE RESULT OF  
WHAT WE DO  
RIGHT NOW



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## Connected Technology



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## Changes to Government Financial Statements Are Likely Coming—Have a Say in Them!

Downstate Illinois Government Finance Officers Association

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### Learning Objectives

- Review concerns with existing reporting model
- Learn the approaches being considered for governmental fund statements
- Explore other items in the Invitation to Comment and the feedback requested



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## Current Financial Reporting Model

- GASB 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, was issued in June of 1999
- Culmination of 15 years of research, deliberation, and due process
- Resulted in the format and measurement focus we know today, notes to F/S, RSI, and MDA

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## Current Model (Continued)

- Introduced government-wide statements using economic resources measurement focus
- Notably included reporting of infrastructure, other capital assets, and long-term liabilities
- Required narrative MD&A
- Original budget info in RSI
- Introduced major fund reporting for governmental and enterprise fund financial statements

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## New Research

- GASB feels it is important to reexamine existing financial reporting model, to maintain effectiveness of its standards
- Researched financial reports of 465 govts
- Held 11 research roundtables with F/S preparers, auditors, and users
- Conducted broad-based surveys of preparers, auditors, and users
- In-depth interviews on issues raised
- Goal of timely reporting and reduced complexity



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## And the Survey Says.....



- Research showed that most components of current financial reporting model are effective
- However, there are areas in which improvements could be made
- Still find that users have different needs (users being citizens, legislative/oversight bodies, investors/creditors)
- Fund statements showing shorter time perspective and that additional assets/liabilities on govt-wide statements may not be clear to all users



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## GASB Invitation to Comment

*Financial Reporting Model Improvements—  
Governmental Funds*

*(Issued December 7, 2016)*

### Why Issued?

- Step toward Preliminary Views and an Exposure Draft
- To obtain feedback on potential improvements to existing financial reporting model for governmental funds (rather than “clean slate”)
- The need remains for shorter term perspective (fund statements) and long-term (government-wide)
- Some users believe that longer-term items, or non-financial items, should not be presented
- Lack of consistency in recognition of assets and liabilities



## Potential Improvements

Five potential improvements are specifically noted:

- Recognition approaches
- Format of governmental fund statements
- Specific terminology
- Reconciliation to government-wide statements
- Statement of cash flows (for certain approaches)

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## Three Alternative Recognition Approaches

1. Near-term financial resources
2. Short-term financial resources
3. Long-term financial resources

These approaches are being considered to replace the current financial resources/modified accrual approach.

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## Changes that Relate to Each Approach

- Change in statement names
- Two format options being considered for Resource Flows Statement: existing format and NEW ALTERNATIVE “current and long-term activity” format
- Description on each statement explaining difference from government-wide (GW) statements
- Reconciliation directly on each statement to GW

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## Near-Term Approach

- Shortest term of the three approaches, likely most comparable to budgetary basis
- Recognizes financial resources expected to be converted into cash
- Length of time following end of reporting period that would be included would range from 60-90 days (would likely be prescribed by GASB)
- Allows the assessment of unspent resources at year end that are available for spending in next period

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## Near-Term Approach (continued)

- Assets include resources normally due to convert to cash within near term, including:

- Cash and investments
- Accounts receivable due in near-term
- Property taxes receivable due in near-term

Examples that would NOT be recognized:

- Prepaid items
- Inventory
- Long-term receivables
- Capital assets



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## Near-term Approach (continued)

- Liabilities include those that are payable at period-end and that normally are due within the near term, including:

- Accounts payable and accrued payroll
- Accrued interest normally due in near term
- Compensated absences due in near term
- Unpaid balances on long-term debt that matured in period
- Net pension and OPEB liabilities due in near term

Examples that would NOT be recognized:

- Compensated absences not due in near term
- Net pension and OPEB not due in near term
- Long-term debt



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## Near-Term Approach —Balance Sheet

Illustration 3

**ABC Government  
Near-Term Financial Resources Balance Sheet  
Governmental Funds  
June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>NEAR-TERM ASSETS</b>				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	11,713,873	-	1,628,750	13,342,623
Intergovernmental receivables	602	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,857,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Total near-term assets	\$ 15,493,724	\$ 8,847,041	\$ 34,349,618	\$ 58,690,383
<b>NEAR-TERM LIABILITIES AND NEAR-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Near-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,964,848	14,713	65,873	3,045,434
Accrued interest	51,874	22,300	599,827	674,001
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	100,000	-	-	100,000
Total near-term liabilities	4,102,438	757,344	2,284,329	7,144,111
Near-term financial resources fund balances:				
Restricted:				
Assigned for library	685,630	-	-	685,630
Unassigned	10,705,656	-	(145,873)	10,559,783
Total near-term financial resources fund balances	11,391,286	8,089,697	32,065,289	51,546,272
Total near-term liabilities and near-term financial resources fund balances	\$ 15,493,724	\$ 8,847,041	\$ 34,349,618	\$ 58,690,383
<b>RECONCILIATION OF NEAR-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)</b>				
Near-term financial resources fund balance of governmental funds				\$ 51,546,272
Amounts reported for governmental activities in the statement of net position are different due to:				
Capital assets used in governmental activities that are not near-term financial resources				187,089,527
Other long-term assets that are not available to pay for near-term outflows of resources				3,862,427
Tax anticipation notes that are not near-term liabilities				(4,400,000)
Postemployment benefit liabilities that are not due in the near term				(42,743,038)
Other long-term liabilities, including bonds payable, that are not due in the near term				(26,396,274)
Internal service fund balance that is allocated to governmental activities in the statement of net position				(16,368)
Net position of governmental activities				\$ 158,942,106



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## Near-Term Approach —Financial Resource Flows—Existing Format

Illustration 4a

For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,979,895	-	2,698,969	6,678,864
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,478,364	-	-	1,478,364
Intergovernmental	14,598,019	-	6,292,493	20,890,512
Investment earnings	5,829	163,384	19,043	188,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of near-term financial resources	106,260,279	5,977,022	19,360,973	131,598,274
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	13,888,388	6,961,201	2,221,691	23,071,280
Public health and safety	70,081,545	-	590,383	70,671,928
Highway and streets	12,000,830	-	4,715,808	16,716,638
Culture and recreation	3,541,191	335,689	1,808,065	5,684,945
Economic development	496,141	-	3,370,045	3,866,186
Capital outlay	343,187	1,515	1,346,497	1,691,199
Debt service	6,431,656	366,890	9,210,517	16,011,063
Total outflows of near-term financial resources	106,788,938	7,665,265	23,267,006	137,721,209
Excess of inflows over outflows	(528,659)	(1,688,243)	(3,906,033)	(6,122,935)
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lease	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,979)	(6,445)	(2,920,900)	(10,764,324)
Total other financing sources and uses	(2,703,779)	(6,445)	7,885,909	5,175,685
Net change in near-term financial resources fund balances	(2,231,538)	(1,694,688)	3,979,876	(946,350)
Near-term financial resources fund balances at beginning of year	14,622,824	9,784,385	28,085,413	52,492,622
Near-term financial resources fund balances at end of year	\$ 11,391,286	\$ 8,089,697	\$ 32,065,289	\$ 51,546,272
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (946,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,500)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)



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## Near-Term Approach— Financial Resource Flows—Current and Long-Term Activity Format

Illustration 4b

**ACTIVITY FORMAT**

ABC Government  
Statement of Near-Term Financial Resource Flows  
Governmental Funds  
Year Ended June 30, 20XX

This financial statement presents a short-term view of government fund resource flows and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOW OF NEAR-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 28,352,367	\$ 5,139,156	\$ 2,615,047	\$ 36,106,570
Sales tax	45,024,289	-	4,430,774	49,455,063
Use tax	3,586,733	-	-	3,586,733
Miscellaneous	-	-	2,889,647	2,889,647
Other taxes	3,971,895	-	2,698,909	6,670,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,363,889	-	-	1,363,889
Fees for services	7,022,692	-	202,273	7,224,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,676,264	-	-	1,676,264
Intergovernmental	14,393,939	-	6,292,493	20,686,432
Investment earnings	3,829	163,384	19,043	187,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	42,565,000	154,482	626,287	43,345,769
Transfers in	500,000	-	155,294	655,294
Total inflows of near-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	13,888,388	6,561,201	2,221,691	22,671,280
Public health and safety	79,081,245	-	295,263	79,376,508
Highway and streets	12,803,830	-	4,711,808	17,515,638
Culture and recreation	3,541,191	333,659	1,808,965	5,683,815
Economic development	496,141	-	3,716,145	4,212,286
Transfers out	115,204	-	500,000	615,204
Total outflows of near-term financial resources for current activities	101,163,299	7,296,860	13,208,992	121,679,151
Net flows of near-term financial resources for current activities	6,596,980	(1,319,838)	6,307,185	11,584,327
<b>NET FLOWS OF NEAR-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Leases—financing	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	-	-	18,611,605	18,611,605
Capital outlay	(245,187)	(1,511)	(1,246,477)	(1,493,175)
Debt service	(2,438,656)	(366,899)	(9,183,517)	(12,089,072)
Payment on tax anticipation notes	(4,000,000)	-	-	(4,000,000)
Transfers out	(7,680,875)	(6,445)	(2,430,900)	(10,118,220)
Net flows of near-term financial resources for long-term activities	(9,832,518)	(774,855)	(1,236,309)	(11,843,682)
Net change in near-term financial resources fund balances	(3,235,538)	(1,094,688)	3,070,876	(1,259,350)
Non-current financial resources fund balances at beginning of year	12,273,912	5,794,761	79,251,411	97,320,084
Near-term financial resources fund balances at end of year	\$ 9,038,374	\$ 4,699,073	\$ 82,322,287	\$ 96,059,734
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (1,259,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,590)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Differences between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Net change in tax anticipation notes reported as near-term resource inflows above				(490,000)

## Near-Term Approach: Benefits and Challenges

- Potential benefits:
  - Would report amounts available for spending
  - Removes effects of some longer term transactions such as inventory and long-term receivables
  - Cash flow statement may not necessary since close to cash measurement focus
- Potential challenges:
  - Principal payment on debt only shown as liability on date due (even if one day after year end), however related accrued interest recorded
  - Deliberate action or inaction by management can affect reported results from period to period

## Short-Term (Working Capital) Approach

- Focuses on one-year fiscal period (operating cycle)
- Recognizes financial resources for the period and period-end balances related to short-term (defined as one year) financial assets and liabilities
- Allows the assessment of ability to meet obligations of subsequent operating cycle and available resources beyond that cycle

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## Short-Term Approach (continued)

- Assets include resources normally due to convert to cash or be consumed within next operating cycle, including:
  - Cash and investments
  - Accounts receivable due within next operating cycle
  - Property taxes receivable due within next operating cycle
  - Prepaid items
  - Inventory
- Examples that would NOT be recognized:
  - Long-term receivables
  - Capital assets

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## Short-term Approach (continued)

- Liabilities include those that are payable at period-end and that normally are due within the subsequent operating cycle, including:
  - Accounts payable and accrued payroll
  - Accrued interest normally due in next operating cycle
  - Compensated absences due in next operating cycle
  - Principal amounts of long-term debt due in operating cycle
  - Net pension and OPEB liabilities due in operating cycle (if a trust exists, liability is ARC over contributions)

Examples that would NOT be recognized:

- Compensated absences not due in operating cycle
- Net pension and OPEB not due in operating cycle
- Long-term debt not due in operating cycle



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## Short-Term Approach — Balance Sheet

Illustration 5

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature. For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>SHORT-TERM ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Short-term assets:				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,663	5,176,000	3,781,774	42,297,377
Intragovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,839	-	1,457,817	3,514,676
Interfund receivables	630,566	-	607,809	1,238,375
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	25,000	25,000
Notes receivable	-	450,000	125,000	575,000
Total short-term assets	37,143,064	14,473,041	36,666,442	88,282,547
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivative	155,631	-	-	155,631
Total deferred outflows of resources	155,631	-	-	155,631
Total short-term assets and deferred outflows of resources	\$ 37,298,695	\$ 14,473,041	\$ 36,666,442	\$ 88,438,178
<b>SHORT-TERM LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND SHORT-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Short-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,644	-	926	3,570
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Compensated absences payable	204,566	-	-	204,566
Accrued interest payable	492,665	29,733	746,436	1,268,834
Interfund payable	31,606	227,099	15,195	293,900
Claims payable	1,950,000	-	-	1,950,000
Derivative instrument—interest rate swap	155,631	-	-	155,631
Tax anticipation note payable	4,400,000	-	-	4,400,000
Leases payable	98,869	42,503	1,067,012	1,208,384
Bonds payable	357,627	153,655	3,807,296	4,318,578
Other postemployment benefits	2,416,452	-	-	2,416,452
Pension benefits	1,116,153	-	-	1,116,153
Total short-term liabilities	15,718,827	960,055	7,995,346	24,674,228
Deferred inflows of resources:				
Taxes receivable levied for the next year	21,625,770	5,176,000	2,153,024	28,954,794
Total deferred inflows of resources	21,625,770	5,176,000	2,153,024	28,954,794
Short-term financial resources fund balances:				
Nonspendable	-	-	13,800	13,800
Restricted	-	8,336,196	26,075,182	34,411,388
Assigned	685,630	-	-	685,630
Unassigned	(771,602)	-	1,025,170	253,568
Total short-term financial resources fund balances	(85,972)	8,336,196	27,114,152	35,468,376
Total short-term liabilities, deferred inflows of resources, and short-term financial resources fund balances	\$ 37,298,695	\$ 14,473,041	\$ 36,666,442	\$ 88,438,178

**RECONCILIATION OF SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)**

Short-term financial resources fund balance of governmental funds \$ 35,468,376

Amounts reported for governmental activities in the statement of net position are different due to:

Capital assets used in governmental activities that are not short-term financial resources 187,089,527



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## Short-Term Approach — Financial Resource Flows— Existing Format

Illustration 6a

**Governmental Funds**  
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Transfers				
Property tax	\$ 20,322,167	\$ 5,139,156	\$ 2,015,047	\$ 27,476,370
Sales tax	45,054,789	-	4,430,774	49,485,563
Use tax	5,386,753	-	-	5,386,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,051,003	-	202,273	7,253,276
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,564	-	-	1,476,564
Intergovernmental	14,959,019	-	6,292,493	21,251,512
Investment earnings	5,829	163,384	19,043	189,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Miscellaneous	4,216,940	154,482	626,287	4,997,709
<b>Total inflows of short-term financial resources</b>	<b>106,760,279</b>	<b>5,927,022</b>	<b>19,324,473</b>	<b>131,511,774</b>
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,225,997	-	590,383	71,816,380
Highway and streets	12,179,683	-	4,715,308	16,894,991
Culture and recreation	3,393,966	335,659	1,808,065	5,537,690
Economic development	496,141	-	3,714,045	4,210,186
Interest	195,503	84,224	2,114,991	2,394,718
Capital outlay	345,187	1,515	1,346,497	1,692,199
<b>Total outflows of short-term financial resources</b>	<b>102,546,564</b>	<b>7,386,599</b>	<b>15,033,538</b>	<b>125,535,051</b>
Excess (deficiency) of inflows over outflows	4,213,715	(1,459,577)	3,909,965	6,154,223
<b>OTHER FLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Leases—lease	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Outflows related to current portion of long-term debt	(456,296)	(196,158)	(4,024,408)	(5,376,862)
Transfers out	(7,856,679)	(6,445)	(2,420,900)	(10,783,624)
<b>Total other noncurrent inflows (and outflows)</b>	<b>(7,589,775)</b>	<b>(6,603)</b>	<b>7,361,501</b>	<b>(8,884,277)</b>
<b>Net change in short-term financial resources fund balances</b>	<b>(3,399,840)</b>	<b>(1,698,180)</b>	<b>6,352,466</b>	<b>1,354,446</b>
Short-term financial resources fund balances at beginning of year	3,203,868	5,994,286	20,765,456	34,963,700
<b>Short-term financial resources fund balances at end of year</b>	<b>\$ (15,972)</b>	<b>\$ 8,306,106</b>	<b>\$ 27,117,922</b>	<b>\$ 35,408,206</b>
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (see Note 3)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(2,481,262)
Difference between depreciation in the statement of activities and capital outlay outflows above				(1,030,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
<b>Change in net position of governmental activities</b>				<b>\$ (77,554)</b>



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## Short-Term Approach — Financial Resource Flows— Current and Long-Term Activity Format

Illustration 6b

**Statement of Short-Term Financial Resource Flows**  
Governmental Funds  
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Transfers				
Property tax	\$ 20,322,167	\$ 5,139,156	\$ 2,015,047	\$ 27,476,370
Sales tax	45,054,789	-	4,430,774	49,485,563
Use tax	5,386,753	-	-	5,386,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,051,003	-	202,273	7,253,276
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,564	-	-	1,476,564
Intergovernmental	14,959,019	-	6,292,493	21,251,512
Investment earnings	5,829	163,384	19,043	189,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Miscellaneous	4,216,940	154,482	626,287	4,997,709
<b>Total inflows of short-term financial resources for current activities</b>	<b>106,760,279</b>	<b>5,927,022</b>	<b>19,479,677</b>	<b>132,166,978</b>
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,225,997	-	590,383	71,816,380
Highway and streets	12,179,683	-	4,715,308	16,894,991
Culture and recreation	3,393,966	335,659	1,808,065	5,537,690
Economic development	496,141	-	3,714,045	4,210,186
Interest	195,503	84,224	2,114,991	2,394,718
Capital outlay	345,187	1,515	1,346,497	1,692,199
<b>Total outflows of short-term financial resources for current activities</b>	<b>102,546,564</b>	<b>7,386,599</b>	<b>15,033,538</b>	<b>125,535,051</b>
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>	<b>(3,399,840)</b>	<b>(1,698,180)</b>	<b>6,352,466</b>	<b>1,354,446</b>
Short-term financial resources fund balances at beginning of year	3,203,868	5,994,286	20,765,456	34,963,700
<b>Short-term financial resources fund balances at end of year</b>	<b>\$ (15,972)</b>	<b>\$ 8,306,106</b>	<b>\$ 27,117,922</b>	<b>\$ 35,408,206</b>
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (see Note 3)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(2,481,262)
Difference between depreciation in the statement of activities and capital outlay outflows above				(1,030,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
<b>Change in net position of governmental activities</b>				<b>\$ (77,554)</b>



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## Short-Term Approach: Benefits and Challenges

- Potential benefits:
  - Instead of “rule” based standard, “conceptual” based, will make more consistent between govts
  - Based on operating cycle (one year) vs “available”
  - Aid users in evaluating short-term financial health
  - Allows for less changing of results by actions at year end
- Potential challenges:
  - Unaccustomed to longer term items on fund statement
  - May be additional efforts and costs in preparing and auditing because estimations and assumptions required
  - Some differences in balances/presentation on fund statements vs govt-wide could cause confusion
  - Cash flow statement would be presented

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## Long-Term (Total Financial Resources) Approach

- Recognizes the effects of financial resources on transactions when they take place, regardless of when cash is received or paid
- The shorter-time perspective would be captured by presenting a classified balance sheet, current vs noncurrent
- Reports all assets and liabilities except for capital assets and capital-related debt

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## Long-Term Approach (continued)

- Assets include:
  - Cash and investments
  - Accounts receivable
  - Property taxes receivable
  - Long-term receivables
  - Prepaid items
  - Inventory

Examples that would NOT be recognized:

- Capital assets



## Long-term Approach (continued)

- Liabilities recognized include:
  - Accounts payable and accrued payroll
  - Accrued interest
  - Compensated absences
  - Principal amounts of long-term *operating* debt and tax anticipation notes
  - Net pension and OPEB liabilities (GASB 68, 73, and 75)

Examples that would NOT be recognized:

- Principal amount of long-term *capital related* debt



## Long-Term Approach — Balance Sheet

Illustration 7

June 30, 20XX  
This financial statement presents governmental fund activities resulting from financial resources and excludes nonfinancial resources such as capital assets and long-term debt related to capital assets.  
For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 852,272	\$ 8,846,434	\$ 30,571,406	\$ 40,270,112
Taxes receivable	33,319,853	3,710,000	3,294,274	40,324,127
Intergovernmental receivables	662	607	83,356	84,565
Grant receivable	250,802	-	-	250,802
Other receivables	2,058,899	-	1,437,817	3,496,716
Interfund receivables	609,066	-	607,309	1,216,375
Prepaid items	-	-	13,800	13,800
Inventory	23,500	-	25,000	48,500
Special assessments receivable	-	-	-	-
Notes receivable	-	450,000	125,000	575,000
Total current assets	37,442,024	14,473,041	36,666,442	88,581,507
Noncurrent assets:				
Special assessments receivable	-	-	37,351	37,351
Notes receivable	-	2,934,420	393,356	3,327,776
Total noncurrent assets	-	2,934,420	430,707	3,365,123
Total long-term assets	37,442,024	17,407,461	37,097,149	91,946,634
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions	41,317	-	-	41,317
Other postemployment benefits	2,129,536	-	-	2,129,536
Total deferred outflows of resources	2,170,853	-	-	2,170,853
Total long-term assets and deferred outflows of resources	\$ 39,612,877	\$ 17,407,461	\$ 37,097,149	\$ 94,117,487
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 920,646	\$ 493,212	\$ 1,642,560	\$ 3,056,418
Other payables	2,444	-	908	3,352
Accrued payroll	2,966,848	14,733	63,821	3,045,402
Compensated absences payable	294,566	-	-	294,566
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,889	15,119	294,614
Claims payable	1,790,000	-	-	1,790,000
Tax anticipation note payable	4,400,000	-	-	4,400,000
Other postemployment benefits	3,416,452	-	-	3,416,452
Total current liabilities	13,960,747	364,737	2,450,936	16,776,420
Noncurrent liabilities:				
Compensated absences payable	4,765,503	-	-	4,765,503
Claims payable	600,000	-	-	600,000
Pension benefits	826,333	-	-	826,333
Other postemployment benefits	39,368,585	-	-	39,368,585
Total noncurrent liabilities	45,560,421	-	-	45,560,421
Total long-term liabilities	59,521,170	364,737	2,450,936	62,336,843
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes receivable levied for the next year	21,625,730	5,736,000	2,153,024	29,514,754
Pensions	24,790	-	-	24,790
Other postemployment benefits	1,277,721	-	-	1,277,721
Total deferred inflows of resources	23,928,241	5,736,000	2,153,024	31,817,265
<b>LONG-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Unassigned	-	-	13,800	13,800
Restricted	-	8,111,907	32,770,989	40,882,896
Assigned	68,630	-	-	68,630
Unassigned	(43,851,234)	3,394,687	(691,602)	(41,148,149)
Long-term financial resources fund balances	(43,165,604)	11,506,684	32,209,387	6,550,467
Long-term financial resources fund balances at beginning of year, and long-term financial resources fund balances	\$ 39,612,877	\$ 17,407,461	\$ 37,097,149	\$ 94,117,487
<b>RECONCILIATION OF LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)</b>				
Long-term financial resources fund balances at beginning of year, and long-term financial resources fund balances	\$ 39,612,877	\$ 17,407,461	\$ 37,097,149	\$ 94,117,487



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## Long-Term Approach — Financial Resource Flows—Existing Format

Illustration 8a

Year Ended June 30, 20XX  
This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 30,372,367	\$ 5,150,156	\$ 7,014,047	\$ 42,536,570
Sales tax	45,034,289	-	4,430,774	49,465,063
Use tax	3,386,753	-	-	3,386,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,509	6,674,404
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,652,692	-	202,273	7,854,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,564	-	-	1,476,564
Intergovernmental	14,795,019	-	6,292,401	21,087,420
Investment earnings	3,829	163,344	19,043	187,256
Miscellaneous	4,216,940	154,482	636,287	4,999,709
Total inflows of long-term financial resources	106,260,279	5,477,022	19,174,473	130,911,774
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,562,624	6,961,201	2,211,691	23,735,516
Public health and safety	73,346,886	-	590,383	73,937,269
Highway and streets	12,156,673	-	4,715,808	16,872,481
Culture and recreation	4,109,503	335,659	1,808,065	6,253,227
Economic development	496,141	-	3,374,045	3,870,186
Debt service principal on capital-related debt	2,278,624	282,188	7,084,114	9,644,926
Interest	195,000	84,224	2,114,391	2,393,615
Capital outlay	345,187	1,515	1,346,497	1,692,199
Total outflows of long-term financial resources	107,811,518	7,664,787	23,546,094	139,022,399
Excess (deficiency) of inflows over outflows	(1,191,239)	(2,187,765)	(4,072,521)	(7,451,565)
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lease	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources and uses	(7,102,879)	(6,445)	7,885,909	676,585
Net change in long-term financial resources fund balances	(8,294,158)	(2,194,210)	3,813,388	(6,674,980)
Long-term financial resources fund balances at beginning of year	(43,165,604)	\$ 11,506,684	\$ 32,209,387	\$ 6,550,467
Long-term financial resources fund balances at end of year	\$ (43,165,604)	\$ 11,506,684	\$ 32,209,387	\$ 6,550,467
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in long-term financial resources fund balance of governmental funds				\$ (6,674,980)
Amounts reported for governmental activities in the statement of activities are different due to:				
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,729)
Payments on capital debt above are not expenses in the statement of activities				9,604,506
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,528)



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**Long-Term Approach—  
Financial Resource  
Flows—  
Current and  
Long-Term  
Activity Format**

Illustration 8b

**ABC Government**  
**Statement of Long-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes				
Property tax	\$ 20,322,167	\$ 5,139,156	\$ 2,015,047	\$ 27,476,370
Sales tax	4,024,789	-	4,430,714	8,455,503
Use tax	3,586,753	-	-	3,586,753
Miscellaneous	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,509	6,674,404
Payments in lieu of taxes	2,221,628	-	-	2,221,628
License and permits	1,301,889	-	-	1,301,889
Fees for services	7,802,692	-	202,273	8,004,965
Franchise fees	1,968,473	-	-	1,968,473
Fines and forfeitures	1,476,564	-	-	1,476,564
Intergovernmental	14,591,619	-	6,292,493	20,884,112
Investment earnings	5,829	163,384	19,543	189,756
Miscellaneous	423,540	154,482	626,287	1,194,309
Transfers in	900,000	-	155,204	1,055,204
Total inflows of long-term financial resources for current activities	106,140,279	5,877,022	19,329,277	131,346,578
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,562,624	6,961,261	2,213,691	23,737,516
Public health and safety	73,364,886	-	790,383	74,155,269
Highway and streets	12,156,673	-	4,718,608	16,875,281
Culture and recreation	4,039,503	333,639	1,880,065	6,253,207
Economic development	496,141	-	3,714,045	4,210,186
Transfers out	195,204	-	900,000	1,095,204
Interest	195,520	84,234	2,116,791	2,396,545
Total outflows of long-term financial resources for current activities	101,907,951	7,385,184	15,133,583	124,426,718
Net flows of long-term financial resources for current activities	4,232,328	(1,508,162)	4,195,694	6,919,860
<b>NET FLOWS OF LONG-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Transfers in	-	-	10,651,605	10,651,605
Loans—issued	233,200	-	-	233,200
Capital outlay	(242,187)	(1,515)	(1,346,497)	(1,589,199)
Debt service	(2,238,624)	(282,186)	(7,884,114)	(10,404,924)
Transfers out	(7,689,873)	(6,443)	(2,430,905)	(10,127,221)
Net flows of long-term financial resources for long-term activities	(10,037,484)	(290,149)	(1,009,901)	(11,337,534)
Net change in long-term financial resources fund balances	(5,805,156)	(2,796,324)	3,813,388	(4,788,092)
Long-term financial resources fund balances at beginning of year	(14,871,486)	(13,709,894)	28,479,799	1,398,417
Long-term financial resources fund balances at end of year	\$ (20,676,642)	\$ (16,506,218)	\$ 32,293,187	\$ (4,889,673)
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (see page 31)</b>				
Net change in long-term financial resources fund balances of governmental funds				\$ (4,788,092)
Amounts reported for governmental activities in the statement of activities are different due to:				
Differences between depreciation in the statement of activities and capital outlay outflows above				(3,026,773)
Payments on capital debt above are not expenses in the statement of activities				9,604,226
Interest service fund activities that are allocated to governmental activities in the statement of activities				18,775
Change in net position of governmental activities				\$ (77,554)

## Long-Term Approach: Benefits and Challenges

- Potential benefits:
  - Conceptually based rather than rules based
  - Provides information related to non-capital liabilities to be liquidated from governmental funds
  - Allows for less changing of results by actions at year end
  - Few differences from govt-wide statements
- Potential challenges:
  - No longer present a shorter term perspective
  - Conceptual inconsistency by treating capital assets and capital related debt differently
  - Cash flow statement would be presented

## Provide Input.....Have a Say

- Invitation to Comment issued is just that...inviting our feedback
- Only a 64 page document with 39 pages being Appendices
- Which alternatives provide most valuable information to you and your users?
- What are the benefits and costs of the improvements?
- Provide feedback by answering 11 specific questions



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## On the Horizon....

- Other financial reporting model topics for future due process documents:
  - MDA
  - Government-wide statement of activities
  - Debt service fund presentations
  - Permanent funds
  - Proprietary funds
  - Budgetary comparisons

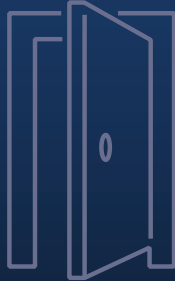
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Hope Wheeler, CPA  
Principal, State and Local Government  
Hope.Wheeler@claconnect.com  
217.373.3139

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### Illustration 3: Near-Term Financial Resources Balance Sheet

**ABC Government**  
**Near-Term Financial Resources Balance Sheet**  
**Governmental Funds**  
**June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>NEAR-TERM ASSETS</b>				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	11,713,873	-	1,628,750	13,342,623
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Total near-term assets	<u>\$ 15,493,724</u>	<u>\$ 8,847,041</u>	<u>\$ 34,349,618</u>	<u>\$ 58,690,383</u>
<b>NEAR-TERM LIABILITIES AND NEAR-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Near-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Accrued interest	51,874	22,300	559,827	634,001
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	100,000	-	-	100,000
Total near-term liabilities	<u>4,102,438</u>	<u>757,344</u>	<u>2,284,329</u>	<u>7,144,111</u>
Near-term financial resources fund balances:				
Restricted	-	8,089,697	32,211,162	40,300,859
Assigned for library	685,630	-	-	685,630
Unassigned	10,705,656	-	(145,873)	10,559,783
Total near-term financial resources fund balances	<u>11,391,286</u>	<u>8,089,697</u>	<u>32,065,289</u>	<u>51,546,272</u>
Total near-term liabilities and near-term financial resources fund balances	<u>\$ 15,493,724</u>	<u>\$ 8,847,041</u>	<u>\$ 34,349,618</u>	<u>\$ 58,690,383</u>
<b>RECONCILIATION OF NEAR-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)</b>				
Near-term financial resources fund balance of governmental funds				\$ 51,546,272
Amounts reported for governmental activities in the statement of net position are different due to:				
Capital assets used in governmental activities that are not near-term financial resources				187,089,527
Other long-term assets that are not available to pay for near-term outflows of resources				3,862,427
Tax anticipation notes that are not near-term liabilities				(4,400,000)
Postemployment benefit liabilities that are not due in the near term				(42,743,028)
Other long-term liabilities, including bonds payable, that are not due in the near term				(36,396,724)
Internal service fund balance that is allocated to governmental activities in the statement of net position				(16,368)
Net position of governmental activities				<u>\$ 158,942,106</u>

## Illustration 4A: Statement of Near-Term Financial Resource Flows—Existing Format

ABC Government  
Statement of Near-Term Financial Resource Flows  
Governmental Funds  
Year Ended June 30, 20XX

This financial statement presents a short-term view of governmental fund resource flows and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of near-term financial resources	106,260,279	5,977,022	19,360,973	131,598,274
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	13,888,388	6,961,201	2,221,691	23,071,280
Public health and safety	70,081,545	-	590,383	70,671,928
Highway and streets	12,000,830	-	4,715,808	16,716,638
Culture and recreation	3,541,191	335,659	1,808,065	5,684,915
Economic development	496,141	-	3,374,045	3,870,186
Capital outlay	345,187	1,515	1,346,497	1,693,199
Debt service	6,435,656	366,890	9,210,517	16,013,063
Total outflows of near-term financial resources	106,788,938	7,665,265	23,267,006	137,721,209
Excess of inflows over outflows	(528,659)	(1,688,243)	(3,906,033)	(6,122,935)
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lessee	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources and uses	(2,702,879)	(6,445)	7,885,909	5,176,585
Net change in near-term financial resources fund balances	(3,231,538)	(1,694,688)	3,979,876	(946,350)
Near-term financial resources fund balances at beginning of year	14,622,824	9,784,385	28,085,413	52,492,622
Near-term financial resources fund balances at end of year	\$ 11,391,286	\$ 8,089,697	\$ 32,065,289	\$ 51,546,272
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (946,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,500)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Net change in tax anticipation notes reported as near-term resource inflows above				(400,000)
Principal paid on long-term debt and related items reported as near-term resource outflows above				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 4B: Statement of Near-Term Financial Resource Flows—Current and Long-Term Activity Format

### ABC Government Statement of Near-Term Financial Resource Flows Governmental Funds Year Ended June 30, 20XX

This financial statement presents a short-term view of government fund resource flows and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
<b>FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Transfers in	500,000	-	155,204	655,204
Total inflows of near-term financial resources for current activities	<u>106,760,279</u>	<u>5,977,022</u>	<u>19,516,177</u>	<u>132,253,478</u>
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
<b>FOR CURRENT ACTIVITIES</b>				
General government	13,888,388	6,961,201	2,221,691	23,071,280
Public health and safety	70,081,545	-	590,383	70,671,928
Highway and streets	12,000,830	-	4,715,808	16,716,638
Culture and recreation	3,541,191	335,659	1,808,065	5,684,915
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of near-term financial resources for current activities	<u>100,163,299</u>	<u>7,296,860</u>	<u>13,209,992</u>	<u>120,670,151</u>
Net flows of near-term financial resources for current activities	<u>6,596,980</u>	<u>(1,319,838)</u>	<u>6,306,185</u>	<u>11,583,327</u>
<b>NET FLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
<b>FOR LONG-TERM ACTIVITIES</b>				
Leases—lessee	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	-	-	10,651,605	10,651,605
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Debt service	(2,435,656)	(366,890)	(9,210,517)	(12,013,063)
Payment on tax anticipation notes	(4,000,000)	-	-	(4,000,000)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of near-term financial resources for long-term activities	<u>(9,828,518)</u>	<u>(374,850)</u>	<u>(2,326,309)</u>	<u>(12,529,677)</u>
Net change in near-term financial resources fund balances	<u>(3,231,538)</u>	<u>(1,694,688)</u>	<u>3,979,876</u>	<u>(946,350)</u>
Near-term financial resources fund balances at beginning of year	14,622,824	9,784,385	28,085,413	52,492,622
Near-term financial resources fund balances at end of year	<u>\$ 11,391,286</u>	<u>\$ 8,089,697</u>	<u>\$ 32,065,289</u>	<u>\$ 51,546,272</u>
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (946,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,500)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Net change in tax anticipation notes reported as near-term resource inflows above				(400,000)
Principal paid on long-term debt and related items reported as near-term resource outflows above				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				<u>\$ (77,554)</u>

## Illustration 5: Short-Term Financial Resources Balance Sheet

### ABC Government Short-Term Financial Resources Balance Sheet Governmental Funds June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>SHORT-TERM ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Short-term assets:				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	25,000	25,000
Notes receivable	-	450,000	125,000	575,000
Total short-term assets	<u>37,142,954</u>	<u>14,473,041</u>	<u>36,666,442</u>	<u>88,282,437</u>
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivative	155,631	-	-	155,631
Total deferred outflows of resources	<u>155,631</u>	<u>-</u>	<u>-</u>	<u>155,631</u>
Total short-term assets and deferred outflows of resources	<u>\$ 37,298,585</u>	<u>\$ 14,473,041</u>	<u>\$ 36,666,442</u>	<u>\$ 88,438,068</u>
<b>SHORT-TERM LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND SHORT-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Short-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Compensated absences payable	204,566	-	-	204,566
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	1,950,000	-	-	1,950,000
Derivative instrument-interest rate swap	155,631	-	-	155,631
Tax anticipation note payable	4,400,000	-	-	4,400,000
Leases payable	98,869	42,503	1,067,012	1,208,384
Bonds payable	357,427	153,655	3,857,396	4,368,478
Other postemployment benefits	3,416,452	-	-	3,416,452
Pension benefits	1,116,153	-	-	1,116,153
Total short-term liabilities	<u>15,718,827</u>	<u>960,935</u>	<u>7,395,346</u>	<u>24,075,108</u>
Deferred inflows of resources:				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Total deferred inflows of resources	<u>21,625,730</u>	<u>5,176,000</u>	<u>2,153,024</u>	<u>28,954,754</u>
Short-term financial resources fund balances:				
Nonspendable	-	-	13,800	13,800
Restricted	-	8,336,106	26,075,102	34,411,208
Assigned	685,630	-	-	685,630
Unassigned	(731,602)	-	1,029,170	297,568
Total short-term financial resources fund balances	<u>(45,972)</u>	<u>8,336,106</u>	<u>27,118,072</u>	<u>35,408,206</u>
Total short-term liabilities, deferred inflows of resources, and short-term financial resources fund balances	<u>\$ 37,298,585</u>	<u>\$ 14,473,041</u>	<u>\$ 36,666,442</u>	<u>\$ 88,438,068</u>

### RECONCILIATION OF SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)

Short-term financial resources fund balance of governmental funds	\$ 35,408,206
Amounts reported for governmental activities in the statement of net position are different due to:	
Capital assets used in governmental activities that are not short-term financial resources	187,089,527
Other long-term assets that are not available to pay for short-term outflows of resources	3,225,127
Postemployment benefit liabilities that are not due in the subsequent operating cycle	(38,210,423)
Other long-term liabilities, including bonds payable, that are not due in the subsequent operating cycle	(28,553,963)
Internal service fund balance that is allocated to governmental activities in the statement of net position	(16,368)
Net position of governmental activities	<u>\$ 158,942,106</u>

## Illustration 6A: Statement of Short-Term Financial Resource Flows—Existing Format

ABC Government  
Statement of Short-Term Financial Resource Flows  
Governmental Funds  
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of short-term financial resources	106,260,279	5,927,022	19,324,473	131,511,774
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,125,997	-	590,383	71,716,380
Highway and streets	12,179,683	-	4,715,808	16,895,491
Culture and recreation	3,593,966	335,659	1,808,065	5,737,690
Economic development	496,141	-	3,374,045	3,870,186
Interest	195,920	84,224	2,114,391	2,394,535
Capital outlay	345,187	1,515	1,346,497	1,693,199
Total outflows of short-term financial resources	102,040,944	7,382,599	15,933,508	125,357,051
Excess (deficiency) of inflows over outflows	4,219,335	(1,455,577)	3,390,965	6,154,723
<b>OTHER FLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Outflows related to current portion of long-term debt	(456,296)	(196,158)	(4,924,408)	(5,576,862)
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other noncurrent inflows (and outflows)	(7,559,175)	(202,603)	2,961,501	(4,800,277)
Net change in short-term financial resources fund balances	(3,339,840)	(1,658,180)	6,352,466	1,354,446
Short-term financial resources fund balances at beginning of year	3,293,868	9,994,286	20,765,606	34,053,760
Short-term financial resources fund balances at end of year	\$ (45,972)	\$ 8,336,106	\$ 27,118,072	\$ 35,408,206
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(3,401,362)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)



## Illustration 6B: Statement of Short-Term Financial Resource Flows—Current and Long-Term Activity Format

### ABC Government Statement of Short-Term Financial Resource Flows Governmental Funds Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of short-term financial resources for current activities	106,760,279	5,927,022	19,479,677	132,166,978
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,125,997	-	590,383	71,716,380
Highway and streets	12,179,683	-	4,715,808	16,895,491
Culture and recreation	3,593,966	335,659	1,808,065	5,737,690
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,655,041	7,296,860	12,972,620	121,924,521
Net flows of short-term financial resources for current activities	5,105,238	(1,369,838)	6,507,057	10,242,457
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	-	-	10,651,605	10,651,605
Outflows related to current portion of long-term debt	(456,296)	(196,158)	(4,924,408)	(5,576,862)
Interest	(195,920)	(84,224)	(2,114,391)	(2,394,535)
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of short term financial resources for long term activities	(8,445,078)	(288,342)	(154,591)	(8,888,011)
Net change in short-term financial resources fund balances	(3,339,840)	(1,658,180)	6,352,466	1,354,446
Short-term financial resources fund balances at beginning of year	3,293,868	9,994,286	20,765,606	34,053,760
Short-term financial resources fund balances at end of year	\$ (45,972)	\$ 8,336,106	\$ 27,118,072	\$ 35,408,206
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(3,401,362)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 7: Long-Term Financial Resources Balance Sheet

### ABC Government Long-Term Financial Resources Balance Sheet Governmental Funds June 30, 20XX

This financial statement presents governmental fund activities resulting from financial resources and excludes nonfinancial resources such as capital assets and long-term debt related to capital assets. For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	25,000	25,000
Notes receivable	-	450,000	125,000	575,000
Total current assets	37,142,954	14,473,041	36,666,442	88,282,437
Noncurrent assets:				
Special assessments receivable	-	-	57,351	57,351
Notes receivable	-	2,974,420	193,356	3,167,776
Total noncurrent assets	-	2,974,420	250,707	3,225,127
Total long-term assets	37,142,954	17,447,461	36,917,149	91,507,564
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions	41,317	-	-	41,317
Other postemployment benefits	2,129,536	-	-	2,129,536
Total deferred outflows of resources	2,170,853	-	-	2,170,853
Total long-term assets and deferred outflows of resources	\$ 39,313,807	\$ 17,447,461	\$ 36,917,149	\$ 93,678,417
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Compensated absences payable	204,566	-	-	204,566
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	1,950,000	-	-	1,950,000
Tax anticipation note payable	4,400,000	-	-	4,400,000
Other postemployment benefits	3,416,452	-	-	3,416,452
Total current liabilities	13,990,747	764,777	2,470,938	17,226,462
Noncurrent liabilities:				
Compensated absences payable	4,765,505	-	-	4,765,505
Claims payable	600,000	-	-	600,000
Pension benefits	826,333	-	-	826,333
Other postemployment benefits	39,368,585	-	-	39,368,585
Total noncurrent liabilities	45,560,423	-	-	45,560,423
Total long-term liabilities	59,551,170	764,777	2,470,938	62,786,885
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Pensions	24,790	-	-	24,790
Other postemployment benefits	1,277,721	-	-	1,277,721
Total deferred inflows of resources	22,928,241	5,176,000	2,153,024	30,257,265
<b>LONG-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Nonspendable	-	-	13,800	13,800
Restricted	-	8,111,997	32,770,989	40,882,986
Assigned	685,630	-	-	685,630
Unassigned	(43,851,234)	3,394,687	(491,602)	(40,948,149)
Long-term financial resources fund balances	(43,165,604)	11,506,684	32,293,187	634,267
Long-term financial resources liabilities, deferred inflows of resources, and long-term financial resources fund balances	\$ 39,313,807	\$ 17,447,461	\$ 36,917,149	\$ 93,678,417
<b>RECONCILIATION OF LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)</b>				
Long-term financial resources fund balance of governmental funds				\$ 634,267
Amounts reported for governmental activities in the statement of net position are different due to:				
Capital assets used in governmental activities that are not long-term financial resources				187,089,527
Other long-term liabilities, including bonds payable, that are capital-related				(28,765,320)
Internal service fund balance that are allocated to governmental activities in the statement of net position				(16,368)
Net position of governmental activities				\$ 158,942,106

## Illustration 8A: Statement of Long-Term Financial Resource Flows—Existing Format

**ABC Government**  
**Statement of Long-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

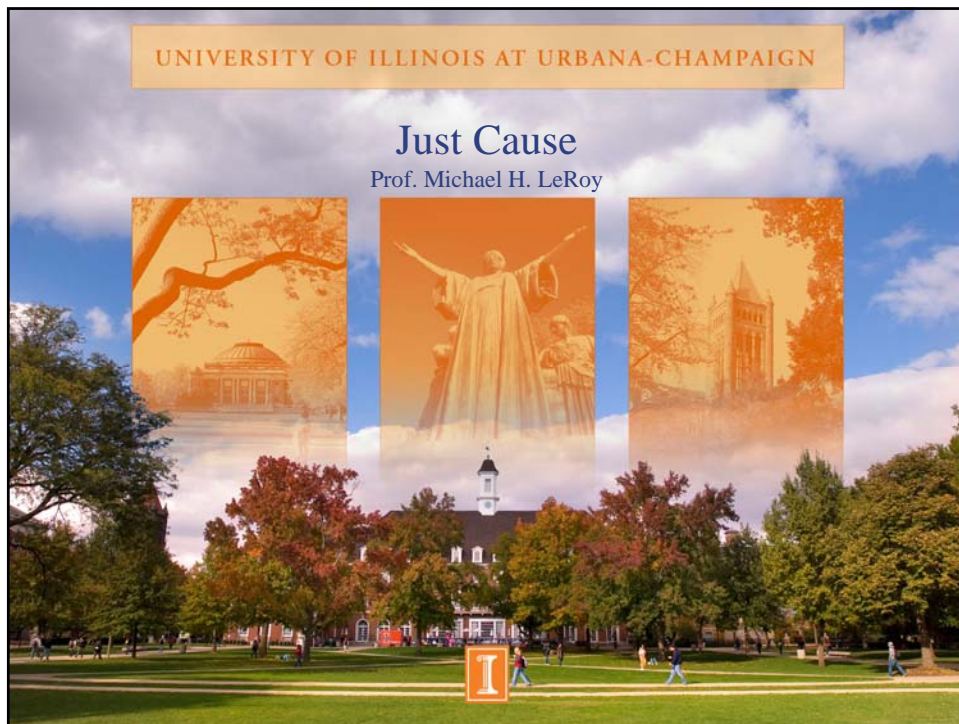
	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of long-term financial resources	106,260,279	5,477,022	19,174,473	130,911,774
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,562,624	6,961,201	2,213,691	23,737,516
Public health and safety	73,346,886	-	590,383	73,937,269
Highway and streets	12,156,673	-	4,715,808	16,872,481
Culture and recreation	4,109,503	335,659	1,808,065	6,253,227
Economic development	496,141	-	3,374,045	3,870,186
Debt service—principal on capital-related debt	2,238,624	282,188	7,084,114	9,604,926
Interest	195,920	84,224	2,114,391	2,394,535
Capital outlay	345,187	1,515	1,346,497	1,693,199
Total outflows of long-term financial resources	107,451,558	7,664,787	23,246,994	138,363,339
Excess (deficiency) of inflows over outflows	(1,191,279)	(2,187,765)	(4,072,521)	(7,451,565)
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources and uses	(7,102,879)	(6,445)	7,885,909	776,585
Net change in long-term financial resources fund balances	(8,294,158)	(2,194,210)	3,813,388	(6,674,980)
Long-term financial resources fund balances at beginning of year	(34,871,446)	13,700,894	28,479,799	7,309,247
Long-term financial resources fund balances at end of year	\$ (43,165,604)	\$ 11,506,684	\$ 32,293,187	\$ 634,267
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in long-term financial resources fund balance of governmental funds				\$ (6,674,980)
Amounts reported for governmental activities in the statement of activities are different due to:				
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Payments on capital debt above are not expenses in the statement of activities				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 8B: Statement of Long-Term Financial Resource Flows—Current and Long-Term Activity Format

### ABC Government Statement of Long-Term Financial Resource Flows Governmental Funds Year Ended June 30, 20XX

This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Transfers in	500,000	-	155,204	655,204
Total inflows of long-term financial resources for current activities	<u>106,760,279</u>	<u>5,477,022</u>	<u>19,329,677</u>	<u>131,566,978</u>
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,562,624	6,961,201	2,213,691	23,737,516
Public health and safety	73,346,886	-	590,383	73,937,269
Highway and streets	12,156,673	-	4,715,808	16,872,481
Culture and recreation	4,109,503	335,659	1,808,065	6,253,227
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Interest	195,920	84,224	2,114,391	2,394,535
Total outflows of long-term financial resources for current activities	<u>105,022,951</u>	<u>7,381,084</u>	<u>15,316,383</u>	<u>127,720,418</u>
Net flows of long-term financial resources for current activities	<u>1,737,328</u>	<u>(1,904,062)</u>	<u>4,013,294</u>	<u>3,846,560</u>
<b>NET FLOWS OF LONG-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Transfers in	-	-	10,651,605	10,651,605
Leases—lessee	233,200	-	-	233,200
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Debt service	(2,238,624)	(282,188)	(7,084,114)	(9,604,926)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of long-term financial resources for long-term activities	<u>(10,031,486)</u>	<u>(290,148)</u>	<u>(199,906)</u>	<u>(10,521,540)</u>
Net change in long-term financial resources fund balances	(8,294,158)	(2,194,210)	3,813,388	(6,674,980)
Long-term financial resources fund balances at beginning of year	(34,871,446)	13,700,894	28,479,799	7,309,247
Long-term financial resources fund balances at end of year	<u>\$ (43,165,604)</u>	<u>\$ 11,506,684</u>	<u>\$ 32,293,187</u>	<u>\$ 634,267</u>
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in long-term financial resources fund balances of governmental funds				\$ (6,674,980)
Amounts reported for governmental activities in the statement of activities are different due to:				
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Payments on capital debt above are not expenses in the statement of activities				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				<u>\$ (77,554)</u>



## Just Cause Versus Employment-at-Will

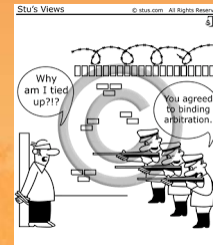



- **Employment at Will:**
  - See H. G. Wood, A Treatise on the Law of Master and Servant § 134 (1877) (“With us the rule is inflexible, that a general or indefinite hiring is prima facie a hiring at will, and if the servant seeks to make it out a yearly hiring, the burden is upon him to establish it by proof.... [I]t is an indefinite hiring and is determinable at the will of either party, and in this respect there is no distinction between domestic and other servants.”).
- **Just Cause:**
  - See E. Associated Coal Corp. v. United Mine Workers of Am., 531 U.S. 57, 61-62 (2000) (reminding federal judges that “both employer and union have granted to the arbitrator the authority to interpret the meaning of their contract’s language, including such words as ‘just cause’” and that the parties “have bargained for the ‘arbitrator’s construction’ of their agreement”, and therefore “courts will set aside the arbitrator’s interpretation of what their agreement means only in rare instances.”



## Seven Key Tests of Just Cause Discipline

- Arbitrator Carroll R. Daugherty explained that seven key tests characterize "just cause."
  - When an employer is found to violate one or more key tests, arbitrators tend to conclude that just cause did not exist to impose discipline.



## 1. Notice

- Did the employer provide forewarning or foreknowledge of the consequences for failing to adhere to a rule or policy?
  - Example: An employer has rules against guns in the workplace, but for many years, its supervisors allow employees to bring guns to work for "show and tell" and trading.



## 2. Reasonableness

- Was the employer's rule or order reasonably related to the orderly, efficient, and safe operation of the business; and was the rule or order reasonable to expect of an employee?
  - Example: An employer replaced a punch clock with a new employee ID card system that individuals swipe in and out as they enter and leave work. The employer discharged an employee with 37 years of good service who failed to record times properly. The Union argued that the rule providing for termination after eight failed swipes was unreasonable because there was no actual theft of time or loss of production or efficiency.
  - Example: Many employers have zero-tolerance work violence rules that prohibit aggressive behaviors. This can be read to include angry shouting between coworkers.



## 3. Investigation

- Did the employer investigate to determine whether an employee violated a rule or order before the employer imposed discipline?
  - Example: An employer in Western Kentucky suspected that an employee who had a rolled and suspicious-smelling cigarette in his pack possessed marijuana. The employee was known to have a prior drug conviction. However, the employer never tested the joint. Is the employer required to confirm its suspicions by testing the apparent contraband, or is no further investigation necessary to sustain a discharge?





## 4. Fair Investigation

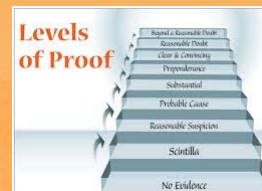
- Was the employer's investigation conducted objectively and fairly?
  - Example: A department head in a large warehouse fired an employee for failing to listen to repeated orders to stay late at work. The termination decision was made on the spot and approved by more senior management before the Union presented evidence that the employee had 90% hearing loss in one ear, and 50% hearing loss in the other ear.

“Employees seem to have a universal concern for fairness that transcends the self.”  
—Deborah Rupp,  
industrial-organizational  
psychologist



## 5. Proof

- At the end of the investigation, did the employer have substantial evidence or proof that an employee violated an order or rule?
  - Example: At a nuclear power plant, an employee who was randomly tested at 9 a.m. registered a Blood Alcohol Content (BAC) of .025 percent, which was below the .04 threshold for discipline. Using a formula of average human metabolic rate, the employer concluded that the employee had a BAC level of .06% when he punched in at 7 a.m. Is this proof sufficient?





## 6. Equal Treatment

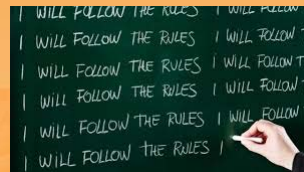


- Has the employer applied its rules and penalties consistently across similarly situated cases?
  - Example: An employee brought a loaded gun to work and was arrested on the property. At arbitration, the Union produced eighteen coworkers who testified under oath that they bring guns to work, including semiautomatic weapons that are loaded with ammo clips. No one was disciplined, even though shop-floor supervisors knew about the guns. Does the employer have the right to terminate the employee who was arrested at work simply for gun possession?



## 7. Penalty

- Was the punishment proportionate to the seriousness of the employee's offense? Is the employee's record so exemplary or lengthy, relative to the gravity of the offense, that the individual should be given less discipline (for example, corrective discipline in the form of a suspension instead of discharge)?
  - An employee who worked a night shift at a computer terminal downloaded pornography. At the hearing, he admitted wrongdoing and promised not to repeat this offense. He worked for 27 years without any discipline. Should his termination be reduced to reinstatement with back pay, over the Company's stern objections?





**Illinois  
Government  
Finance  
Officers  
Association**

**Learning • Connecting • Progressing**

## Municipal Market Update

Andrew Kim – Director, Public Finance  
PMA Securities, Inc.



**Learning • Connecting • Progressing**

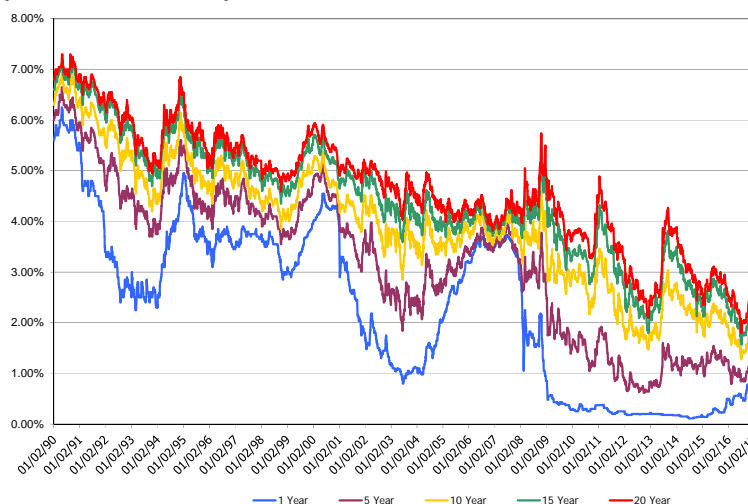
## General Municipal Market

## THE MMD “AAA” INDEX

- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates
- Issuers’ bonds are priced relative to the MMD
  - At a “spread” to the MMD
  - The spread varies due to the following
    - Credit Rating
    - Bank qualification
    - Length and size of maturity
    - Coupon or interest rates

3

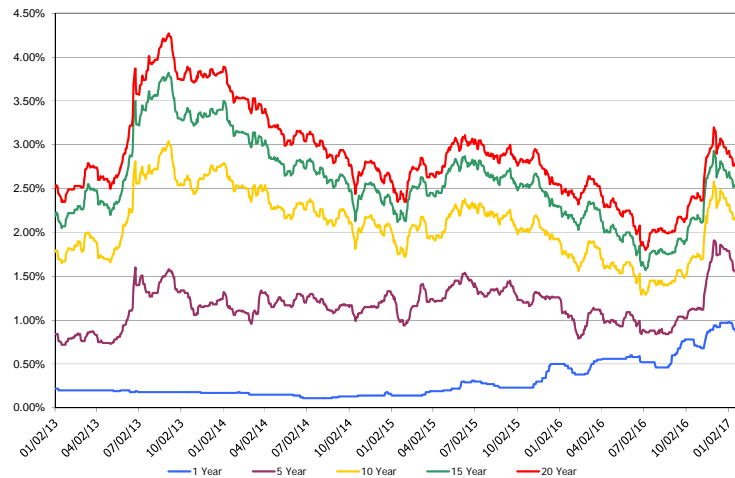
## HISTORICAL INTEREST RATE COMPARISON (1990 – PRESENT)



Municipal Market Data as of February 2, 2017

4

## HISTORICAL INTEREST RATE COMPARISON (2013 – PRESENT)



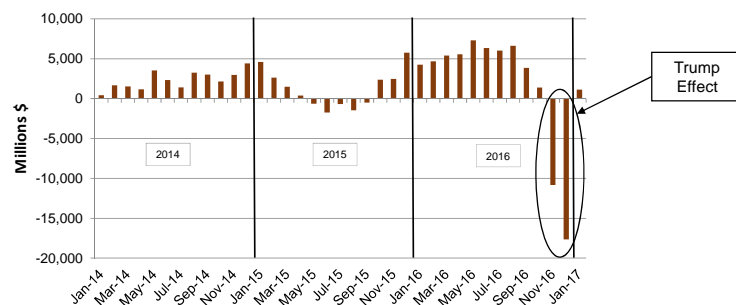
Municipal Market Data as of February 2, 2017

5

## MONTHLY MUNICIPAL BOND FUND FLOWS

- The decreasing interest rates observed in the prior graphs are reflected in the table below with increasing monthly municipal fund flows throughout 2016
- In May 2016, municipal bond funds had the largest monthly inflow since the beginning of 2014 and was relatively sustained through August 2016.
- The strong municipal bond performance was soon mitigated by the Trump Effect in November and December 2016.

Monthly Municipal Bond Fund Flow  
(January 2014 - January 2017)



Past performance is not an indication of future results.

Source: Investment Company Institute

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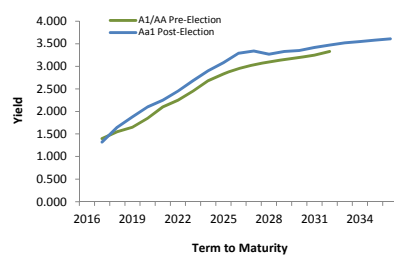
## TRUMP EFFECT

- Interest rates, in general, have increased and municipal rates increased further for the following reasons:
  - One Party Control
    - Republicans now control both Congress and the White House
    - Perception that this will more likely result in an agreement for a stimulus and/or infrastructure bill
    - Some reports have been for as much as \$1 trillion which could likely lead to more bonds being issued causing rising rates in general
  - Business Friendly
    - Republican government is perceived to be more friendly to business (reduced regulation, taxes, etc.)
    - These policy initiatives could lead to faster growth and consequently faster or more Fed rate increases
    - The Fed confirmed this after their meeting in which they changed their outlook for interest rate increases in 2017 from two to three
  - Marginal Tax Rates
    - During and after campaign, President proposed lower marginal tax rates, which could diminish the value of tax-exemption for municipal bonds
    - This possible change fuels the perception that tax-exemption could be less valuable which has contributed to rising municipal bond interest rates

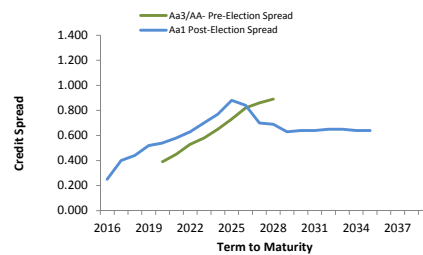
7

## TRUMP EFFECT ON YIELDS AND SPREADS

### Yield Impact



### Spread Impact

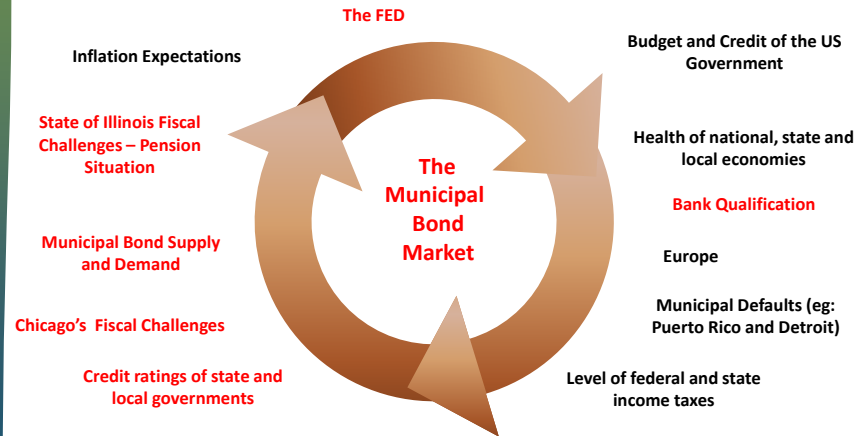


- Yield Impact
  - Pre-election NBQ A1/AA vs. Post-election NBQ Aa1
  - Post-election yields were higher by 18-46 bps in comparable maturities
- Spread Impact
  - Pre-election NBQ Aa3/AA- vs. Post-election NBQ Aa1
  - Post-election issue sold at comparable credit spreads (even wider at some points) to an issue rated two notches lower at Aa3/AA-

Information sourced from Bloomberg as of December 1, 2016 and is subject to change due to market conditions.

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## VARIABLES IMPACTING THE MUNICIPAL BOND MARKET



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## Illinois Municipal Market

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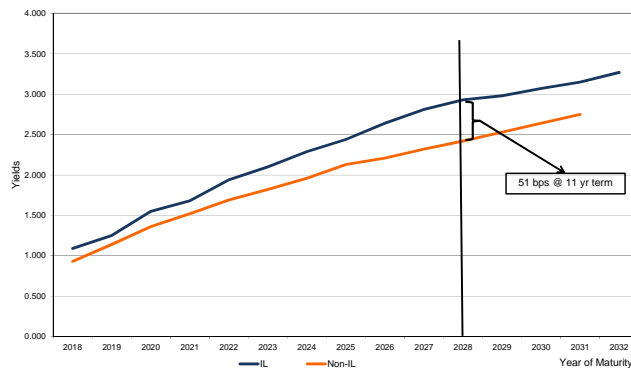
## STATE OF ILLINOIS AND MAJOR ISSUERS

- State of Illinois has the lowest credit rating of any state in the country
- Some investors will no longer buy bonds from any issuer in Illinois
- Current credit ratings of major Illinois issuers (Moody's / S&P / Fitch):
  - State of Illinois: Baa2 (NEG) / BBB (NEG) / BBB (NEG)
    - Negative Outlook from Moody's, S&P and Fitch
    - 19-month old budget stalemate may cause another downgrade, which could lead to junk status for State of IL GO bonds
  - City of Chicago: Ba1 (NEG) / BBB+ (STA) / BBB- (STA)
  - Chicago Board of Education: B3 (NEG) / B (NEG) / B+ (NEG)
  - Cook County: A2 (STA) / AA- (STA) / A+ (STA)

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## ILLINOIS "PENALTY" IMPACTS ILLINOIS ISSUERS

Illinois (Aaa) vs. Non-Illinois (Aa1) Comparison  
(Bank Qualified)



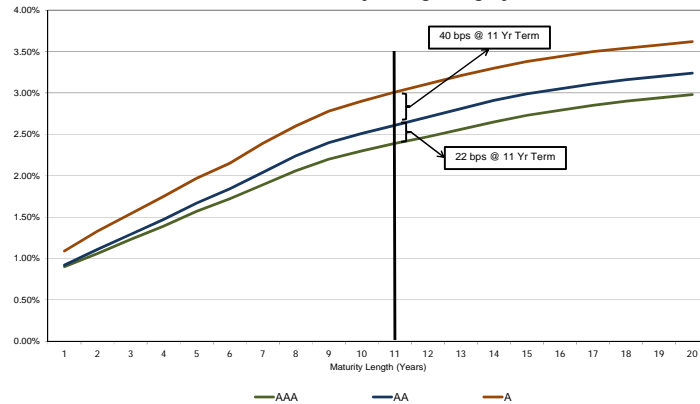
- The Illinois penalty is currently 0.51% (51 basis points) in 2028
  - Illinois transaction priced on 1/23/2017
  - Non-Illinois transaction priced on 1/09/2017
  - Change in AAA MMD accounted for

Information sourced from Bloomberg as of February 6, 2017 and is subject to change due to market conditions.

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## ILLINOIS “PENALTY” IMPACTS ILLINOIS ISSUERS

ISSUER CREDIT INTEREST RATE COMPARISON  
MMD Bond Index By Rating Category



- The Illinois penalty may also hurt local credit ratings, which would be an additional yield penalty to the issuer

\*The Municipal Market Data “MMD” is a municipal bond market index produced by TM3. Sourced as of February 6, 2017.

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## Bank Qualified Benefit

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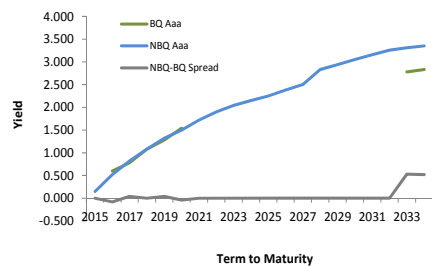
## BANK QUALIFICATION

- Bonds are designated as bank qualified if an issuer does not expect to issue more than \$10 million of tax-exempt securities in a single calendar year
  - Taxable debt obligations are not included in the \$10.0 million
  - Current refundings of prior bonds that were designated as bank qualified are not included as well
- Allows a financial institution to deduct 80% of its interest expense allocable to the purchase of tax-exempt securities
- Allows banks to have a double tax benefit

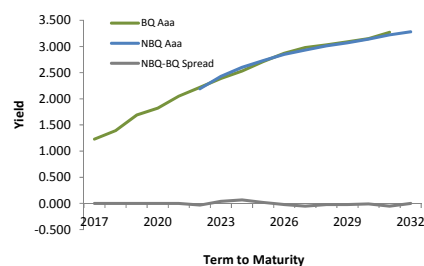
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## BANK QUALIFIED BENEFIT IN CURRENT IL MARKET

### 2015 Analysis



### 2017 Analysis



- In the current market, there is no substantial benefit for selling BQ bonds
  - At some points along the curve, the NBQ transaction priced at lower yields than the BQ transaction
- However, historically, the spread is more significant
  - The 2015 analysis shows a spread as wide as 0.53% (53 bps) for the longer maturities

Information sourced from Bloomberg as of February 6, 2017 and is subject to change due to market conditions.

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## The Federal Reserve

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### THE FEDERAL RESERVE (THE FED)

- The purpose of the Federal Reserve is to study and set monetary policy for the United States
  - Its mandate is to promote sustainable growth through:
    - High levels of employment
    - Moderate levels of inflation (i.e., stable prices)
      - Help preserve the purchasing power of the dollar
      - Moderate long term interest rates
- The FOMC (Federal Open Market Committee) is the policy-making arm of the FED
  - They make the decisions on interest rates and other monetary policies

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## MONETARY POLICY

- Action the FED takes to influence the amount of money and credit in the US economy
- Changes to the amount of money and credit impact interest rates (the cost of credit) and the performance of the US economy
  - If the cost of credit is reduced, more people and companies will borrow money and the economy will heat up
- The FED has three main tools in its toolbox to impact monetary policy
  - **Open Market Operations** – most frequently employed tool
  - **Setting the Discount Rate** – the rate banks pay on loans from the Federal Reserve
  - **Setting the Reserve Requirement** – the amount of funds that a depository institution must hold in reserve against specified deposit liabilities
- The FED's immediate objective is to influence the Federal Funds Rate (the rate at which banks borrow from one another)

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## LOOKING FORWARD<sup>(1)</sup>

- The Federal Reserve's December 2016 projections called for three quarter-point hikes per year over the next three years
- The Federal Reserve's balance sheet is up to \$4.5 trillion, an increase of \$900 billion since 2008
  - While the economy has been growing recently, it has been doing so at a pace slower than desired
  - The Federal Reserve may be tempted to use this balance sheet to speed up its growth
  - Doing so would limit the increase in interest rates
- Even with a Trump presidency that will prioritize easing regulation and cutting corporate taxes, many forecasters do not see a rapidly growing economy, indicating a sustained period of low interest rates
  - America is getting older => labor force will decrease as a % of overall population
  - Proportion of working age Americans participating in the workforce has declined and continues to do so
  - Technological advances, which help productivity on the one hand, may also serve to limit participation in the workforce

(1) Christopher Condon, "Happy Days Not Quite Here Again for Fed Still Wary of Zero Rates," 2017, <https://www.bloomberg.com/news/articles/2017-02-06/happy-days-not-quite-here-again-for-fed-still-wary-of-zero-rates> (accessed February 6, 2017)

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## IGFOA 2017 Downstate Chapter Conference Speaker Information

**Michelle Binns** joined PFM Asset Management LLC in July 2006 and is currently a Senior Managing Consultant staffed in the Chicago office. In her current capacity, Ms. Binns works closely with public sector clients to develop and implement prudent investment strategies for short, intermediate, and long-term funds, including fixed income and multi-asset class portfolios, for a variety of government clients in Illinois. Ms. Binns responsibilities include investment performance analysis, cash flow modeling, portfolio structuring and restructuring, providing economic summaries and research, and evaluating investment policies and practices for compliance with state and local investment statutes. Prior to joining PFMAM, Ms. Binns earned a Bachelor of Science degree in Finance from The Pennsylvania State University. Michelle is also a Financial Industry Regulatory Authority (FINRA) registered representative and holds Series 6 and 63 licenses.

**F. Alex Brown**, Senior Manager Information Technology Consulting, Plante has over 18 years of information technology audit, technology regulatory control compliance, and system integration project experience. Alex has in depth experience in the assessment of technology risk and evaluation of IT controls associated with regulatory compliance requirements (e.g. HIPAA/HITECH and Sarbanes-Oxley), IT application security assessments, and security within technology driven business processes. In addition, Alex has extensive experience in working with various IT security control frameworks (e.g. NIST 800, ISO 27001/27002, COBIT, HIPAA, FERPA). Alex's industry experience includes: Healthcare, Government, Higher Education and Manufacturing. Alex has assisted numerous clients with planning and performing engagements to evaluate and assess IT risk, evaluate the effectiveness of control measures implemented, identify IT control deficiencies, and develop remediation recommendations. He holds a Bachelor of Science in Accounting from North Carolina A&T State University. His professional training and affiliations Certified Public Accountant (CPA), Certified HIPAA Security Professional, and Certified HITRUST Professional.

**Patrick Flanigan**, CEH, Senior Consultant, Information Technology Consulting for Plante Moran has more than four years of information security, control and IT audit experience in a number of industries, including financial institutions, healthcare and payment card industry. Patrick's experience includes: IT security audits, attack & penetration assessments, vulnerability assessments, social engineering assessments, wireless security, cybersecurity, and mobile device security reviews. Additionally, Patrick has worked on evaluating and documenting internal controls which include testing and reporting on the IT processes and testing the design and effectiveness of IT security related controls. Patrick holds a Certified Ethical Hacker (CEHv9) certification is a member of the Information Systems Security Association (ISSA).

**Andrew Kim** has been in the Public Finance industry since 2009, having started his career at a financial advisory firm before spending the majority of his career at an underwriting broker-dealer. In March 2015, he accepted a position as Director in the Public Finance group at PMA Securities, Inc., a leading financial advisory firm based in Naperville, IL. Throughout his career, he has provided quantitative and qualitative research, financial analysis and client support for local government and non-profit clients. His responsibilities at PMA now include expanding the firm's Public Finance footprint among a variety of Illinois-based municipalities. He has a bachelor of arts in economics from Northwestern University, a master of divinity from Trinity Evangelical Divinity School and a master of public policy from the University of Chicago. He holds FINRA Series 7 and Series 63 licenses.

**Professor Michael H. LeRoy**, University of Illinois, School of Labor and Employment Relations and College of Law. Professor Michael LeRoy has published extensively on antitrust in professional sports, immigration and employment policy (in particular, the "gig economy"), strikes and lockouts, voluntary and mandatory arbitration, employee involvement teams, and labor law implications stemming from national emergencies. Professor LeRoy has testified before the full U.S. Senate Committee on labor and human resources; consulted at the request of the President's Council of Economic Advisers in connection with the Taft-Hartley labor dispute involving Pacific Maritime Association and International Longshore and Warehouse Union; and served as an advisor to the President's Commission on the United States Postal Service. This bi-partisan commission adopted Professor LeRoy's recommendations to Congress for the use of final offer interest arbitration in place of conventional arbitration in contract impasses with various postal worker unions. He has been interviewed by the New York Times, USA Today, Forbes, NPR and other national media; and his published researched on collective bargaining for college football players has appeared in widely read blogs, such as Salon. His research has been cited as authority by two federal appeals courts and the Minnesota Supreme Court. Research publications appear in Northwestern University Law Review, UCLA Law Review, Southern California Law Review, Emory Law Journal, and Stanford Law & Policy Review. His casebook, *Collective Bargaining in Sports and Entertainment* (Aspen, 2014) is an innovative treatment of antitrust and labor law in the context of major sports leagues, player's unions, Hollywood, Broadway and the like. He has won numerous teaching awards, including the Illinois Student Senate Teaching Award (2013), honoring five campus-wide faculty members who were selected from more than 600 nominees. He holds a JD from University of North Carolina – Chapel Hill and BA, MA from University of Illinois at Urbana-Champaign.

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**William D. McCarty**, City of Springfield, became Director of Budget and Management (OBM) on May 2, 2011. As Director of OBM, Director McCarty is responsible for overseeing accounting, budgeting, payroll, purchasing, facilities maintenance, and the newly created division of fleet management. From October 2007 through May 2011, Director McCarty was Chief Financial Officer, Bureau of Property Management for the State of Illinois Central Management Services. From April 2005 through April 2009, Director McCarty served as Village President (Mayor) of Williamsville, Illinois. Prior to becoming Mayor, he spent three years as a Village Trustee in Williamsville. Director McCarty received an undergraduate degree in business administration, Finance Cum Laude from the University of Notre Dame and holds a master's degree in public administration for the University of Illinois – Springfield.

**Richard Schnuer**, Finance Director with the City of Champaign leads the Finance Department in providing the full range of municipal financial services including financial planning and budgeting; financial operations; investments; debt management; financial reporting; and records management. The Finance Department also provides financial analysis to the City Council and staff on economic and community development issues. Mr. Schnuer is the Treasurer of the Champaign Firefighters Pension Fund and a member of the Fund's Board of Trustees. He also serves as Co-chair of the City's Capital Improvements Review Team, which develops the City's Capital Improvements Plan. Mr. Schnuer received a Masters of Business Administration Degree with a Concentration in Public Management from the University of Chicago Booth School of Business, 1979 and a Bachelor of Arts Degree, Tufts University, 1975. Mr. Schnuer has been the Finance Director for the City of Champaign from 1985 to present. Prior to that he was the City Administrator, City of Geneseo, Geneseo, Illinois, 1983 to 1985, Assistant City Administrator and Director of Community Development, Takoma Park, Maryland, 1982 to 1983, Presidential Management Intern and Budget Analyst, U.S. Department of Labor, Washington, D.C. 1979 to 1982, Governor's Fellow, Illinois Bureau of the Budget, Summer 1978, and Program Director, Medford Community Center, Medford, Massachusetts, 1976-1977. Mr. Schnuer is a past President of the Illinois Government Finance Officers Association and is currently a member of the Committee on Retirement and Benefits Administration of the Governmental Finance Officers Association of the U.S. and Canada. He makes frequent presentations to state, national, and international audiences, and has authored several articles for professional publications.

**Jeffrey K. Schroeder** is a Managing Director and Partner of The PFM Group with over 20 years of experience working with governmental sector clients. Jeffrey assists governmental and not-for-profit entities in the Midwest with the investment of all types of monies including operating funds, bond proceeds, reserve funds, foundations/endowments, pensions, and OPEB accounts. Mr. Schroeder works with many government entities, including counties, cities, villages, school districts, park districts, forest preserve districts, water districts, library districts, colleges/universities and other public authorities. To best serve his governmental clients, Jeff utilizes various products and services, including separately managed accounts, fixed rate/term investments, money market funds, and multi-asset class investments that include stock funds and bond funds. He specializes in developing investment strategies and solutions for governmental investors. Mr. Schroeder's first steps with a client include reviewing and revising investment policies and also developing a deep understanding of the client's liability/cash flow needs. Jeff then engages PFM's deep resources such as the Portfolio Strategy Group, Trading Room, PFM Advisors, Fixed Rate Investment Desk, Quantitative Strategies Group, Arbitrage Rebate Department and the client's specific Portfolio Manager to provide the best solution for each client. He holds a Masters in Business Administration from Northern Illinois University and a Bachelor of Science in Business Administration with a Finance Concentration from Valparaiso University. Mr. Schroeder is a Financial Industry Regulatory Authority ("FINRA") registered representative and holds Series 7 and 63 licenses.

**Hope E. Wheeler, CPA** is a principal with CliftonLarsonAllen LLP, located in the Champaign, Illinois office, and has more than 25 years experience providing assurance and consulting services to governmental entities. In addition, Hope has served as a reviewer on external peer review and internal inspection teams. Hope is a graduate of the University of Illinois with a bachelor of science in accounting and graduated with high honors. She is a member of the American Institute of Certified Public Accountants, the Illinois CPA Society, Government Finance Officers' Association, and the Illinois Government Finance Officers' Association. Along with her professional affiliations, Hope has served on the Board of Directors for Champaign West Rotary and the Executive Club of Champaign County, and is currently Vice President of the Board for Don Moyer Boys and Girls Club.

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***Illinois Government Finance Officers Association***

800 Roosevelt Road  
Building C, Suite 312  
Glen Ellyn, IL 60137

Phone: 630-942-6587

General information: [info@igfoa.org](mailto:info@igfoa.org)  
Executive Director: [execdir@igfoa.org](mailto:execdir@igfoa.org)

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