ILLINOIS GOVERNMENT FINANCE PROFESSIONALS ACADEMY LEVEL I

APRIL 19 – 20, 2017



Learning • Connecting • Progressing

Illinois Government Finance Professionals' Academy Level I 2017 SCHEDULE OF SESSIONS				
Day One: Wednesday, April 19, 2017				
8:00 – 8:40 AM	Registration			
8:40 – 9:00 AM	Welcome and Speed Networking	Diane Gillian Lantz – Illinois GFOA Justin VanVooren – Village of Montgomery		
9:00 – 10:00 AM	Principles of professional government finance	Elizabeth Holleb – City of Lake Forest		
10:00 – 10:45 AM	Governmental Accounting Overview and Internal Control Principles	Anthony Cervini – Sikich Brian LeFevre – Sikich Brian Smith – Village of Wheeling		
10:45 – 11:00 AM	Break			
11:00 – 12:15 PM	Governmental Accounting Overview and Internal Control Principles	Continued from above		
12:15 – 1:15 PM	Networking Luncheon			
1:15 – 1:30 PM	Networking Discussion	Diane Gillian Lantz – Illinois GFOA Justin VanVooren – Village of Montgomery		
1:30 – 2:45 PM	Deep Dive into our Electronic Processing World – Moving from Paper to Electronic	Eileen Roberts – J.P. Morgan		
2:45 – 3:00 PM	Break			
3:00 – 4:30 PM	Preparing for the Next Step in Your Career	Lee Szymborski – GovHR USA		
Day Two: Thursday, April 20, 2017				
8:00 – 8:45 AM	Registration			
8:45 – 9:00 AM	Academy Discussion	Diane Gillian Lantz – Illinois GFOA Justin VanVooren – Village of Montgomery		
9:00 – 10:00 AM	The ABC's of Governmental Budgeting	Julie Zolghadr – City of Springfield		
10:00 – 10:45 AM	Revenue and expenditure overview	Elizabeth Holleb – City of Lake Forest Stephanie Masson – City of Rock Island Kevin Wachtel – Village of Villa Park		
10:45 – 11:00 AM	Break			
11:00 – 12:15 PM	Revenue and expenditure overview (Continued)	Continued from above		
12:15 – 1:15 PM	Networking Luncheon			
1:15 – 1:45 PM	Confessions of a Maverick Buyer	RuthAnne Hall – Lake County		
1:45 – 2:30 PM	Debt issuance in government	Stephanie Masson – City of Rock Island Kevin McCanna – Speer Financial Stephan Roberts – Robert W. Baird Larry White – Chapman and Cutler Kevin Wachtel – Village of Villa Park		
2:30 – 2:45 PM	Break			
2:45 – 3:30 PM	Debt issuance in government (continued)	Continued from above		
3:30 – 4:30 PM	Building peer relationships	Diane Gillian Lantz – Illinois GFOA Justin VanVooren – Village of Montgomery		



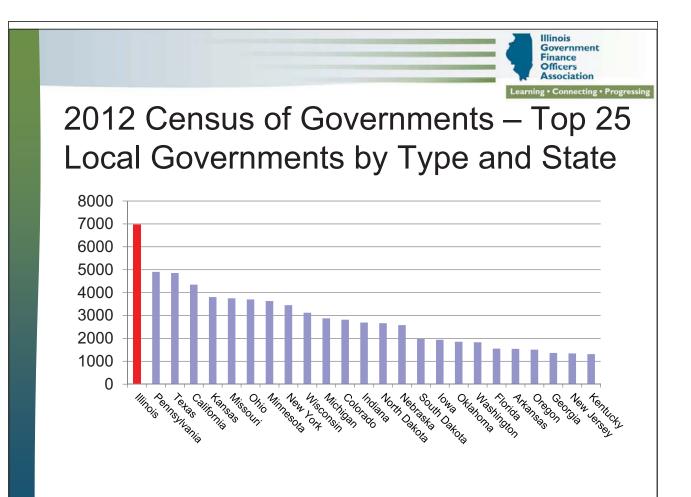
Principles of Professional Government Finance

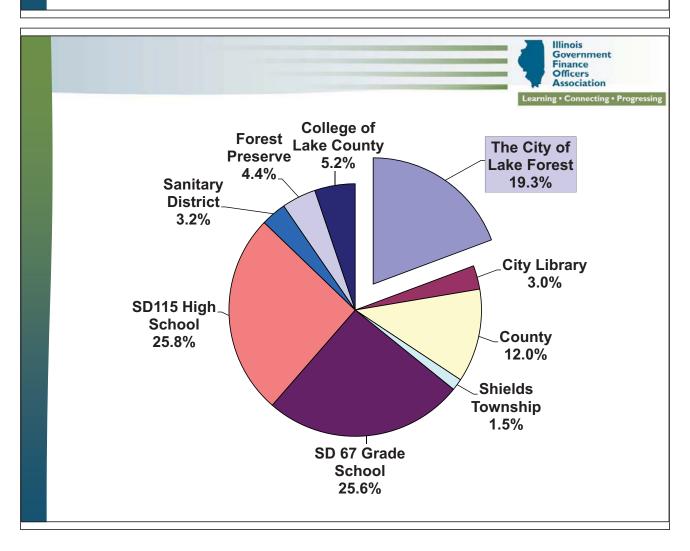


Local Governments

Nearly 7000 units of government in Illinois

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









Home Rule/Non-Home Rule

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



What are differences between public and private sector?

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







What are differences between public and private sector?

- Decision making
- Legal issues/budget







What are differences between public and private sector?

- Freedom of information/ transparency
- FOIA
- Performance/ success measures







Local Government Financial Responsibilities

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



Essential Functions of Government

- Allocation
 - ☐ Most appropriate use of resources
- Distribution
 - □ Income and wealth among individuals
 - □ Largely federal and state role
- Stabilization
 - □ Overall level of economic activity
 - □ Federal monetary and fiscal policies
 - ☐ State or local economic development programs



Objectives of Government Finance

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



Objectives of Government Finance

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



Objectives of Government Finance

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





Other Common Terms

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



Financial Fiscal Policies

- Establish principles on which government's finances are based
- Attachment: Lake Forest City Council Fiscal Policy – Fiscal Year 2018
 - □ Reviewed and approved annually as part of budget development process



Fiscal Policy

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



Fiscal Policy (continued)

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



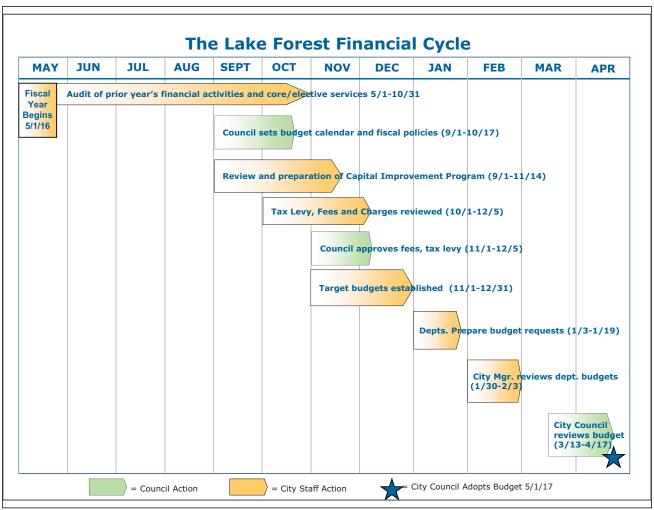
Other Policies?

- Investment Policy
- Purchasing Policy
- Pension Funding Policy



Budget

- Appropriations vs. Budget Officer
 - □ Appropriations 65 ILCS 5/8-2-9
 - Annual appropriations Ordinance adopted within first quarter of fiscal year
 - □ Budget Officer 65 ILCS 5/8-2-9.1
 - Budget officer appointed
 - Budget officer compiles annual budget in prescribed format
 - Annual budget adopted prior to beginning of fiscal year







City Council Fiscal Policy FISCAL YEAR 2018

Statement Of Policy Purpose

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

These policies will be reviewed annually.

Policy Goals

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

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

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

I. Overall Budget Guidelines

- 1. Abide by the target based budgeting process. Target based budgeting ties expenses to projected resources at the beginning of the budget process, rather than cutting expenses after budgets are developed. This methodology reaffirms the relationship between revenues and services, taxes and spending, and involves departments in the process from the beginning.
- 2. Seek and encourage resident input in budget planning issues and service level decisions.
- 3. Review all services residents receive and strive to maintain the services at existing levels, unless specific variances are granted by the City Council. Each service should be examined thoroughly to determine if it is still necessary or can be provided in a more cost-effective way. New program initiatives must be measured in terms of their overall fiscal impact and capabilities.
- 4. Pay for all recurring expenses with recurring revenues, and use non-recurring revenues for non-recurring expenses. Proceeds from land sales shall be deposited into the Capital Fund unless intended for other legislative initiatives as directed by the City Council.
- 5. Maintain positive fund balances for all funds.
- 6. Annually review the cash flow reserves in all City operating funds to ensure adequacy given the volatility and risk of revenues attributable to each fund.
- 7. Monitor actual revenues and expenditures compared to budget throughout the year so that spending may be reduced as needed to offset revenue shortfalls or unanticipated expenditures.
- 8. Protect the City's assets by maintaining adequate insurance coverage through either commercial insurance or risk pooling arrangements with other governmental entities.
- 9. Abide by the 1991 Property Tax Extension Limitation Act, which limits the annual increase in property tax extensions to the lesser of 5 percent, or the increase in the consumer price index, plus allowances for new construction and voter approved increases, unless the City Council determines that an exception is necessary to preserve the long term financial health of the City.
- 10. Work actively with legislators and Councils of Government in passing legislation that promotes effective government, reduces unfunded mandates, controls

pension and other personnel related costs or otherwise creates unsustainable operating costs for local governments.

II. Expense Guidelines

Personnel

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

Operating Costs

- 1. Fully budget anticipated expense for an average operating year.
- 2. Maintain a contingency budget for unanticipated expenses.
- 3. Review all contract services and other charges for cost effectiveness and to determine if there are alternative methods to perform these services at less cost.
- 4. Review the potential for outsourcing/contracting services for each City operating department.

City Council Fiscal Policy

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

Program Expansions

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

New Programs

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

Capital Budget

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

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

III. Revenue Guidelines

- 1. Maintain a diversified and stable revenue structure to shelter the City from short-term fluctuations in any one revenue source. Minimize reliance on State and/or Federal revenues to fund core services.
- 2. The City Council will determine tax levy allocation amounts to the General Fund, Police and Fire Pension Fund, IMRF/Social Security, Park and Recreation Fund, Special Recreation and the Library.
- 3. Conservatively but realistically review and estimate projected revenues.
- 4. Institute user fees and charges for specialized programs and services in the City, as well as conduct an annual detailed analysis of all user fees, charges, and fines to assure proper charges for services and recommend appropriate changes.

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

IV. Reserve Policies

- 1. The City will maintain a fund balance for fiscal cash liquidity purposes, (i.e., fiscal reserve), that will provide sufficient cash flow to minimize the potential of short-term tax anticipation borrowing.
- 2. Unassigned fund balances should be equal to no less than 35% of non-pass through operating revenues for the General Fund plus accrued sick and vacation leave.
- 3. The City will maintain sufficient self-insurance reserves as established by professional judgment based on the funding techniques utilized, loss records, and required retentions.
- 4. The City will seek to maintain minimum fund balance targets (unrestricted net position for proprietary funds) in each fund which reflect considerations such as revenue volatility and necessary contingencies. It is noted that certain funds are

subject to five year financial forecasts, debt service coverage requirements and/or may be accumulating fund balance to address future capital needs, warranting a fund balance in excess of the minimum target. In the event fund balance falls below the established target for a particular fund, the City shall establish a plan to return the fund balance to its target. The fund balance targets by fund or category of funds is as follows:

- General Fund see Section IV.2
- Parks and Recreation Funds (combined) 25% of operating revenue
- Other Non-major Special Revenue Funds 10% of operating revenue
- Debt Service Funds N/A
- Capital Project Funds N/A
- Water and Sewer Enterprise Fund/Operating 33% of operating revenue plus one years' debt service + \$500,000
- Water and Sewer Enterprise Fund/Capital 0%
- Deerpath Golf Course Fund 15% of operating revenue
- Fleet Fund 15% of operating revenue
- Self Insurance Fund 25% of operating revenue + OPEB reserve
- Liability Insurance Fund 50% of operating revenue
- Police and Fire Pension Funds N/A; subject to statutory and actuarial requirements
- Cemetery Trust Fund N/A; subject to bequest requirements and Cemetery Commission policy

V. <u>Investment Policies</u>

- 1. The City will follow the investment policy approved by the City Council on July 06, 2004, or a subsequently approved revision to the investment policy.
- 2. The City will conduct an analysis of cash flow needs on an on-going basis. Disbursements, collections, and deposits of all funds will be scheduled to insure maximum cash availability and investment potential.
- 3. The City will, where permitted by law, pool cash from its various funds for investment purposes.
- 4. The City will invest City revenue to maximize the rate of return while maintaining a low level of risk.
- 5. The City will review contractual consolidated banking services every three years.

VI. <u>Debt Policies</u>

1. The City will not fund current operations from the proceeds of borrowed funds.

City Council Fiscal Policy

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

VII. Accounting, Auditing, And Financial Reporting Policies

- 1. The City will establish and maintain a high standard of accounting practices in conformance with uniform financial reporting in Illinois, and Generally Accepted Accounting Principles (GAAP), for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).
- 2. The City's financial accounting system will maintain records on a basis consistent with accepted standards for local government accounting (according to GASB).
- 3. The City will strive to collect the majority of its receivables within thirty days.
- 4. The City will retain the right to perform financial, compliance, and performance audits on any entity receiving funds or grants from the City.
- 5. The City will engage an independent firm of certified public accountants to perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS), and will have these accountants publicly issue an opinion which will be incorporated in the Comprehensive Annual Financial Report.

City Council Fiscal Policy

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

Amended: October 2016



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Governmental Accounting and Reporting Overview

GOVERNMENTAL ACCOUNTING VS.

Illinois Government Finance Officers Association

- Similarities
 - □ Reporting on financial position and results of operation
 - □ Double entry accounting
 - □ Terminology
- Differences
 - □ Profit motive
 - □ Reporting
 - □ Legal provisions
 - □ Flexibility
 - □ Fund accounting

Governmental Accounting Acronyms



Illinois Government

- GAAP
- NCGA
- GASB
- AICPA
- FASB

NCGA Principles of Governmental Accounting in a Progression

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

Fund Accounting – Fund Categories



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

Fund Accounting - Fund Categories



- **■** Fiduciary
 - **PENSION TRUST**
 - **□ AGENCY**

Basis of Accounting



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

Capital Assets and Long Term Debt



- Governmental Funds
 - □Capital Assets and Long Term Debt in Interactive Account Group
- Proprietary and Fiduciary Funds
 - □Capital Assets and Long Term Debt Recorded in the Fund

Classification and Terminology



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

Financial Reporting



- CAFR vs AFR
 - □Introductory Section
 - ☐ Financial Section
 - □ Statistical Section

GFOA Certificate of Achievement Program



FUND ACCOUNTING



FUND ACCOUNTING

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



DEFINITION OF A FUND

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



MINIMUM NUMBER OF FUNDS RULE

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



MINIMUM NUMBER OF FUNDS RULE

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



MINIMUM NUMBER OF FUNDS RULE

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



FUND CLASSIFICATIONS

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



GOVERNMENTAL FUNDS

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



GENERAL FUND

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



SPECIAL REVENUE FUNDS

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



SPECIAL REVENUE FUNDS

- Use is voluntary
- Examples of special revenue funds
- Special revenue versus enterprise
- Most abused fund classification
 - ☐ Separate funds for each line of tax levy
 - □ Restricted revenue "transferred" to other funds to spend



DEBT SERVICE FUNDS

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



CAPITAL PROJECTS FUNDS

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



PERMANENT FUNDS

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



PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds



ENTERPRISE FUNDS

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



INTERNAL SERVICE FUNDS

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



FIDUCIARY FUNDS (not our assets)

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



PENSION (AND OPEB) TRUST FUNDS

- To report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, other post- employment benefit plans, and other employee benefit plans.
- Separate fund for each pension plan.
- Separate plan for post-employment health care plan (GASB S-43)



INVESTMENT TRUST FUNDS

- To account for arrangements in which legally separate governments commingle or pool their resources in an investment portfolio for all participants
- To account for one government holding investments on behalf of units outside the government (individual investment accounts)



PRIVATE-PURPOSE TRUST FUNDS

 To report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments



AGENCY FUNDS

- To account for situations where the government's role is purely custodial, such as the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments
- No trust agreement involved
- Use is mandatory for repayment transactions involving special assessment (special service area) debt for which the government is not obligated in any manner



Illinois Government Finance

ACCOUNT GROUPS (INTERACTIVE FUNDS)

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government Finance Officers Association Learning • Connecting • Progress

DEFINITION OF MEASUREMENT FOCUS

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

TWO MEASUREMENT FOCUSES



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



ECONOMIC RESOURCES

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

CURRENT FINANCIAL RESOURCES



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

DIFFERENCES BETWEEN Learning • Connecting • Progressing MEASUREMENT FOCUSES

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



Government

BASIS OF ACCOUNTING

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



Illinois

TWO BASIS OF ACCOUNTING

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

ATTRIBUTES OF PROPRIETARY Finance of Connecting Progressing FUNDS (AND GOVERNMENTAL ACTIVITIES)

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

ATTRIBUTES OF GOVERNMENTAL FUNDS



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

ECONOMIC RESOURCES



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

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CURRENT FINANCIAL RESOURCES

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



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Internal Control Principles



Internal Control Objectives

- Assets and resources of the governmental unit are used in accordance with authorization flowing from applicable laws, regulations or governing board action.
- Transactions are executed in accordance with governing board and management authorizations and directives and are executed as efficiently and effectively as possible.
- All transactions are properly recorded to permit preparation of reliable reports and to maintain accountability over assets.
- Timely and accurate reports of the governmental unit's activities are provided to its constituencies.



What is Internal Control?

- 1. Internal control is a process. It is a means to an end, not an end in itself.
- 2. Internal control is not merely documented by policy manuals and forms. Rather, it is put in by people at every level of an organization.
- Internal control can provide only reasonable assurance, not absolute assurance, to an entity's management and board.
- 4. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.
 - 1. Achieve Board and organizational objectives
 - Prevent misappropriation of assets (fraud)
 - 3. Maintain legal compliance
 - 4. Ensure reliability of financial reporting



Limitations of Internal Controls

- Inadequate knowledge of policies
 - ☐ "I didn't know that was the policy"
- Inadequate segregation of duties
 - ☐ "We trust "X" who performs all those duties"
- Inappropriate access to assets
 - □ Passwords shared, cash not secured....
- Form over substance
 - □ "You mean I am supposed to do something besides initial it?"
- Control override
 - ☐ "I know that's the policy, but we do it this way"



Who is COSO?











The Association of Accountants and Financial Professionals in Business



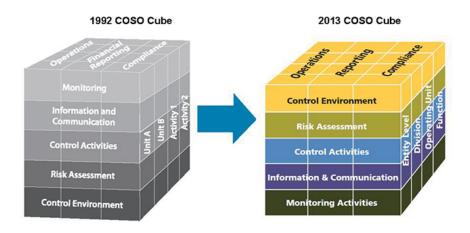
What is Internal Control?

Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as:

"A process, effected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.



COSO Internal Control





GFOA Definition of Internal Control

- Plan of organization and the methods and procedures used to safeguard assets and other resources, and to assure that those assets and resources are used as effectively as possible as directed by the governing board and management. (Municipal Finance Officers Association).
- Coordinated set of policies and procedures that reflect a comprehensive strategy for achieving management objectives. (Evaluating Internal Controls: A Local Government Manager's Guide (GFOA)).



Responsibility

Governing Board

- ☐ Sets mission, values and objectives
- □ Responsible for ensuring management fulfills its duty
- □ Primary responsibility for creation of control environment

Management

- ☐ Establish and maintain internal controls
- Accountable to Board

Auditors

- ☐ Assist management and the Board fulfill their responsibilities
- ☐ Large players in monitoring function
- No primary responsibility for creation or operation of internal control system



Framework: Control Environment

- Integrity and Ethical Values
- Board Must set tone at the top
- 3. Board accepts responsibility to monitor and improve
- 4. Management Philosophy and Operating Style
- 5. Organizational Structure
- 6. Financial Reporting Competencies
- Authority and Responsibility
- 8. Human Resources

Source: Committee on Sponsoring Organizations of the Treadway Commission (Internal Control – Integrated Framework)



Framework: Control Environment

Qualified Staff

- □ Define each role and maintain detailed description of job responsibilities
- □ Practice appropriate hiring policies and background checks
- ☐ Provide proper training
- ☐ Administer performance reviews
- ☐ Set realistic goals and establish criteria for advancement



Whistleblower System

A reliable system must be assure to the person reporting:

- Anonymity
- No fear of reprisal
- That the complaint will be acted upon
- Means to report that is well publicized
- Procedure to evaluate complaints and act upon those that are credible
- See Whistleblower Information in Binder



Separation of Duties

- Control system that seeks to separate the record keeping function from operational responsibility and from physical access to asset
- Goal: No one person can make an error or commit fraud that is not caught downstream in the normal course of business
- The principle ensures that fraud is more difficult to commit and that errors will be found more quickly



Separation of Duties

- Divide the four functions:
 - Authorization
 - Custody
 - Record keeping
 - Reconciliation
- The Map
 - Identify indispensable function
 - Assign steps
 - Divide crucial steps by use of a matrix



Separation of duties

- Often limited staff makes complete separation of duties impossible
- Rules:
 - No one performs more than two crucial duties
 - No one performs record keeping and reconciliation
- Compensating controls: A control put in place where known control weaknesses exist



Separation of Duties

Segregation of Duties Matrix

Activity	Authority	Custody	Record Keeping	Reconcile
Pick up mail at Post Office		Joe		
Open mail, separate and log checks			Susan	
Post checks to ledger			Susan	
Reconcile ledger				Molly
Issue credit memo	Molly			



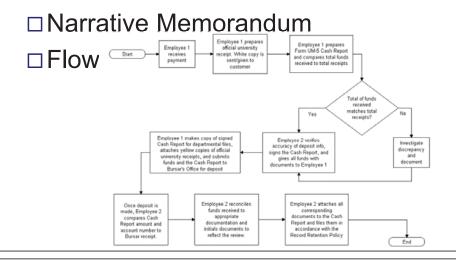
Mapping the System

- Create a visual map of the system of internal controls for a particular function
- Use standardized symbols
- Note flow of activities, forms (paper and automated), files and person responsible for activity
- Review for redundancy, gaps and poor separation of duties.
- Rework map toward a more satisfactory flow.
- See example in course notebook.



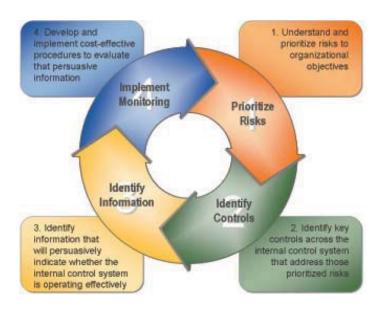
Mapping the System

Documenting Controls





COSO: Risk Assessment





Evaluating Internal Controls

- Risk-based assessment
 - □ What is the risk of loss?
 - □ What is the risk of error?
 - ☐ What is the risk of misuse?
 - ☐ Eliminates testing or inventory of controls that may not be necessary.
- Higher risk areas will require a greater degree of required controls.



Framework: Risk Monitoring and Assessment

- Identify potential risks as soon as possible
 - Strategic
 - Operational
 - Financial
 - Compliance
 - Reputational
- Assess likelihood and impact
- Focus on the High Likelihood/High Impact items
- Involve managers at all levels



Framework: Control Activities

- Integration with Risk Assessment
- Selection and Development of Control Activities
- Policies and Procedures
- Information Technology



Framework: Control Activities

- Accounting System
 - ☐ Assemble all relevant information
 - □ Analyze assembled data
 - □ Classify assembled data
 - □ Record assembled data
 - ☐ Furnish data needed for internal and external financial reporting on a timely basis
 - ☐ Maintain accountability over the government's assets



Framework: Control Activities

- Control Policies and Procedures
 - Authorization
 - Require advance approval
 - Require written documentation of approval
 - □ Properly Designed Records
 - Sequential numbering of documents
 - Automatic duplicates (e.g. purchase orders, receipts)*
 - Gathering information for multiple purposes
 - Avoiding unnecessary information



Framework: Control Activities

- Control Policies and Procedures (Cont.)
 - □ Security of assets and records
 - Controlled access
 - Physical security
 - Backup for computer records
 - Disaster recovery
 - □ Segregation of incompatible duties
 - Authorization
 - Recording
 - Custody
 - Compensating controls



Framework: Control Activities

- Control Policies and Procedures (Cont.)
 - □ Periodic reconciliations
 - □ Periodic verifications
 - □ Analytical review
 - ☐ Timely preparation of financial reports in conformity with GAAP



IT and Internal Controls

- Business processes are complex and often automated and integrate with IT
- Implementing IT controls can enhance internal controls by allowing you to rely on automated controls rather than manual controls
- Types of IT Controls
 - ☐ General (general computer controls)
 - □ Application controls

Source: Watkins|Meegan



IT and Internal Controls

- General IT Controls
 - ☐ Managing data and computer operations
 - □ System security
 - □ Acquisition and development of technology infrastructure
 - Changing controls and monitoring configuration
 - ☐ Managing third party services
 - □ Help desk



IT and Internal Controls

- Application Controls
 - □ Edit checks
 - ☐ Balancing and validation controls
 - □ Check digits
 - □ Predefined data listings
 - □ Data reasonableness tests
 - □ Automated calculations
- Usually embedded or configurable controls
 - □ ERP software matches PO, invoice, and receiving report
 - ☐ Segregate conflicting duties (entering & posting journal entries)

Source: Watkins|Meegan



Cash receipts

- Segregation of duties
 - □ Collection
 - □ Deposit
 - □Recording
- □ Collection
 - □ Log all receipts
 - ☐ Provide receipt for all cash collected



Cash receipts

- Receipts
 - □ Manual receipts should be pre-numbered
 - Sequence should be accounted for when deposit is reconciled with receipts
 - □ Electronic receipts should be interfaced with accounting software
 - ☐ Cash receipts/deposit should be reconciled daily for each cash drawer
 - Each cashier should have own cash drawer



Cash receipts

- Billed revenues
 - □ Segregate
 - Billing
 - Collection
 - Recording, including credits, adjustments, refunds and write-off



Cash disbursements

- □ Segregation of duties
 - Authorization
 - Recording
 - Custody/control over release of cash



Cash disbursements

- □ Checks
 - Blank stock should be safeguarded
 - Pre-numbered
 - □ Sequence should be accounted for
 - □ Void checks should be spoiled and maintained



Cash disbursement

- Check signing
 - □ Dual signatures
 - Individual responsible for processing accounts payable should not be an authorized check signer
 - Check signer should be independent of the recording process



Cash disbursements

- Check signing
 - □ Electronic signatures
 - Need to be controlled by check signers
 - Review of checks, check registers and invoices
 - Accounting for sequence of check numbers
 - Control signature plate or password



Cash disbursements

- When possible, separate set-up and approval of vendors from payment processing
 - ☐ If separation is not possible, ensure edit lists are reviewed periodically
- □ Approval for payments should be outside the processing and recording of payments



Purchasing/credit cards

- Advantages
 - □ Lower administrative costs
 - □ Easier to make purchases
- □ Disadvantages
 - Easier to make purchases more difficult to control purchases



Purchasing/credit cards

- Detailed policies over usage
 - ☐ Segregate purchasing and receiving goods
 - □ Complete supporting documents for all purchases must be provided by purchaser
 - ☐ Monthly review and reconciliation of supporting documents with statements
 - □ Purchase discounts must be managed and appropriately used



Purchasing/credit cards

- Detailed policies over usage
 - □ Procedure for making cards of terminated employees inactive
 - ☐ Manage credit card limits
 - □ Prohibit personal charges even with subsequent reimbursement
 - Illinois precedent is that personal use of local government credit cards is illegal misuse of public funds



Purchasing/credit cards

- Detailed policies over usage
 - □ Ensure purchases continue to be made within established limits
 - ☐ Ensure procurement policies are still followed
 - ☐ Ensure required review processes are still adhered to



Payroll

- ☐ Segregation of duties
 - Authorization
 - Recording
 - Custody/control over release of cash



Payroll

- Employee set-up and termination should be segregated from payroll processing
 - □ Ideally, is handled by HR
 - □ Reduces the risk of fictitious or terminated employees being paid



Payroll

- ☐ Time records should be signed by the employee and reviewed, approved and signed by the supervisor
 - Electronic approvals prevent unauthorized payment
 - Time off should be reflected on time record
 - □ Accounting should be maintained in payroll system



Payroll

- Payment of payroll should be segregated from processing
 - □ Reports should be reviewed before payment is initiated
 - □ Electronic payments should be initiated/approved by individual not involved in the processing of payroll
 - □ All electronic payments should be reviewed and approved as all other payments are



Wire transfers

- Wire transfers should be initiated by management
- Most banks will establish (or even require) protocol for wiring funds, such as a second confirmation from management within the organization.
 - □ Ensure there is established a protocol which involves more than one individual



Wire transfers

- Wire transfer software should be secured
 - ☐ Password protected
- □ Employees executing wire transfers should not prepare or post journal entries or reconcile bank accounts
- Reviewing as part of bank reconciliation is not enough
 - Many days could pass by the time a reconciliation is performed
 - □ Ensure bank is notified immediately when those authorized to initiate wire transfers terminate employment



Bank reconciliations

- Bank statements should be received and opened by the chief fiscal officer
- Bank reconciliations should be performed monthly
 - ☐ Should be performed by employee who does not have custody of cash or record cash receipt or disbursement transactions or journal entries
 - □ Supervisor should review and examine support for reconciling items
 - ☐ Pay particular attention to payee



Bank accounts

- The chief fiscal officer should periodically ask each bank to provide a listing of all bank accounts in the name and federal ID of the local government
 - □ Detects accounts opened by other members of management which are not being monitored by Finance or the Board



Information Technology

- User accounts
 - □ Procedures for creating, modifying and terminating
 - All users should have unique user names
 - □ Helps supervisors identify who created/modified a transaction
 - Restrict software access to areas of applications to areas required to perform job duties



Information Technology

- Creation of user account
 - □ Notification to create should be required by HR or payroll department
 - Notification should be documented and retained
 - □ Notification to terminate should be required by HR or payroll department
 - Notification should be documented and retained
 - Notification should be made immediately



Information Technology

- Monitor user access into the network and financial software
 - □ Red Flags
 - Logging in at unusual times (middle of the night or on weekends)
 - Numerous logged error messages



Cybersecurity

- Internal controls related to IT must include recognition of cyber threat from the outside.
- Compromise of Personal Identification Information and Personal Medial Information and government proprietary information
- Comprehensive program includes secure hardware and software, employee training and a plan in place to deal with intrusions quickly and legally



Framework: Information and Communication

- Financial Reporting Information
- Internal Control Information
- Internal Communication
- External Communication



Framework: Information and Communication

- Meeting the need for information with the user in mind
 - □ Appropriate content
 - □ Timeliness
 - □ Currency
 - □ Accuracy
 - □ Accessibility



Framework: Information and Communication

- Communication
 - □ Two-way communication
 - □ Lateral/Inter-departmental communication
 - □ Outside communication including vendors
 - □ Communication with the Board
- Types of Communication
 - ☐ Financial/non-financial
 - □ Formal/informal
 - □ Frequent/infrequent



Framework: Information and Communication

- Accounting Policies and Procedures
 Manual
 - □ "Should clearly outline the specific authority and responsibility of individual employees, thus providing the essential foundation for establishing employee accountability" (GFOA)
 - □ Approved and distributed by top management.



Framework: Monitoring

- Periodic Monitoring/Separate Evaluations
 - □ Separate evaluations of the internal control system are adequate in scope and frequency and confirm that appropriate internal control system elements are evaluated
 - Evaluations are conducted by individuals with appropriate skills
 - Scope, depth and frequency of evaluations are adequate
 - ☐ The evaluation process is appropriate and includes evidence that the evaluator gains sufficient understanding of the activities.



Framework: Monitoring

- Periodic Monitoring/Separate Evaluations (Cont.)
 - ☐ The methodology (including standard methodology such as checklists and tools) is appropriate for evaluating whether the system is logical and suitable; planning effort for the evaluation process is coordinated; and evaluation process is managed by an executive with proper authority.
 - □ Level of documentation is adequate; policy manuals, org charts and operating instructions are available; the evaluation process is documented.



Framework: Monitoring

- Reporting Deficiencies
 - □ Process exists for capturing and reporting identified deficiencies both from external sources and from ongoing monitoring or separate evaluations.
 - □ Reporting protocols are appropriate, i.e. deficiencies are reported to the person directly responsible for the activity and to a person at least one level higher.
 - □ Specific types of deficiencies are reported to senior management and to chose charged with governance.



Framework: Monitoring

- Reporting Deficiencies (Cont.)
 - ☐ Follow-up activities are appropriate
 - The underlying event is corrected
 - Cause of problems are investigated
 - Follow-up action is taken to ensure correction of the problem



Basics of Capital Assets



Learning Objectives

- Introduction
- Capital Asset Financial Policies
- Capital Asset Management
- Capital Asset Documentation & Reporting
- Wrap-up



What is a Capital Asset?

- Assets that are used in operations with an initial useful life in excess of one year
- Tangible vs. Intangible
 - ☐ Tangible: land, buildings, building improvements, vehicles, machinery, equipment, works of art, historical treasures, infrastructure
 - ☐ Intangible: easements, software, water rights, stormwater credits



General Capital Assets

- Associated with the government as a whole
- Distinguished from other capital assets that are specifically associated with activities reported in proprietary and fiduciary funds.
- Cost of capital assets: reported as expenditures
- Land, Buildings, Improvements, Machinery & Equipment, Infrastructure (e.g., roads, streets, bridges)





Accounting for General Capital Assets

General capital assets are:

- Capitalized in the governmental activities column at the government-wide level
- Proceeds from disposal reported as other financing sources
- Depreciated at the government-wide level
- Tracked in General Fixed Asset Account Group (GFAAG)



Proprietary Fund Capital Assets

- Enterprise and Internal Service Funds
- Cost of capital asset reported as capital asset, NOT expense
- Depreciated and tracked at fund level
- Proceeds reported as non-operating revenue (expense)
- Land, water mains, water plant, wells vehicles, software, etc.



Capital Asset policy

- The GASB highly recommend all municipalities have capital asset policy in place
- Become familiar with policy



Capital Asset policy (cont.)

- A Financial Policy should contain:
 - □ Capital asset classifications
 - □ Capitalization threshold levels
 - Useful life table
 - □ Depreciation Method used
 - □ Acquisition/Disposal
 - Do you capitalize hard costs and soft costs
 - Define repairs vs improvements



Capital Asset policy (cont.)

- □ Other CAFR Reporting requirements:
 - Define what types of infrastructure to capitalize
 - Assumptions used for establishing the acquisition value
- Be Concise



Capital Asset Management

- Know the fiscal year plan:
 - □ 5 year Capital Improvement Plan
 - Requirement of the GFOA budget award
 - Most major capital assets accounted for in Capital Projects Funds or Proprietary Funds
 - □ Review Budgeted expenditures
 - □ Prior Year carryover expenditures
 - Retainage payable
 - Grants



Capital Asset Management (cont.)

- □ Village Board Minutes:
 - Purchase / Disposal resolutions
 - MFT / IDOT resolutions
 - Capital Contributions / Leases
 - Redevelopment Agreements
 - Bond Issuances (Interest Capitalization)
- □ Interdepartmental Communication
 - Engineering Department
 - Vehicle Department



Example from Board Minutes

Page 4 01/04/16

B. Resolution 16-04 Authorizing Acceptance of the Suburban Purchasing Contract for the Purchase of Six (6) 2016 Ford Utility Police Interceptor SUV's from Currie Motors

Clerk Simpson read the resolution to the Board.

Village Manager Sfondilis explained that this is a request for replacement of six police SUV's in order to cycle aging equipment to other departments, per the CERF policy just approved. This allows the Village to save money on new equipment by utilizing vehicles that are no longer safe for first responders, but are safe for ancillary uses.

A motion was made by Trustee Lang and seconded by Trustee Krueger that Resolution 16-04 be approved.

On the roll call the vote was:

AYES: 7 – Trustees Krueger, Hein, Vogel, Vito, Lang, Brady, & President Argiris

NAYS: C ABSENT: C

There being seven affirmative votes, the motion was approved.



Example Resolution

RESOLUTION NO. 16-

RESOLUTION AUTHORIZING ACCEPTANCE OF THE SUBURBAN PURCHASING CONTRACT FOR THE PURCHASE OF SIX (6) 2016 FORD UTILITY POLICE INTERCEPTOR SUV'S FROM CURRIE MOTORS

WHEREAS, six (6) Police Department Patrol vehicles are to be replaced during Fiscal years 2016 and CERF Funds have been designated for this purchase; and

WHEREAS, the Suburban Purchasing Cooperative published an invitation to bid and subsequently issued a contract to Currie Motors in Frankfort Illinois for the furnishing of Public Safety approved utility vehicles and sedans meeting the Village of Wheeling specifications; and

WHEREAS, the Suburban Purchasing Cooperative encourages municipalities to participate in its equipment contracts to take advantage of favorable bid prices; and

WHEREAS, the Village of Wheeling deems it to be in its best interest to participate in the Suburban Purchasing Cooperative contract for the purchase of six (6) 2016 Ford Utility Police Interceptors SUV's as awarded to Currie Motors.

NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF WHEELING, COUNTIES OF COOK AND LAKE, STATE OF ILLINOIS, that the Suburban Purchasing Cooperative contract is accepted and the Village Manager is hereby authorized to issue a purchase order to the awarded bidder, Currie Motors for the purchase of six Ford Utility Police Interceptors and one Ford Police Interceptor Sedan at a cost not to exceed \$162.260

Trustee	moved, seconded by Trustee	
hat Resolution No. 16	be adopted.	
Procident Argirie		



Capital Asset Management (cont.)

- How do you track them?
 - General ledger expenditure analysis
 - □ By capitalization threshold
 - □ Watch for soft costs
 - Grant review
 - □ Construction Contracts Payable
 - Retainage Payable reversal / accrual
 - Asset transfers



Capital Asset Management (cont.)

- Capital asset systems:
 - Financial Software
 - □ Requisition approvals
 - □ Board Approval of all major expenditures
 - GIS Integration
 - □ Track Village owned land and infrastructure



GIS System – Pavement Ratings





Capital Asset Management (cont.)

- End of year schedules:
 - □ Update capital asset listing and depreciation schedules
 - ☐ Listing of all additions & deletions
 - □ Invoices through end of fiscal year
 - ☐ Schedule of retainage payable



Capital Asset Documentation/Reporting

- Notes to the financials:
 - ☐ Summary of accounting principles
 - □ Additions / Depreciation by function
- Required Supplementary information:
 - □ Capital Asset statistics by function



4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

		Beginning Balances	Increases	I	Decreases	Ending Balances
GOVERNMENTAL ACTIVITIES						
Capital assets not being depreciated						
Land	\$	26,837,555	\$ -	\$	20,718	\$ 26,816,837
Land right of way		11,624,192	-		-	11,624,192
Airport (joint venture)		46,584,437	-		360,206	46,224,231
Construction in progress		-	885,885		-	885,885
Total capital assets not being depreciated		85,046,184	885,885		380,924	85,551,145
Capital assets being depreciated						
Buildings and improvements		58,117,574	_		736,389	57,381,185
Vehicles, equipment, and furniture		9,695,361	291,178		483,606	9,502,933
Infrastructure		28,647,671	1,613,081		42,126	30,218,626
Total capital assets being depreciated		96,460,606	1,904,259		1,262,121	97,102,744
Less accumulated depreciation for						
Buildings and improvements		12,226,909	1,446,599		516,296	13,157,212
Vehicles, equipment, and furniture		8,172,871	488,691		483,606	8,177,956
Infrastructure		18,593,037	1,007,346		42,126	19,558,257
Total accumulated depreciation	_	38,992,817	2,942,636		1,042,028	40,893,425
Total accumulated depreciation	_	30,332,017	2,942,030		1,042,028	40,093,423
Total capital assets being depreciated, net		57,467,789	(1,038,377)		220,093	56,209,319
GOVERNMENTAL ACTIVITIES						
CAPITAL ASSETS, NET	\$	142,513,973	\$ (152,492)	\$	601,017	\$ 141,760,464
	-	31 -				





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4. CAPITAL ASSETS (Continued)

		Beginning				
		Balances,				Ending
	_	Restated*	Increases	Г	Decreases	Balances
BUSINESS-TYPE ACTIVITIES						
Capital assets not being depreciated						
Land	\$	567,510	\$ _	\$	-	\$ 567,510
Total capital assets not being depreciated		567,510	-		-	567,510
Capital assets being depreciated						
Waterworks		42,812,314	766,811		_	43,579,125
Sewerage		18,169,798	110,772		-	18,280,570
Equipment and vehicles		2,808,176	248,577		126,881	2,929,872
Total capital assets being depreciated		63,790,288	1,126,160		126,881	64,789,567
Less accumulated depreciation for						
Waterworks		12,592,749	804,254		-	13,397,003
Sewerage		6,660,032	314,077		-	6,974,109
Equipment and vehicles		2,142,468	158,408		126,881	2,173,995
Total accumulated depreciation		21,395,249	1,276,739		126,881	22,545,107
Total capital assets being depreciated, net		42,395,039	(150,579)		-	42,244,460
BUSINESS-TYPE ACTIVITIES						
CAPITAL ASSETS, NET	\$	42,962,549	\$ (150,579)	\$	_	\$ 42,811,970

*The Village restated capital assets in accordance with GASB Statement No. 69 as part of a government combination in which a portion of the Old Town Sanitary District's assets, liabilities, and net position were combined into the Village's Waterworks and Sewerage Fund. See Note 15 for further explanation.



Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

 General government
 \$ 1,188,486

 Public safety
 588,851

 Highways and streets
 1,165,299

TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES

\$ 2,942,636

Capital asset additions were charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

Public safety\$ 1,014,372Highways and streets901,112Developer contributed capital asset874,660

TOTAL ADDITIONS - GOVERNMENTAL ACTIVITIES

\$ 2,790,144

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VILLAGE OF WHEELING, ILLINOIS

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
PUBLIC SAFETY										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Number of squad cars	33	33	40	40	41	41	41	42	40	40
Fire										
Stations	2	2	2	2	2	3	3	3	3	3
HIGHWAYS AND STREETS										
Streets (miles)	65	65	75	75	75	75	75	75	75	75
WATER										
Water mains (miles)	138	138	148	148	155	155	155	155	162	162
Fire hydrants	1,620	1,631	1,635	1,635	1,651	1,709	1,709	1,766	1,766	1,732
Average daily pumpage (mgd)	5	5	5	5	4	4	4	4	4	4
SEWER										
Sanitary sewers (miles)	77	77	83	83	87	87	87	89	90	94
Storm sewers (miles)	68	68	72	72	72	72	72	72	72	112
BUILDING INSPECTIONS										
Number of permits issued	1,369	1,151	1,426	1,348	1,364	1,650	1,501	1,488	1,599	1,305
CULTURE AND RECREATION										
Number of parks and playgrounds	16	16	16	16	16	16	16	16	16	16
Park area (acres)	270	270	270	270	270	270	270	270	270	270

Data Source

Village records



Pronouncements containing Capital Asset Guidance

- GASB34:
 - □ requires infrastructure be accounted for like other capital assets
- GASB42:
 - □ requires consideration of impairment of capital assets
- GASB51
 - □ requires capitalization of intangible assets
- GASB62:
 - □ on capitalization of interest cost
- GASB69:
 - ☐ Government combinations and Disposals of Government Operations
- GASB72:
 - ☐ Fair Value Measurement and Applications



Questions?

Anthony Cervini

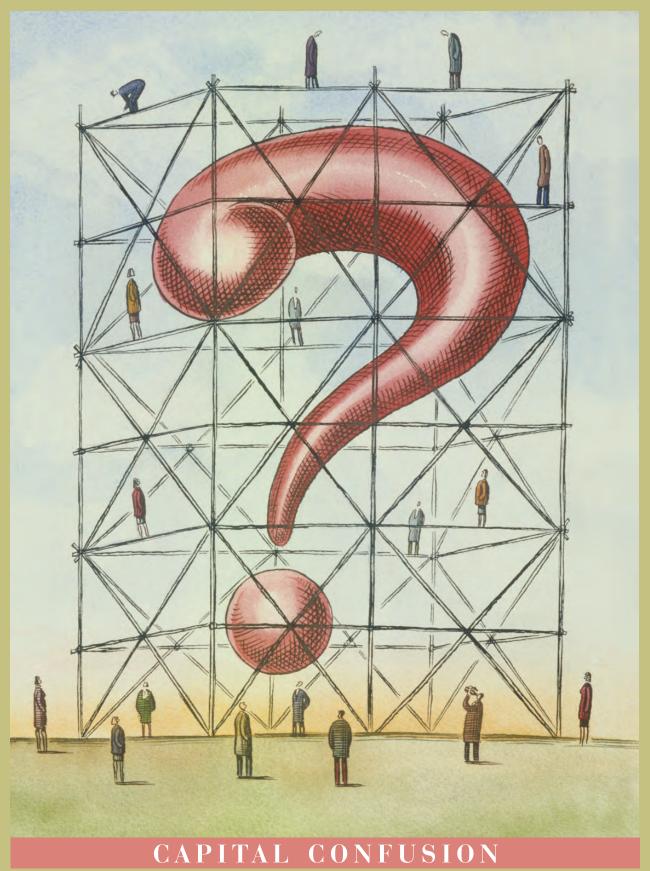
Anthony.Cervini@sikich.com 630-566-8574

Brian LeFevre

Brian.LeFevre@sikich.com 630-566-8505

Brian Smith

bsmith@wheelingil.gov 847-499-9022



12 Misunderstandings about Accounting for Capital Assets

any accounting and financial reporting issues affect some governments, but not others. Virtually all state and local governments, however, must confront the ongoing challenge of accounting for capital assets. To help governments meet this challenge, the Government Finance Officers Association (GFOA) recently released a new book, Accounting for Capital Assets: A Guide for State and Local Governments, that comprehensively addresses accounting and financial reporting for capital assets (the contents are listed in Exhibit 1). This article will focus on 12 common misunderstandings that the new publication should help eliminate.

Misunderstanding No. I

If it's a parcel of land with a building on top, it must be a capital asset.

If asked to provide the quintessential example of a capital asset, most probably would reply "land" or "buildings." Yet not every parcel of land or building necessarily qualifies as a capital asset. Some assets are acquired for use in operations (e.g.,

fire truck), while others are acquired with the intent of resale (e.g., foreclosure properties). By definition, only the former qualify as capital assets. That is, the crucial factor in determining whether a given item should be classified as a capital asset is not the form of the asset, but its intended use. Thus, a parcel of land acquired to serve as the site of a new school would properly be classified as a

capital asset, but not an identical parcel of land acquired for eventual resale to a private-sector business as part of a redevelopment program.

The distinction between *capital* and *noncapital* is more than a question of terminology. Governmental funds (e.g., general fund) do not report capital assets; they do, however, report items acquired for the purpose of resale, including items that resemble capital assets. Also, capital assets are unaffected by changes in fair value, whereas items held for resale cannot be reported at more than their net realizable value.

Misunderstanding No. 2

Capital assets and "fixed assets" are really one and the same thing.

In the private sector, capital assets are commonly described as *property*, *plant*, and *equipment*. For many years, the equivalent term in the public sector was *fixed assets*. In both cases, the language suggests an asset that is both tangible and

immovable. Neither quality, however, is an essential characteristic of a capital asset. Rather, the essential features of a capital asset are that it will be *used in operations* and that it has a useful life *extending beyond a single reporting period*. Thus, *intangible* items such a legal rights (e.g., easements) and internally developed computer software typically qualify as capital assets. Unfortunately, because intangible assets do not "look like" other capital assets, financial statement preparers often overlook them when calculating the portion of *net assets* classified as *invested in capital assets*, *net of related debt*.

Misunderstanding No. 3

Virtually all state and local

governments must confront

the ongoing challenge of

accounting for capital assets.

A capital asset should always be reported as an asset of the government that maintains it.

In the public sector, it is not uncommon for a higher level of government (e.g., county) to acquire or construct a capital asset for a lower level of government (e.g., township), with the latter assuming responsibility for maintenance. Under generally accepted accounting principles (GAAP), the same item

cannot be reported as a capital asset of two different governments.²

When two or more governments are involved with the same capital asset, it is the government that owns it that should report it. If ownership of a capital asset is difficult to establish (e.g., sidewalks), it is the government responsible for managing the asset (e.g., maintenance) that normally

would report it.³ This last provision has led some to erroneously conclude that responsibility for managing a capital asset is the normal criterion for determining which government should report a capital asset. To the contrary, responsibility for maintenance is only a factor if ownership cannot be determined. Put differently, ownership always "trumps" management for this purpose.

Misunderstanding No. 4

An infrastructure asset includes the land it is built on.

Infrastructure assets (e.g., roads and sewer lines) typically are built on land that the government controls through ownership or easement. Since infrastructure is unimaginable without the underlying land, it is tempting to view the cost of the land or easement as an integral part of the cost of the infrastructure. Authoritative accounting standards, however, require that land and easements associated with infrastructure be treated as separate capital assets in their own right.⁴

Exhibit 1: Accounting for Capital Assets: A Guide for State and Local Governments

Chapters

- I. Capital Assets: Definition, Accounting Function, Types, and Basic Information Requirements
- 2. Basic Accounting
- 3. Major Asset Classes
- 4. Capitalizable Costs
- 5. Valuation of Capital Assets for Financial Reporting Purposes
- 6. Impairments
- 7. Depreciation
- 8. Financial Statement Presentation and Disclosure
- 9. System Design and Policies
- 10. Inventorying

Appendices

A. Answers to Exercises

B. Sample Journal Entries

C. GFOA Recommended Practices

Glossary and Index

Misunderstanding No. 5

The cost of a capital asset should include the cost of an associated feasibility study.

Governments often undertake a feasibility study prior to the acquisition or construction of a capital asset. Accountants presume that cost should be recognized as expense when incurred, unless they have demonstrable future value at that time. It is hard to argue that cost has demonstrable future value before the feasibility of a project has been established. Therefore, the cost of a feasibility study associated with the acquisition or construction of a capital asset should not be included as part of the cost of the asset thus acquired.⁵

Misunderstanding No. 6

If you don't issue debt for a project you will have no interest to capitalize.

For enterprise funds and business-type activities, interest incurred during the acquisition or construction of a capital asset must be included as part of the cost of that asset. It would be understandable to conclude that there would be no interest to capitalize if the government did not issue debt to finance a given project. However, GAAP often require that interest be capitalized even in situations where no new debt is issued.

In theory, if a given enterprise fund or business-type activity had both available resources and outstanding debt, it could apply those resources to liquidate the debt. If this were done, of course, the resources would no longer be available to finance acquisition or construction, thus necessitating a new borrowing. Consequently, GAAP take the position that if there is any outstanding debt in a given enterprise fund or business-type activity, even though that debt may relate to a different project of a prior period, the government's decision not to pay off the debt is equivalent to a new borrowing, and the related interest should be capitalized during acquisition or construction as part of the cost of the capital asset. 6

Misunderstanding No. 7

The fair value of something is what you can sell it for.

GAAP require that donated capital assets be recorded at their *fair value* as of the date of donation. For this purpose, fair value should be understood as referring to what it would have cost the government to acquire the asset, not the amount for which it could resell the asset.

Assume, for example, that a developer donated the right-of-way for a road. There is little market for the land under a road, so the right-of-way would have little or no resale value. Conversely, the cost of acquiring the land for the right-of-way could have been substantial. Some have reasoned in similar cases that the minimal anticipated resale value of the donated land justified its being reported at some nominal value (e.g., \$1 per acre). GAAP, however, would require that the right-of-way be reported at the cost the government would have had to incur to acquire it.⁷

Misunderstanding No. 8

Capital outlays and capitalized expenditures are one and the same thing.

Most state and local governments report a separate line item for *capital outlays* in their governmental fund financial statements. Many presume that this line item represents total expenditures for capital assets acquired or constructed during the period. In fact, the amount reported as *capital outlays* normally excludes some significant capitalized expenditures, while at the same time incorporating certain other expenditures that were not, in fact, capitalized.

Specifically, most governments report a line item labeled *capital outlays* in the governmental fund financial statements but restrict its use to capital projects funds. Outlays for capital acquisition or construction in the general fund typically are reported by function (e.g., public safety or parks and recre-

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ation) rather than as *capital outlays*. Conversely, the amount reported as *capital outlays* in the capital projects funds often includes project-related costs that were not, in fact, capitalized (e.g., furnishings). Thus, the amount reported as *capital outlays* should not be understood as a measure of capital spending in governmental funds.

Misunderstanding No. 9

Land is never depreciated.

Capital assets that are exhausted through use must be depreciated over their estimated useful life. Since land *normally* retains its economic value indefinitely, it *normally* is not depreciated. Indeed, it is almost an axiom among accountants that "land is never depreciated." However, in certain cases, the economic value of land may, in fact, be depleted through use (e.g., land used as a site for toxic waste or as a source of gravel or ore). In such circumstances, the land would need to be depreciated to reflect this depletion.⁸

Misunderstanding No. 10

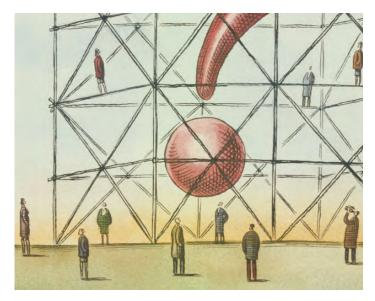
Capitalization is essential to ensure control over walk aways.

There is no dispute that governments have a duty to maintain control over all of their assets, including smaller and less expensive items easily converted to personal use ("walk aways") such as laptop computers and printers. Some have argued that this responsibility requires that governments set their capitalization threshold low enough to encompass such items. As a practical matter, however, there are far more effective and efficient means of maintaining control over walk aways than capitalization. Accordingly, governments should set their capitalization thresholds for capital assets solely from the perspective of the requirements of sound financial reporting (i.e., would the exclusion of items below the threshold be material to the financial statement presentation?).

Misunderstanding No. 11

For groups of similar items, the capitalization threshold should be applied to the group.

As already discussed, the sole consideration in setting a capitalization threshold ought to be the requirements of sound financial reporting. For groups of similar items (e.g., desktop computers), most often the dollar value of the entire group will still not be significant for financial reporting purposes. Accordingly, governments normally should apply their capitalization threshold to individual items in such groups rather than to the group as a whole. The one exception would be those rare cases where application of the capitalization threshold to individual items in a group would result in the



elimination of a significant portion of total capital assets (e.g., the book collection of a library district).

Misunderstanding No. 12

It's better to start from scratch than to rely on deficient inventory records.

Governments sometimes have the option of following a comprehensive basis of accounting other than GAAP (e.g., cash basis accounting). When such governments wish to convert to GAAP, they often discover that their capital asset records are insufficient to support GAAP financial statements and must undertake a major inventory effort to establish beginning balances for capital assets. Intuitively, it might appear easier to simply start over rather than to attempt to build upon defective capital asset records. Experience, however, indicates that normally it is more efficient to start from existing records, even when they are deficient.

CONCLUSION

In summary, financial statement preparers can easily avoid some of the most common misunderstandings involving accounting for capital assets by remembering the following:

- 1. Items acquired for resale should *not* be treated as capital assets.
- 2. Remember to include intangible capital assets in the calculation of *net assets invested in capital assets*, *net of related debt*.
- 3. If one government owns a capital asset, but another is responsible for its management, it is the government that owns the asset that should report it.

Why Become a CPFO?

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Details: See the Candidate's Guide at www.gfoa.org or e-mail Certification@gfoa.org.

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- 4. Land or easements related to infrastructure should be reported as separate assets in their own right.
- 5. The cost of feasibility studies should *not* be capitalized.
- Interest capitalization is required if debt is outstanding in an enterprise fund or business-type activity, even if the debt is unrelated to the capital asset being acquired or constructed.
- 7. The fair value of a donated asset is what it would cost the government to acquire it.
- 8. The line item *capital outlays* excludes some expenditures that are capitalized, while including others that are not.
- 9. Land must be depreciated if it loses economic value through use.
- 10. "Walk aways" should *not* be capitalized.
- 11. A capitalization threshold normally should be applied to individual items in a group of similar items, rather than to the group as a whole.
- 12. When establishing an initial capital assets inventory, it normally is better to build upon existing records than to start over from scratch.

Notes

- 1. Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, paragraph 19: "The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period." [emphasis added]
- 2. GASB Concepts Statement No.4, *Elements of Financial Statements*, paragraph 14: "The same specific resource cannot simultaneously be an asset of more than one entity..."
- 3. GASB Statement No. 34, footnote 67.
- 4. GASB Comprehensive Implementation Guide, Question 7.12.16.
- GASB Statement No.51, Accounting and Financial Reporting for Intangible Assets, paragraph 8.
- Financial Accounting Standards Board (FASB) Statement No. 34, Capitalization of Interest Cost, paragraph 12.
- 7. GASB Comprehensive Implementation Guide, Question 7.12.6.
- 8. FASB Statement No. 93, Recognition of Depreciation for Not-for-Profit Organizations, paragraph 34.
- 9. Government Finance Officers Association (GFOA), Ensuring Control over Noncapitalized Items (Recommended Practice).
- 10. GFOA, Establishing Appropriate Capitalization Thresholds for Capital Assets (Recommended Practice).

STEPHEN J. GAUTHIER is director of the GFOA's Technical Services Center in Chicago, Illinois.

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FIXED ASSET POLICY

The Village shall establish and maintain fixed asset records to comply with governmental financial reporting standards, to provide a basis for determining appropriate insurable values, and to establish responsibility for property control.

Fixed assets shall include land, stormwater management credits, infrastructure, buildings, machinery, equipment, and vehicles with a life expectancy of more than one year, subject to the capitalization threshold below.

Infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, bike paths, etc. These projects shall be accounted for separately in the Infrastructure cost center within the Capital Projects Fund (unless required to be accounted for in another fund - e.g. Water & Sewer Capital, TIF, Motor Fuel Tax, etc.).

All other capital projects, including sidewalks and sanitary sewers, brick pavers, fences, entrance signs, tree planting, burial of electrical lines, streetscape improvements (done for aesthetic reasons), fountains, parks, buildings, building improvements, equipment and land are not considered infrastructure, shall not be capitalized, and shall be accounted for separately in the Non-Infrastructure cost center within the Capital Projects Fund (unless required to be accounted for in another fund - e.g. Water & Sewer Capital, TIF, Motor Fuel Tax, etc.).

Road projects shall be capitalized when the cost exceeds the capitalization threshold and the work materially extends the life of the street. Soft costs related to an infrastructure project (e.g. engineering, legal services, etc.) will not be capitalized. All other street projects (e.g. surface treatment, patching, etc.) are considered maintenance and are not capitalized.

Water and sewer improvements will be capitalized when the project constructs additional infrastructure or replaces infrastructure and meets the capitalization threshold below. Repairs of water and sewer assets will only be capitalized when they materially extend the life of the original asset, and meet the capitalization threshold below.

The capitalization threshold or minimum value of an asset at the time of acquisition is established at \$0 for stormwater management credits, \$10,000 on a per unit basis for machinery, equipment and vehicles, \$50,000 for buildings and improvements, and \$100,000 for land, and infrastructure.

Responsibility for control of assets rests with the operating department wherein the asset is located. The Director of Finance shall ensure that control over fixed assets is maintained by establishing a fixed asset inventory that is updated annually and documents all additions and deletions to the fixed asset records. Operating departments shall report the disposal or relocation of a fixed asset promptly to the Director of Finance or his designee. Assets acquired during the year shall be recorded as an expenditure against the appropriate capital expenditure account, which shall be used for financial reporting purposes.

Assets shall be recorded in the fixed asset inventory by using an appropriate description and by recording serial numbers where applicable. Tagging of assets will not be required.

Assets, which do not meet the definition of "fixed assets" under this policy, but in the aggregate account for a substantial asset group, shall not be capitalized for financial accounting purposes. Rather, the responsible operating department shall maintain control of these assets using a system suitable for doing so. Examples of asset groups (and the department responsible for them) which shall be inventoried and maintained separately from the Village's fixed asset inventory include computers and related equipment (MIS Department), guns (Police), vehicles (Fleet Services) and any other asset group identified by the Director of Finance.

All assets will be depreciated using the straight-line method of depreciation over the useful life of the asset. The Director of Finance will assign useful lives to each asset according to the guidelines below.

Type of Asset	Useful Life
Buildings	30-50 Years
Vehicles and Equipment	5-30 Years
Stormwater Credits	Not Depreciated
Land	Not Depreciated
Land Improvements	10-20 Years
Street Improvements (Residential)	17 Years (Surface), 50 Years (Base)
Street Improvements (Industrial)	12 Years (Surface), 40 Years (Base)
Water & Sewer Infrastructure	20-65 Years
Other Infrastructure	20-50 Years

Adopted June 6, 2002 Revised April, 2017

Village of Hoffman Estates, Illinois

Capitalization Policy

Fixed assets, comprised of land, land improvements, buildings, major movable equipment, vehicles, and infrastructure represent a substantial investment by governments. Establishing an auditable property record and maintaining the integrity of the data base assists in the overall financial management of the public entity. A few benefits of good property records are as follows:

- Facilitates financial reporting in accordance with generally accepted accounting principles;
- Qualifies a public entity to participate in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting program;
- Enhances fixed asset accountability and stewardship;
- Improves property management relating to capital budgeting, cost analysis, resource allocation, and replacement forecasting; and
- Improves property insurance program management; specifically, insurance, replacement, and potential proof of loss assistance.

Financial Statement Presentation and Disclosure

The presentation of assets capitalized in either the GFAAG or the proprietary funds includes the following disclosures:

- Detail of fixed assets such as land, buildings, equipment, and infrastructure
- The basis for valuing assets, for example, the cost or estimated historical cost
- Whether accumulated depreciation is reported and, if so, the depreciable lives and methods of depreciation
- A reconciliation of changes in the GFAAG and proprietary funds during the year
- Capitalization of interest, if any, during construction (proprietary funds only)
- Commitments under long-term construction projects
- Pertinent data regarding capital and operating leases

Capitalization Policy of Fixed Assets

It is essential to maintain records to demonstrate accountability for capital assets acquired by the Village. To maintain adequate accountability, the Village conducts a periodic physical inventory for fixed assets and adjusts the records accordingly. This inventory is conducted annually towards the end of the Village's fiscal year.

General fixed assets are assets other than those used in proprietary fund or trust fund activities and generally support the activities of the governmental funds. As expenditures are made in governmental fund types for capital assets acquired, the amount of the expenditure is capitalized in the General Fixed Asset Account Group (GFAAG) at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Also, interest incurred during construction is not capitalized on general fixed assets.

Fixed assets of proprietary activities and trust funds are recorded in the fund for which they are used. Acquisitions are recorded in a fixed asset account, and depreciation accounting is required.

Starting in 2003, public domain (infrastructure) general fixed assets (e.g., roads, bridges, storm sewers and other assets that are immovable and of value only to the Village) will be capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not included in the GFAAG or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary funds of the Village are recorded at cost. Property, plant and equipment donated to these proprietary fund operations are recorded at their estimated value at the time of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Assets in the GFAAG and proprietary funds are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings & Improvements	40
Office & Computer Equipment	5
Machinery & Dept Equipment	10
Phone System	15
Office Furniture	10
Vehicles	10-15
Plant and water/sewer systems	40
Infrastructure	30

Disposal of capital assets is authorized by the Board of Trustees as required by law. Disposal is done through sale, by public auction, or declared of no useful value and salvaged. Authorization is accomplished by ordinance. When assets are disposed of, their cost is removed from the GFAAG. Proceeds received from the disposal normally are recorded in the general fund.

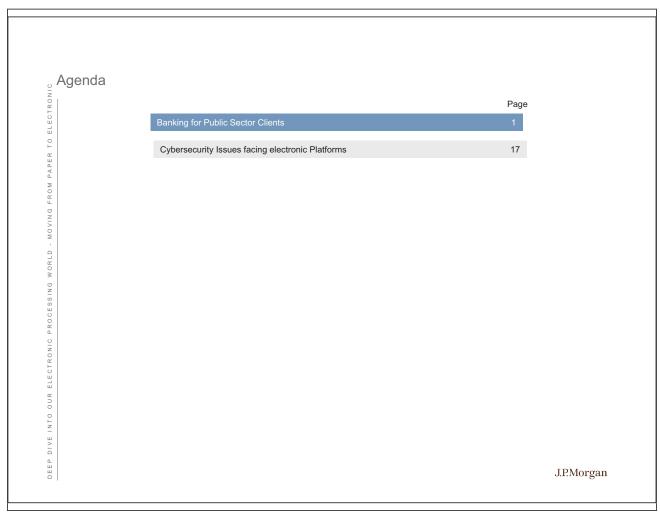
Capitalization Criteria

This Policy, for purposes of cost measurement, establishes criteria with respect to capitalization of tangible assets as follows:

- The acquisition cost of tangible capital assets meeting the capitalization policy shall be capitalized.
- Capitalization shall be based upon a written policy that is reasonable and consistently applied.
- Only those capital assets having a service life of more than one year shall be capitalized.
- Only those capital assets having a minimum acquisition cost of \$10,000 or more on an individual asset basis (i.e., smallest component that can be replaced) shall be capitalized.
- This policy covers betterments and improvements to capitalized assets that may be lower than the minimum capitalization amount.
- Costs incurred subsequent to the acquisition of a tangible capital asset, which result in extending the life, or increasing the productivity of that asset (e.g., betterments and improvements) shall be capitalized. However, costs incurred for repairs and maintenance to a tangible capital asset which either restore the asset to, or maintain it at, its normal or expected service life or production capacity shall be treated as expenditures of the current period and not capitalized.

Village of Hoffman Estates Finance/Procedure Manuals/Capitalization Policy Effective 11/4/02 Page - 3







Treasury trends outlook: Government

What Matters

- Governments continue to look for efficient, low-cost channels to collect taxes, licenses and fees
- Constituents are looking for convenience when paying obligations and receiving refunds
- Assessing risk factors (data security, cyber attacks, privacy risks, etc.) when considering system upgrades/enhancements
- Implement easy-to-use payment channels that constituents will not perceive as difficult
- Governments have high concern over security and are focused on minimizing both electronic and paper fraud
- Employee workloads are increasing exponentially faster than staffing levels

Opportunities for Innovation

- Governments are moving from paper to electronic—for both payables and receivables
- The constituent experience can be enhanced through mobile applications for payment initiation and the disbursements of payments
- It's crucial to be able to receive collections no matter how the constituent wants to initiate the payment
- Reporting capabilities can be enhanced to support transparency initiatives
- Governments can take advantage of ePayables virtual purchase card programs to better manage vendor spend, increase security around payments and create rebates

1



Learning • Connecting • Progressing

Treasury trends outlook: Government



Receivables and Payables

- Analyze opportunities to outsource non-core payment functions to reduce processing costs
- Implement solutions that increase the level of straight through processing
- Efficient integration with ERP/TWS platforms



Working Capital and Cash Management

- Interest rate environment is impacting funding decisions
- Review processing flows to establish the most costeffective and efficient cash management practices
- Increase working capital by developing strategy to accelerate collections and manage payables



Risk

- Governments are focusing on data security and risk mitigation against cyber crime attacks
- Governments are creating and following market, credit and operational risk management procedures
- PCI compliance to mitigate liability of credit card number storage
- Increased need for staff allocation to compliance/audit positions



Some pursuits for efficiency gains across the U.S.



Shared services pursued by cities with similar taxing regulation to gain economies of scale



Consortia to create purchasing power (credit card, supplies, etc.)



Programmatic partners to leverage strengths and focus scarce resources on area of distinction



Co-location to leverage strengths and focus scarce resources on areas of distinction

Source: Moody's Investors Service



Learning • Connecting • Progressing

The Millennial Impact

Used a bank's mobile app
Used a bank's website or online portal
Used the mobile app to transfer money
Used the mobile app to pay a friend or family

Millenni	als	GenXers	Boomers
67%		55%	33%
78		75	67
26		19	8
21		12	5
	_		

Source: 2015 Chase Digital Adoption Survey

Chase's Digital Adoption Survey shows a high percentage of millennials using mobile apps and websites for banking and to transfer money

Statistic

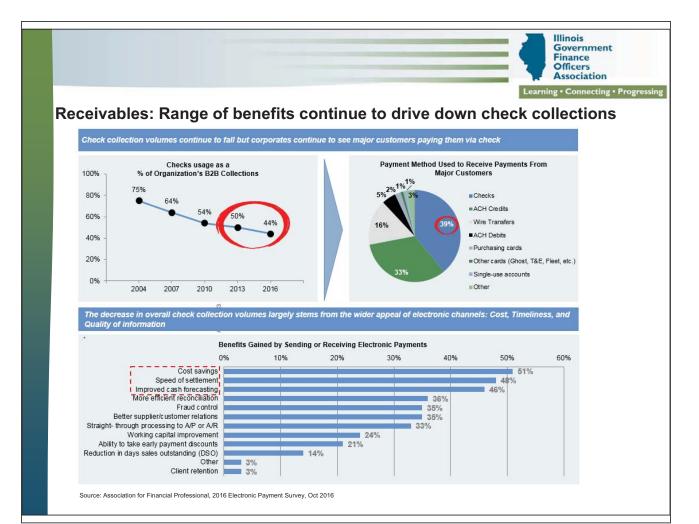
Insight

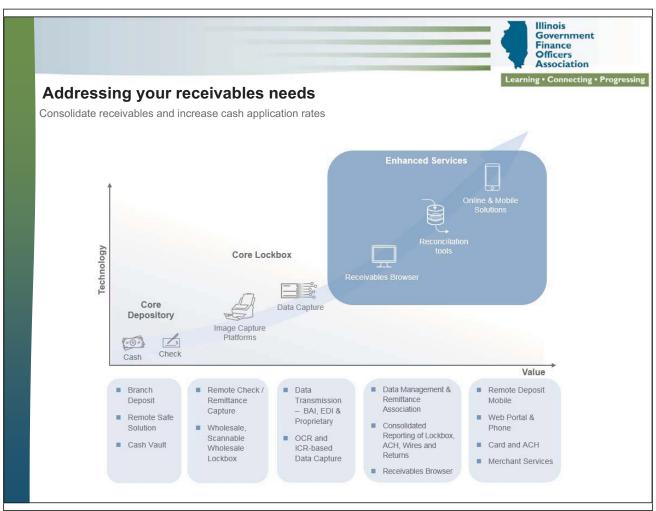
75% of the workforce will be made up of Millennials by 2030¹

>50% of Millennials are using non-traditional payment companies like PayPal and Venmo²

- Millennials are highly tech savvy and grew up with internet and mobile devices, and as more and more become decision makers in businesses, the shift to electronic B2B payments could increase
- User friendliness and customer experience is driving Millennials toward non-traditional banking options, so companies must be willing to adapt

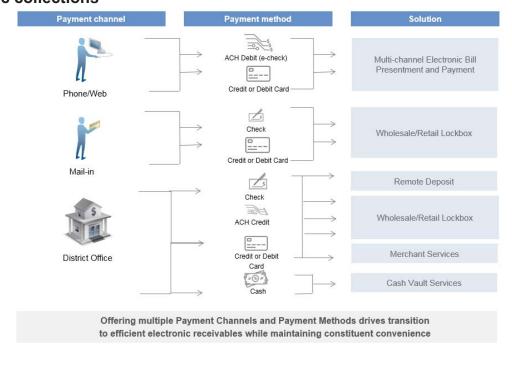
¹Source: US Bureau of Labor Statistics ²Source: FICO Millennial Insight Report







Leveraging multiple payment methods to lower costs and increase electronic collections



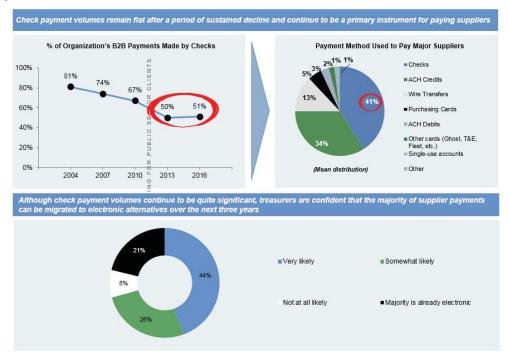


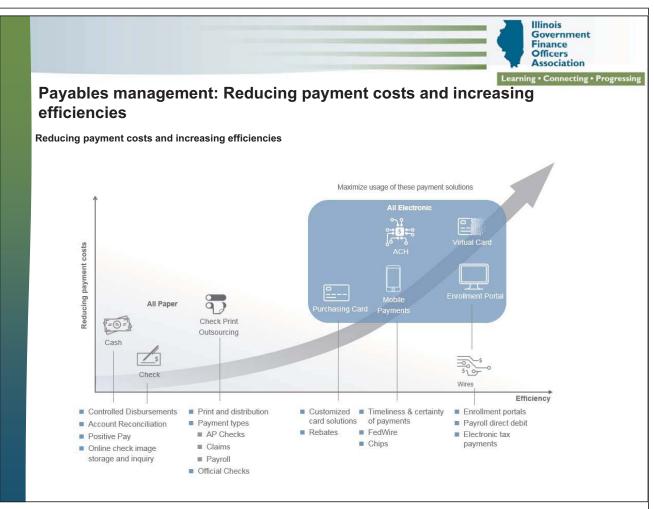
The right solution can help with process improvement, lower cost, and increase e-payments

bj.	Solution	Description	Benefit
Tioat	National Lockbox Network	Network of lockbox processing sites checks from provider clients receive same-day lockbox deposit	Reduce collections by 2-5 Days Broader network vs. in-house or regional providers Eliminate mail float on check payments
Negace Laber	Virtual Remit A desktop scanner to clear payments that arrive misdirected to your office without forwarding on to lockbox An end-to-end processing solution for checks captured via a desk-top scanner or a mobile device		 Reduce collections by 2-5 days by scanning checks and docs Clear electronically as if received into our lockbox Eliminate courier package costs
			Reduce collections by 5 days by on-site imaging and clearing ACH conversion option and reduces clearing costs
	Calina Banasian	Online reporting and workflow tool providing a consolidated view of current	- Leverage a single system for all paper and electronic collections
2	Online Reporting	and long-term rec. and remittance data	Accelerate exception resolution thus improving workflow Provide insightful analytics on receivables flows
o-payments	E-lockbox		
		and long-term rec. and remittance data - Aggregates your payments across hundreds of online bill payment portals	 Provide insightful analytics on receivables flows Reduce collections by up to 2-5 days through paper reduction Improve reconciliation and clearing time



Payments: Continued focus on electronification with limited results







Adoption of payment types connects to the overall strategy and timeline for

a		t	n	n	n	ล	ti	0	n
a	u	u	v	Ш	ш	a	u	v	

Payment Type	Payment description	Payment use
Check	■ Most common form of G2B payments ■ Highest cost to process — ■ Risk for check fraud	Non-repetitive payments "Un-banked" payments Low sensitivity to settlement date Required by the vendor
Wire	 Primarily used for time sensitive payments Immediate settlement Higher transaction fee for sender and receiver 	 Urgent payments needing same day settlement Finality of payment required
ACH	 Primarily used for high-volume/low-value payments Most cost-effective payment type Provides industry standard payment formats 	Next-day/predictable settlement date Repetitive payments Small dollar payments
Card	 Includes Purchasing and Commercial Card Ability to earn rebates Spend control 	 Encompasses both T&E and AP spend Recurring payments to vendors who accept card Pre-approved expenses



Benefits of Card Solutions

Purchasing Card (P-Card)		Virtual Card Solutions
Plastic, cardless and ghost/ supplier payment solution		Virtual, electronic, virtual card account payables solution
Eliminate costly manual processing on low value/high frequency spend		Automate higher value spend requiring A/P control or "one-off" transactions
Employee convenience with robust spend controls and added visibility		Benefits of P-Card with the added controls of a check (date, exact amount)
Processing cost savings plus rebate revenue and working capital opportunity	5.5	Efficiencies of ACH, plus rebate revenue and working capital opportunity



Transition your payments to ACH



Payment Initiation

Originator sends payment instruction electronically to originating bank

Payment Transmission ODFI transmits ACH entry to ACH Operator and posts offset to originator's account

Payment Clearing ACH Operator receives ACH entry, settles payment and transmits payment information to receiving banks

Payment Receipt Receiving bank accepts entry from ACH Operator and posts payment to receiver's account



Same Day ACH

NACHA Same-Day ACH Rule Summary SNACHA

- All receiving financial institutions are mandated to receive Same-Day ACH transactions. Same Day ACH is optional for originators. Originating Financial Institutions will be able to submit Same-Day ACH transactions in two new processing windows.
- Participating banks will be assessed a Network transaction fee for Same-Day ACH items actions sent to the Network
- Transactions above \$25,000 and IAT transactions are not eligible

Greater Payment Flexibility

With 70 different Consumer and Business options, Same Day ACH will greatly enhance payment processing options for our clients



Consumer to

- Government
- eCommerce POS check conversion
- Merchant debit
- Collections

Consumer to Consumer

- Person to
- Account to
- Government to Vendor
- Trading partner payments
- Due-date and payments



Government to Consumer

- Refunds

NACHA Implementation Timeline

September 2016

ACH Credits

Morning and Afternoon Processing Windows

Phase 1

September 2017

ACH Credits and Debits

Morning and Afternoon Processing Windows

End of Day Receiver Funds

Phase 2

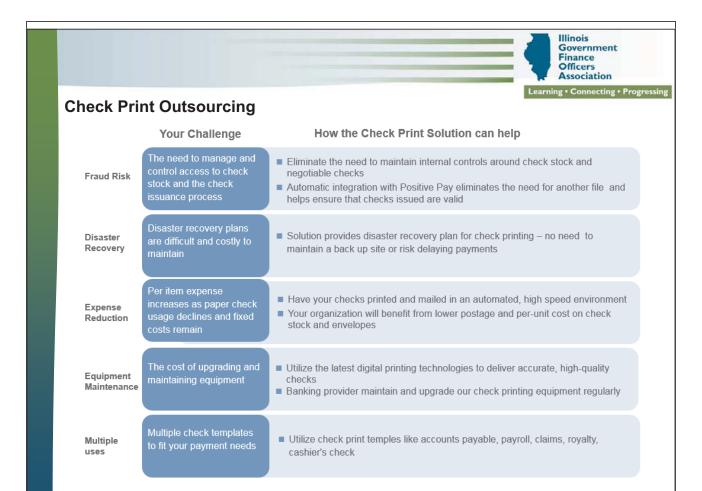
March 2018

ACH Credits and Debits

Morning and Afternoon Processing Windows

5:00 p.m. Receiver Funds Availability

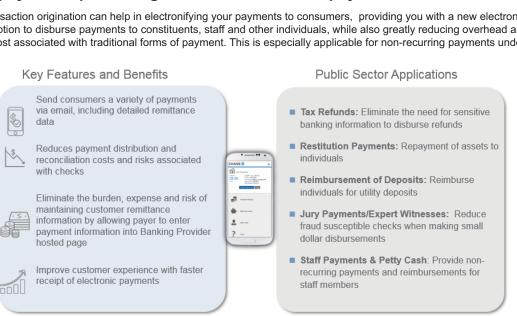
Phase 3



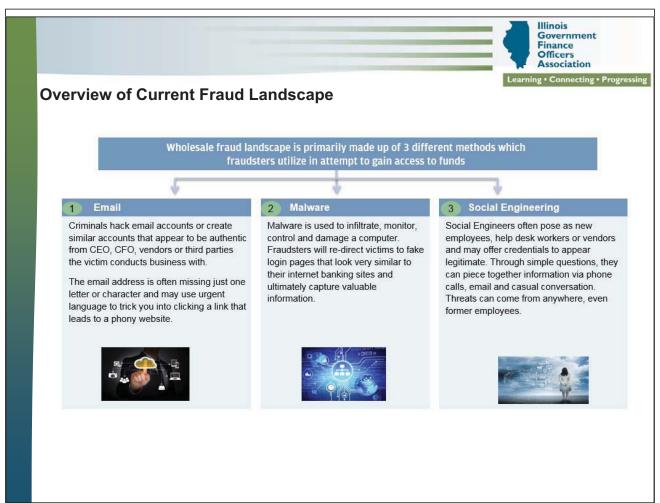


A new payment option for government consumer payments

Mobile transaction origination can help in electronifying your payments to consumers, providing you with a new electronic payment option to disburse payments to constituents, staff and other individuals, while also greatly reducing overhead and payment cost associated with traditional forms of payment. This is especially applicable for non-recurring payments under \$50,000.









What we are hearing from our Clients across the globe regarding fraud

Education	Want to focus on educating their clients and vendors on the changing environment
Utilization of existing controls	Clients are surprised that employees are not using controls that can be leveraged in our systems
Understanding the difference between cyber and fraud	Misperception that a system breach must exist for frauds to be executed
Importance of strong payment controls	Importance of independent call back verifications were not realized
Understanding the fraud environment	Surprised to learn about different types of fraud, specifically the senior manager impersonations
Awareness of what to do if fraud is identified	In regards to recovery, not aware of how significant the first 24 hours are after a fraud is executed
Leveraging training	Online webinar training offered is extremely useful
Sharing best practices	Clients are surprised that JPMC is performing phishing tests on its own internal employees



Managing risk is highly complex in today's payables environment

Risk management

Merchant Acquiring Electronic Fraud

Check Fraud

Controls

Corporate Security

Counterparty Risk

Coperational FX Risk

Merchant Electronic Fraud

Controls

Card Fraud

Cyber Security

Source: 2013 AFP Payments Fraud and Control Survey

Countering fraud and mitigating risk

Accelerate conversion to electronic payments



Utilize technology to monitor and reconcile transactions



Keep abreast of the latest potential threats

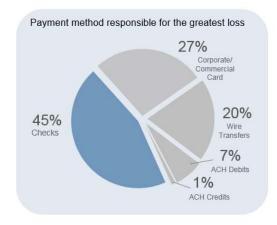


Outsourcing non-key functions i.e. check printing

Develop tailored risk management solutions to meet your payables requirements.



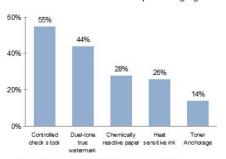
Despite decline in U.S. check payments, check fraud results in the greatest financial fraud losses



Payment trends

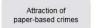
Checks paid		-9.2	-9.2% CAGR*	
volume	24.5 Billion	18.3 Billion	+	
Average \$ per check	\$1,291	\$1,410	1	

*Compound Annual Growth Rate Source: Federal Reserve Payments Study (2013) Check features most effective in protecting against fraud



Source: 2015 AFP Payments Fraud and Control Survey

Why checks?



Better quality and availability of technology

- Easier to commit than electronic fraud methods
- Increase in organized, professional fraud ring activity
- Access to scanners, printers, desktop publishing software, and other tools used to print and alter checks
- Weaknesses in the modern image exchange environment



Can you spot what's suspicious with this email?

From: Smith, Joe [mailto:Smith.Joe@yourconnpany.com]

Sent: Wednesday, February 03, 2016 1:01 PM

To: Smith, Jane

Subject: Pending Payment

Hi Jane

I'm in China traveling for business. I just met with our client, ABC Company, and they did not receive our last payment.

ABC Company

SWIFT Code: 945ddd02e Account #: 543a987b2c

It is imperative they get paid please resend our payment to them and ensure you follow up with our Bank to have the payment settled by tomorrow. Also, modify our payment instructions to reflect the new information for this client so that there are no issues going forward.

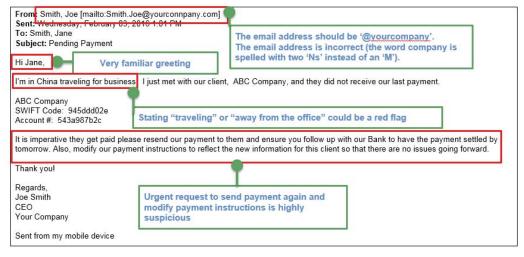
Thank you!

Regards, Joe Smith CEO Your Company

Sent from my mobile device



Can you spot what's suspicious with this email?





Can you spot what's suspicious with this email?

From: Smith, Amy [mailto: asmith@globallsuppliers.com]

Sent: Wednesday, October 11, 2016 8:21 PM

To: Smith, Bob

Subject: New Payment Instructions

Hi Bob,

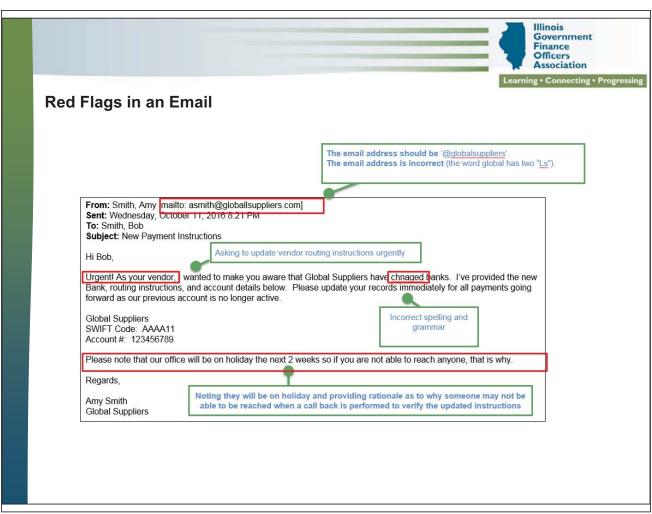
Urgent! As your vendor, I wanted to make you aware that Global Suppliers have <u>chnaged</u> banks. I've provided the new Bank, routing instructions, and account details below. Please update your records immediately for all payments going forward as our previous account is no longer active.

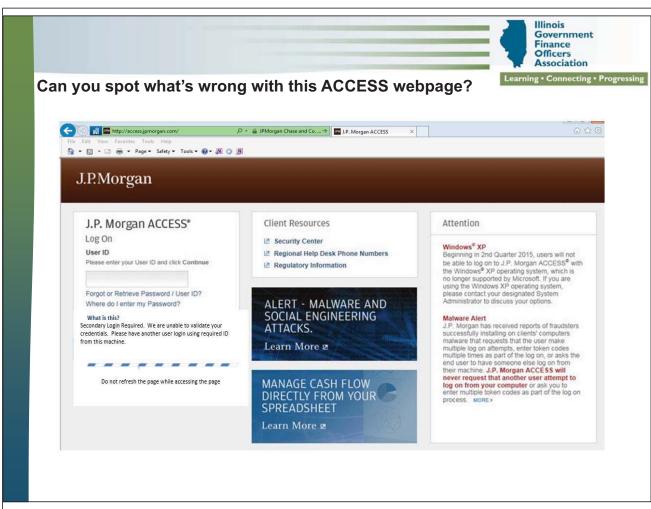
Global Suppliers SWIFT Code: AAAA11 Account #: 123456789

Please note that our office will be on holiday the next 2 weeks so if you are not able to reach anyone, that is why.

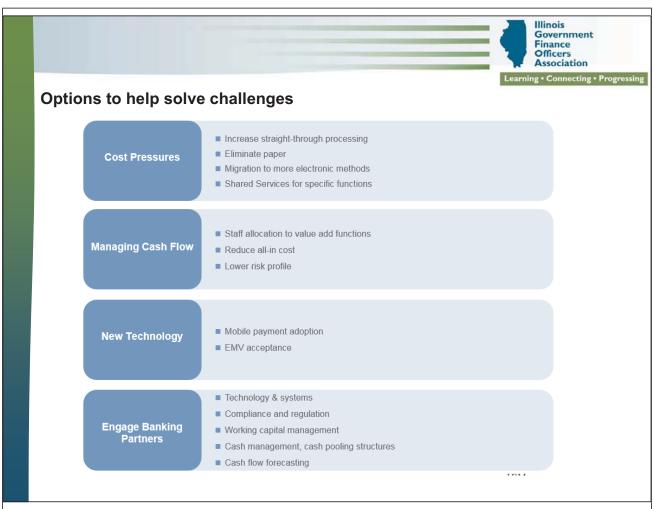
Regards,

Amy Smith Global Suppliers











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Questions?

Eileen Roberts

eileen.roberts@jpmchase.com 312-732-6745 Executive Director J.P. Morgan



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Preparing for the Next Step in Your Career!



A Looming Crisis

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

International City Manager's Association



Public Sector Workforce Trends

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



Getting Ready for Advancement...

- □ Participate in professional development opportunities – networking matters!
- Every contact is a potential employer/reference
- Watch your conduct at professional conferences
- □ Self improvement and growth are <u>your</u> personal responsibilities



Getting Ready for Advancement...

- □ Dress for the job you aspire to...
- □ Treat everyone in your professional world with dignity and respect It really is a small world!
- □ Follow up and follow through develop a reputation as a hard worker who is easy to get along with
- Preparation to become a Finance Director takes time - take extra tasks, understand department roles and goals
- □ Be respectful of authority



Criteria that Recruiters Use to Evaluate Candidates

- Education
- □ Types and levels of positions
- □ Size population, budget, # of employees
- Stability
- □ No gaps or confusion in resumes
- □ Be specific and quantitative



Criteria that Recruiters Use to Evaluate Candidates

- □ Professional looking resume
- Cover letter specific to position
- □ Specific criteria set by elected officials
- □ Best predictors of future behavior is past behavior/success
- □ References/background checks/due diligence
 - Facebook, Twitter, blogs



Criteria that Recruiters Use to Evaluate Candidates

- □ Willingness to move
- Willingness to hire in at pay range
- □ Telephone/in person interview:
- □ Why are you looking at this position?
- □ Why are you leaving or left current position?
- Knowledge/understanding of what organization is looking for
- Ability to articulate your thoughts
- □ Enthusiasm/Presence



Criteria that Recruiters Use to Evaluate Candidates

- □ Timely follow up
- □ Intangibles; personality match with Board and community "Do you fit?"
- □ Relative ranking compared to others
- Doing things the right way
- □ Board management skills



What Hiring Authorities Look for in Candidates

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



What Hiring Authorities Look for in Candidates

Financial Management Skills

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



What Hiring Authorities Look for in Candidates

Other Finance Related Experience

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



Communication Skills

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



Integrity and Honesty

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



Management Style

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



Visionary

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



What Hiring Authorities Look for in Candidates

Personal Traits

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



Common Sense Career Builders

- Understand the unwritten contract you have with your employer
- □ Be accountable a "go to" person
- □ Aim for excellence not perfection
- □ Be concerned with your image
- Self improvement and growth are your personal responsibilities



Common Sense Career Builders

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



Working with a Recruiter

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



Resume Writing Tips

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



Quantifying Experience

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

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



Top Ten Interview Blunders

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



Common Mistakes People Make During the Interview Process

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



How to Answer the Tough Questions

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



Negotiating Your Package

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



At the interview, be sure to:

- □ Smile...
- □ Exhibit sincere energy...
- □ Ask for the job! (If you want it)



At the interview, be sure to:

- □ If you are no longer interested in the position, notify recruiter or hiring authority.
- □ Send a thank you note!



Questions?

Lee Szymborski

LSzymborski@govhrusa.com 847-380-3240



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The ABC's of Governmental Budgeting



It All Starts With a Budget

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



Why Budget?

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

3



Universal Challenges

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



Competing Ideologies

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

5



Before You Begin

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



Financial Policy Development

- Strategic planning
 - > Where are we going?
 - > Short-term and long-term goals and objectives
 - > Rationale for allocating resources
- □ Accountability
 - > How did we do?
 - > Are we practicing what we preach?

7



Financial Policies (external standards)

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



Financial Policies (internal standards)

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

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Financial Planning

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



Operations Planning

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

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Operations Planning Elements

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



Communications

"If you can't explain it to a six year old, you don't understand it yourself"

-- Albert Einstein

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Communications

- Multi-party communication
 - > Elected officials to management
 - Management to staff
 - > Elected officials & staff to residents
 - > External communication
- Multi-faceted communication
 - Policy
 - > Financial
 - Operational
 - Historical



Keep It Simple Stupid

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

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Common Elements

- Budget message
- Summary
- Detail
- Other Information



Qualities of an Effective Budget

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

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Types of Budgeting

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



Budget Monitoring

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

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Legal Framework

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



•Questions?

Julie Zolghadr

Julie.Zolghadr@springfield.il.us 217-789-2191 ext. 6209



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Revenue Overview



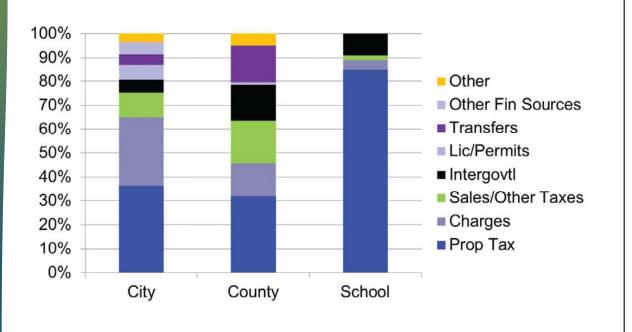
What are your key revenue sources?

- GeneralFund
- EntityWide

Top Ten Revenues						
	Revenue Source	% of FY2017 City- wide Revenue	% of FY2017 General Fund Revenue	Estimated Growth over		
				Prior Year		
1	Property Taxes	32.29%	53.48%	2.93%		
2	Internal Service Charges	12.03%	2.11%	2.50%		
3	Water/Sewer Charges	9.56%	n/a	2.50%		
4	Municipal Utility Taxes	4.51%	10.75%	1.50%		
5	Inter-fund Transfers	4.48%	n/a	n/a		
6	Building Permits	4.30%	3.21%	n/a		
7	Parks/Recreation Fees	3.95%	n/a	n/a		
8	Sales Tax	3.43%	8.18%	0.0%		
9	Income Tax	2.60%	6.21%	1.50%		
10	Golf Course Fees	2.29%	n/a	9.00%		
11	Real Estate Transfer Tax	1.69%	n/a	1.50%		
12	Grant Revenue	1.64%	n/a	n/a		
	TOTAL	82.79%	83.94%			



What are your key revenue sources?





Property Tax

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



Tax Levy Process



Credit: Lake County Illinois web site



Tax Levy Calendar

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

2016 Levy	
Tax Levy Estimate	11/7/16
1st Reading - Ordinance	11/21/16
Final Reading – Ordinance (Public Hearing, If Required)	12/5/16
File Tax Levy Ordinance with County	12/27/16



Property Taxes

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



PTELL History

Illinois Dept. of Revenue History of CPI's Used for the PTELL 1/18/2017

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

2017 levy increase under PTELL is 2.1%.

		% Change				
		From				
	December	Previous	% Use for			Years Taxes
Year	CPI-U	December	PTELL	Comments	Levy Year	Paid
1991	137.900	-				
1992	141.900	2.9%	2.9%		1993	1994
1993	145.800	2.7%	2.7%	(5 % for Cook)	1994	1995
1994	149.700	2.7%	2.7%		1995	1996
1995	153.500	2.5%	2.5%		1996	1997
1996	158.960	3.6%	3.6%		1997	1998
1997	161.300	1.5%	1.5%		1998	1999
1998	163.900	1.6%	1.6%		1999	2000
1999	168.300	2.7%	2.7%		2000	2001
2000	174.000	3.4%	3.4%		2001	2002
2001	176.700	1.6%	1.6%		2002	2003
2002	180.900	2.4%	2.4%		2003	2004
2003	184.300	1.9%	1.9%		2004	2005
2004	190.300	3.3%	3.3%		2005	2006
2005	196.800	3.4%	3.4%		2006	2007
2006	201.800	2.5%	2.5%		2007	2008
2007	210.036	4.08%	4.1%		2008	2009
2008	210.228	0.1%	0.1%		2009	2010
2009	215.949	2.7%	2.7%		2010	2011
2010	219.179	1.5%	1.5%		2011	2012
2011	225.672	3.0%	3.0%		2012	2013
2012	229.601	1.7%	1.7%		2013	2014
2013	233.049	1.5%	1.5%		2014	2015
2014	234.812	0.8%	0.8%		2015	2016
2015	236.525	0.7%	0.7%		2016	2017
2016	241.432	2.1%	2.1%		2017	2018
	2.2.102		2.270			2.20

http://www.revenue.state.il.us/LocalGovernment/PropertyTax/CPIhistory.pdf



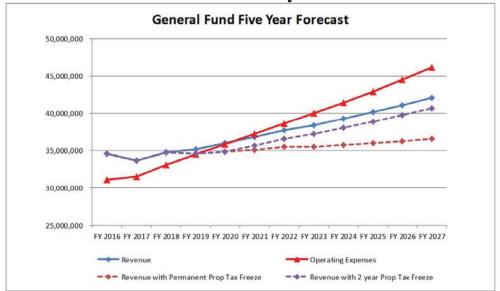
Illinois

Property Tax – Current Issues

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

Government Finance Officers Association

Lake Forest example



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



State Administered Revenues

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



State Administered Revenue

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



State Administered Revenue

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

www.idot.illinois.gov



Forecasting State Shared Revenue

Illinois Municipal League – Review Magazine www.iml.org

	MFY 2015 ACTUAL	5 2016 (DECEMBER		MFY 2017 REVISED FORECAST (AUGUST 2016)	MFY 2017 REVISED FORECAST (DECEMBER 2016)	MFY 2018 FORECAST	
Income Tax (Per Capita)	\$97.11	\$106.78	\$102.00	\$102.50	\$97.20	\$101.00	
State Use Tax (Per Capita)	\$19.26	\$23.02	\$23.50	\$23.50	\$24.20	\$25.30	
Motor Fuel Tax (Per Capita)	\$24.03	\$25.63	\$25.90	\$25.90	\$25.60	\$25.75	
Total Per Capita	\$139.72	\$155.43	\$151.40	\$151.90	\$147.00	\$152.05	
CPPRT (S thousand)	\$1,372,283	\$1,390,078	\$1,426,600	\$1,100,000	\$1,300,000	\$1,225,000	



State Administered Revenue

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





Locally Administered Revenue

- Utility Taxes
 - □ Natural Gas, Electric and Water
- Franchise Fees
 - □ Cable TV (5% + 1% PEG Fee)
 - □ Electric Cash or Free Service Options
 - □ Natural Gas Cash or Free Service Options



Locally Administered Revenue

- Real Estate Transfer Tax
- Miscellaneous Taxes
 - □ Local Motor Fuel Tax
 - □ Food & Beverage Tax
 - □ Packaged Liquor Tax

^{*}Imposition of these local taxes require home rule or referendum.



Locally Administered Revenue

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



Enterprise Funds - Rates

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



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Lake Forest Cost of City Services

Costs to Lake Forest Residents

Fiscal Year:	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Property Taxes (\$800,000 home in 2011)	2,424.62	2,493.29	2,568.44	2,618.49	2,688.87
Deduct: Library Portion	(330.31)	(340.98)	(348.29)	(354.52)	(357.00)
City Portion of Property Tax	2,094.31	2,152.31	2,220.15	2,263.97	2,331.87
Utility Taxes - Electric/Gas/Water	240.00	240.00	240.00	240.00	240.00
Telecommunications Tax	54.00	54.00	54.00	54.00	54.00
Cable Franchise Fees	45.00	45.00	45.00	45.00	45.00
Vehicle Stickers (2 vehicles)	170.00	170.00	170.00	170.00	170.00
Water Charges	1,078.00	1,108.00	1,148.00	1,180.00	1,206.00
Sanitary Sewer Charges	136.00	136.00	136.00	136.00	136.00
Sanitation Fee			96.00	96.00	96.00
Total	3,817.31	3,905.31	4,109.15	4,184.97	4,278.87
Change from prior year	(\$26.09)	\$87.99	\$203.85	\$75.81	\$93.91



Questions?

Elizabeth Holleb

hollebe@cityoflakeforest.com 847-810-3612



Expenditure Overview



Type of Expenditures

- Personnel Costs
- Contractual Services
- Commodities
- Other Expense
- Capital Outlay



Personnel Costs

- Salary
- Overtime
- Insurance
- Payroll Taxes
- Pensions



Contractual Services

- Professional Fees
- Insurance
- Utilities
- Repairs/Maintenance
- IT Services
- Public Relations



Contractual Services

- Telecommunications
- Codification of Ordinances
- Training
- Audit Fees
- Janitorial Services
- Other



Commodities

- Deicing Materials
- Gas, Oil, Etc.
- Landscaping
- Trees
- Street Signs
- Office Supplies



Other Expenses

- Rebates
- Economic Development
- Bad Debt Expense
- Miscellanous



Capital Outlay

- Equipment
- Building Improvements



Cash vs Accrual

- Cash Basis
 - Board Preference
 - Easy to Understand
- Accrual
 - Year end reporting
 - Proprietary Funds



Budget to Actual

- Monthly Reporting
- Allocation of Expenses
 - □ Payroll pay dates
 - □Seasonal
 - □ One time expenses
 - ☐ Monthly/Quarterly/Semi Annual



Financial Reporting

City of Rock Island

Expenses

General government Police and fire Electrical maintenance Municipal vehicle parking system

Highway and street Refuse disposal

Libraries

Interest on long-term debt

Waterworks

Wastewater

Park and recreation

Stormwater

Sunset Marina

Housing and community

development loans

Village of Park Forest

expenses

General Government Law Enforcement

Fire and Emergency

Public Health

Recreation and Parks

Public Works

Streets and Transportation

Community Development

Economic Development

Interest on Long-Term Debt

Water

Sewer

DownTown Park Forest

Refuse

Municipal Parking Lot

Aqua Center

Tennis and Health Club



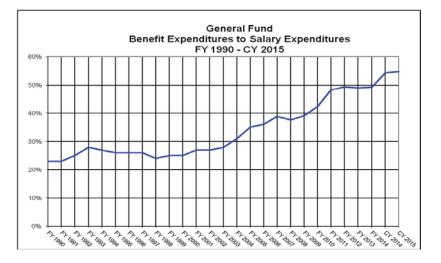
Processing & Communication

- Purchasing Policies
- Accounts Payable decentralized vs centralized
- Transparency
 - Claims
 - □ Purchase Cards
 - □ Wires and ACH
- Chart of Accounts Setup



Processing & Communication

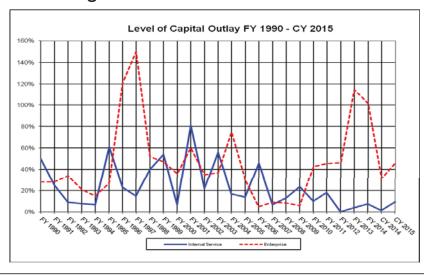
- City of Rock Island
 - Trend Monitoring





Processing & Communication

- City of Rock Island
 - Trend Monitoring





Questions?

Stephanie Masson

masson.stephanie@rigov.org

309-732-2117

Finance Director

City of Rock Island



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Financial Forecasting

GFOA Best Practice Approved February 2014



What and why?

- Evaluate current and future fiscal conditions
- Guide policy and programmatic decisions
- Estimates based on past, current, and projected financial conditions
- This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services
- The forecast is an integral part of the annual budget process
- An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering essential community services



Forecast is not...

- A prediction of future deficits
- Budget adjustments will be made to course correct

3



GFOA Recommendation

- Major revenues and expenditures
- Extend several years into the future
- Forecast and assumptions clearly stated
- Concise presentation in final budget document
- Regularly monitor and update



Know your question

- Purpose
- Audience
- What will they use it for?
- Level of detail

5



Scope

- General fund only
- Selected funds only
 - □ Operating, capital
 - ☐ Governmental, business
- Key revenues and expense items
- All funds

- Total inflows and outflows to the entity?
- This may result in simple or complex forecasts.
 - ☐ Remove interfund transfers?



Horizon

- Current budget only
- Two years Wilmette's budget practice
- Five years
- The longer the view, the less reliable

7



Level of detail

- Category trends (Riverside)
- Line item trends
- Key items only (Villa Park)



Simpler is better...

- Most of the time
- Depends on your audience and your question

9



Deliverables

- Chart in a budget
- Section in budget document with spreadsheets and graphs
- Full report of graphs and narrative



How do you forecast?

- Look at historical data
- Identify trends or anomalies
- Facts or guesstimates about those trends
- Arrive at a growth rate (increase or decrease)

11



Decide what to show

- Dollar amounts on a spreadsheet
- Graphical presentation
- Relative growth rates/trends



Helpful excel formula

M	V	W	X	Υ
Calculated IRR	15	16	17	18
=IRR(V8:Y8)	Negative beginning value	0	0	Ending Value

- Internal Rate of Return provides the compound annual growth rate
 - ☐ Shows long term trend over time but may miss interim hiccups
- Excel formula is "IRR"
 - ☐ First cell in range is the negative beginning value
 - □ Zeros for each year
 - ☐ Final cell in range is the ending value

13



See the impact of changes

- Use live data, if possible
- Focus on a few key inputs/ assumptions and results
- Central formulas for future growth rates□ Change one change many
- Update key assumptions, with results on a master page to see immediate impacts
- Sensitivity analysis



Illinois

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Riverside example

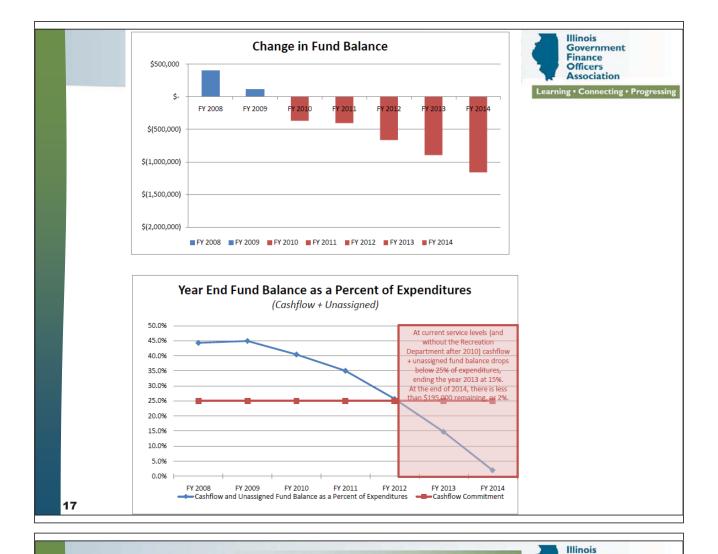
VILLAGE OF RIVERSIDE
FIVE YEAR GENERAL FUND BALANCE FORECAST - Updated with 12-21-2009 Board decisions

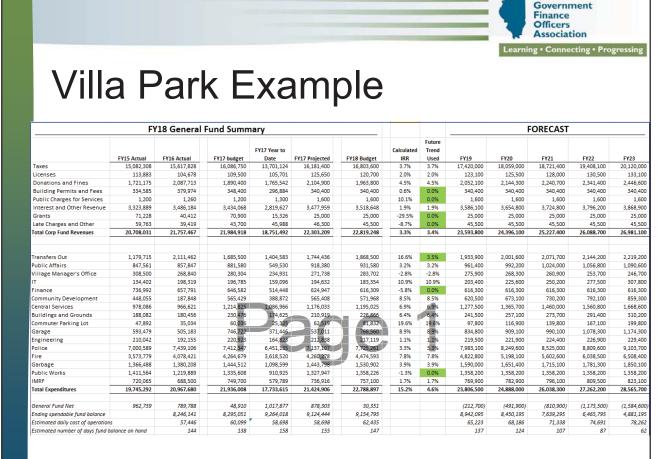
		ACTUAL FY 2008	PI	ROJECTED FY 2009	BUDGET FY 2010	BUDGET FY 2011	 OJECTED FY 2012	PROJECTED FY 2013	P	ROJECTED FY 2014
REVENUES										<u> </u>
TAXES	\$	5,063,334	\$	5,156,903	\$ 5,185,536	\$ 5,328,499	\$ 5,461,711	\$ 5,598,254	\$	5,738,211
LICENSES AND FEES		905,113		714,490	883,250	883,250	888,350	893,578		898,936
INTERGOVERNMENTAL & GRANTS		1,239,292		929,327	952,676	979,686	1,004,596	1,030,142		1,056,339
CHARGES FOR SERVICES		398,446		414,099	420,098	347,564	356,253	365,160		374,289
FINES AND FORFEITS		194,869		167,000	180,000	180,000	184,500	189,113		189,113
INVESTMENT INCOME		243,013		45,624	63,224	75,676	77,946	80,285		80,285
OTHER REVENUE		163,370		151,565	150,082	119,975	107,500	110,089		110,089
TRANSFER IN		-				-	-	-		-
TOTAL REVENUES	\$	8,207,437	\$	7,579,008	\$ 7,834,866	\$ 7,914,651	\$ 8,080,858	\$ 8,266,619	\$	8,447,259
EXPENDITURES PERSONNEL COSTS OPERATING EXPENSES		4,871,869 2,491,398		4,983,750 2.625.145	\$ 5,327,682 \$ 2.525.585	\$ 5,414,543 2.536.819	5,739,802 2.636.025	\$ 6,094,564 \$ 2,688,748	\$	6,478,558 2,742,525
CAPITAL OUTLAY	\$		\$	88.450	\$ 348,910	\$ 366,675	\$ 370,898		\$	385,789
TRANSFERS OUT	\$	5,000	\$	5,000	\$ -	\$ 	\$ 	\$ -	\$	
TOTAL EXPENDITURES	\$	7,708,883	\$	7,702,345	\$ 8,202,177	\$ 8,318,037	\$ 8,746,726	\$ 9,161,582	\$	9,606,872
NET REVENUE (EXPENDITURES) OTHER FINANCING SOURCES (USES	\$	498,554 (97,000)	\$	(123,337) 235,000	\$ (367,311) -	\$ (403,387)	\$ (665,868)	\$ (894,963)	\$	(1,159,613)
•	_									

Government **Finance** Officers Association FUND BALANCE @ 12/31 Not available for next year's operations NON SPENDABLE 45,165 \$ 45,000 45,000 45,000 \$ 45,000 \$ 45,000 \$ 45,000 RESTRICTED (Long Term) 108,425 85,000 85,000 85,000 85,000 85,000 85,000 CASHFLOW COMMITMENT 1,927,221 1,925,586 2,050,544 2,079,509 2,186,681 2,290,395 2,401,718 ABATEMENT COMMITMENT 112,900 DEBT SERVICE ASSIGNMENT 352,786 350,000 350,000 350,000 350,000 350,000 350,000 Total Not Available for Operations 2,546,497 2,405,586 2,530,544 2,559,509 2,666,681 2,770,395 2,881,718 Available for next year's operations RESTRICTED (Short Term) 98,211 \$ 75,000 75,000 75,000 \$ 75,000 75,000 \$ 75,000 HISTORIC MUSEUM ASSIGNMENT 54,875 55,875 56,000 56,000 56,000 56,000 56,000 UNASSIGNED 1,484,286 1,759,070 1,266,676 834,324 61,284 TOTAL AVAILABLE FOR OPERATIONS 1,637,372 1,889,945 1,397,676 965,324 192,284 (806, 392)(2,077,328)3,524,834 \$ 2,858,966 **TOTAL FUND BALANCE AT 12/31** \$ 3,928,220 \$ 4,183,869 \$ 4,295,531

Notes: (1) Fund Balance definitions were changed on December 7, 2009 for GASB S. 54. The CAFR will not likely differentiate between short term and long term Restricted Fund Balance. (2) If the property at 63 Burlington is used for a non-parking lot purpose, the General Fund (or another source) would need to fund the \$85,000 PILOP obligation in the Parking Lot Fund. If the General Fund repays the PILOP, it would decrease the Unassigned Fund Balance by that amount and decrease the "As a Percent of Expenditures" number below by approximately 1 percentage point.

Total Cashflow + Unassigned F.B.	\$ 3,411,507	\$ 3,684,656	\$3,317,220	\$ 2,913,834	\$ 2,247,966	\$ 1,353,003	\$ 193,390
As a Percent of Expenditures	44%	45%	40%	35%	26%	15%	2%
REVENUE INCREASE %	6.9%	-7.7%	3.4%	1.0%	2.1%	2.3%	2.2%
EXPENDITURE INCREASE %	5.6%	-0.1%	6.5%	1.4%	5.2%	4.7%	4.9%







Villa Park, continued

- Also forecasting key expenses:
 - □ Pension contributions
 - □ Health insurance
- Other operating funds
 - □ Recreation

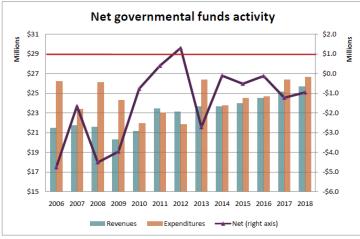
19



Glen Ellyn example

Governmental revenues, expenditures and fund balance

Governmental revenues grow at a relatively flat pace overall. Expenditures grow at the pace of capital investment (through the capital improvement planning process) and the growth of personnel and benefit expenses. Each year, expenditures are projected to be higher than revenues. The end result is depletion of fund balance over time.



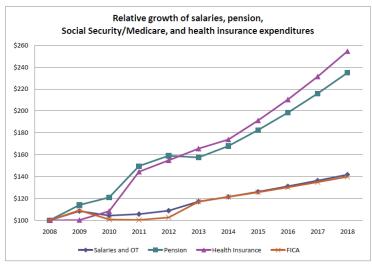
Each year, expenditures are projected to be higher than revenues, continuing to reduce fund balance.

There are important items to note about these projections. For example, the Village aggressively pursues grants. Significant grant dollars are likely, but are excluded as we do not know how much grant revenue will be awarded, or for which projects. Grants are typically provided only for capital projects. From 2007 to 2013, the Village has secured close to \$300,000 in operating grants, and more than \$6.2 million in grants for capital projects.



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Personnel costs over time



In aggregate, the costs for personnel increase over time. Each of the components of personnel are increasing. Health insurance and pensions are growing at a much faster rate than Social Security/Mediare (FICA) or salaries and OT.

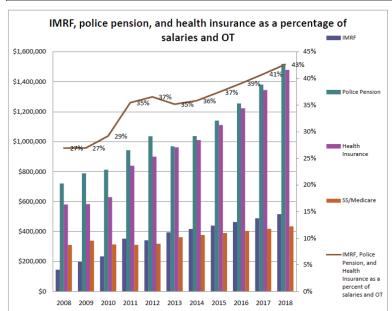
This chart shows the relative growth of each area of expenditure. For example, for every \$100 we spent on health insurance in 2008, we are forecasting that we will spend close to \$260 in 2018.

In 2018, the costs for pensions and health insurance will be about 2.5 times the 2008 costs.

21



IMRF, police pension and health insurance as a precentage of salaries and overtime



This graph shows the dollar cost of police pension, health insurance, IMRF, Social Security and Medicare each year from 2006 to 2017. Further, this compares the total cost to provide these benefits (excluding Social Security and Medicare) as a percent of the salaries and overtime. In 2008, those benefits cost about 27% of paid salaries and overtime. In 2013, that number has grown to 35%, and is projected to grow to 43% in 2018. This is due to significant annual cost increases, primarily in health insurance and pensions.

The decline in 2013 is a due to a lowered police pension contribution as a result of a change in state law that extended the amortization of the unfunded liability.

The cost to provide benefits continues to grow. In 2013, the slight decline relates to a one-time change in pension funding formula.



Takeaways for the end-user

- Is this food for thought?
- Do you provide solutions or recommendations?

23



Forecasts typically evolve

- Start simple, General Fund
- Increase in complexity
- Identify and isolate concerning trends
- Understand your audience
- Know your question



Questions?

Kevin Wachtel

kwachtel@invillapark.com

630-592-6064



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Confessions of a Maverick Buyer



CONFESSIONS OF A MAVERICK BUYER...

LET THESE STORIES BE A LESSON TO YOU.



Presentation Objectives

Spend Analysis Risk Management

Transparency



Learning & Connecting & Brogressing

Spend Analysis

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

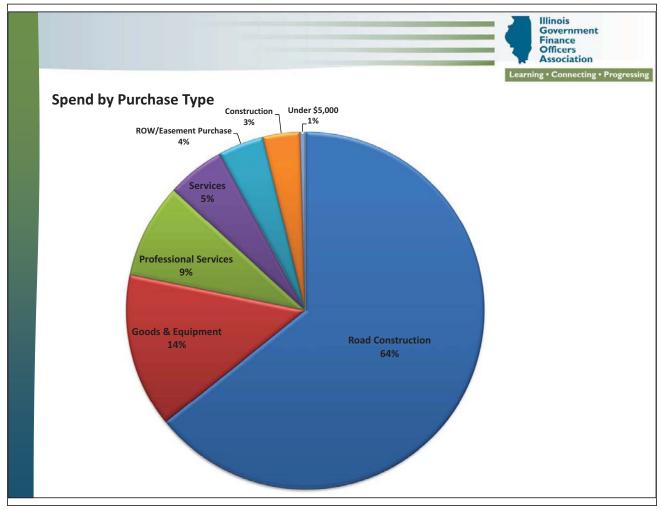
Principles and Practices of Public Procurement - NIGP

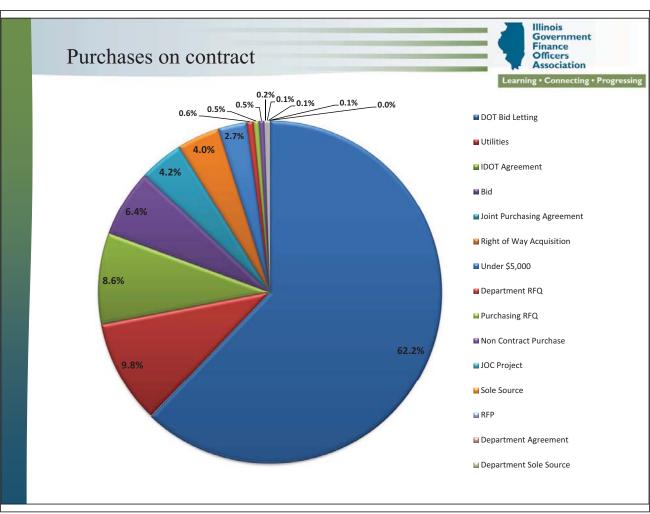


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Spend vs. Number of Transactions

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









Cooperative Purchasing

Joint Solicitation

Piggybacking



Joint Solicitation

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





Pros and Cons of Joint Solicitation



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



Cons

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



Piggybacking

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



Pros and Cons of Piggybacking



P 50

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



Cons

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



Governmental Joint Purchasing Act 30 ILCS 525/2

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









Intergovernmental Cooperation Act 5 ILCS 220/2

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



Benefits of using cooperatives

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



Things to look out for

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





Where to find a cooperative?











Risk Management

A process including the identification and analysis of risk; and the decision to either accept or mitigate the exposure to such risk when compared to the potential impact on the achievement of the organizations objectives

Principles and Practices of Public Procurement - NIGP



Understanding the Risk

- Identify what needs to be procured
- Identify the contract vehicle to use
 - Pcard
 - Purchase Order Terms and Conditions
 - Negotiated Contract
 - Joint Purchasing Contract
- Monitor and manage the contract



Financial Benefits of PCards

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





Pros

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



Cons

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



When should Pcards be used?

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



When NOT to use Pcards

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



Purchase Orders

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



Key PO Terms

- Entire Agreement
- Indemnification
- Change Order
- Default
- TransportationCharges
- Inspection

- Warranty
- Payment
- Taxes
- Termination
- Insurance
- Liability
- Prevailing Wage



Negotiated Contract

- An obligation, such as an accepted offer, between competent parties upon a legal consideration, to do or abstain from doing some act.
- The essential elements of a contract are an offer and an acceptance of that offer; the capacity of the parties to contract; consideration to support the contract; a mutual identity of consent; legality of purpose; and definiteness.
- An agreement between parties with binding legal and moral force, usually exchanging goods or services for money or other considerations.



Key Contract Elements

- Recitals
- Agreement Documents
- Scope of Work
- Duration
- General Terms and Conditions
- Any items specific to your entity



Joint Purchasing Contract

BE WARNED! Not all purchasing cooperatives are equal!

Some purchasing cooperatives have failed to be structured in a way that provides maximum transparency and have no independent oversight to deter violations of professional public procurement laws, standards and ethics.

Procurement Process

Prior to accessing individual cooperative contracts it is vital to review the solicitation process and documentation.

Contracting Entity

- Determine if the entity that issued the solicitation, evaluated the proposals and awarded the contract meets YOUR state's legal criteria for cooperative purchasing.
- An entity may meet the criteria in ITS home state but not meet your state's criteria. The criteria vary widely from state to state.



Transparent Procurement Process:

- Was the soliciting entity an independent lead public agency that meets the definition of a political subdivision (i.e. county, city, school district, state, public higher education or special district) and therefore meets the cooperative purchasing legal criteria in Illinois?
- Was the development of the solicitation, evaluation of the responses and award determination all performed by public employees of a political subdivision that is separate from and independent of the cooperative organization?
- Was proper public notice provided? Location and duration of notice should be considered. If the resulting contract was intended to be marketed nationally, was it advertised nationally?



Transparent Procurement Process:

- Was the proper form of solicitation (RFP, ITB) utilized for the product or service being solicited?
- Were the specifications and evaluation criteria clear and unbiased?
- Who evaluated the bid?

The cooperative itself?

An independent group?

Public procurement professionals or private employees?

- Were the evaluation and award process conducted in compliance with generally accepted professional public procurement standards?
- Were there any irregularities?



Transparent Procurement Process:

- How many responses were submitted in response to the solicitation?
- How many awards?
- Review all vital documents related to the solicitation, evaluation and award of the cooperative contract.
 - » Notice / posting / advertising of the solicitation
 - » RFP document
 - » Evaluation Tabulation/Summary with winner clearly indicated
 - » Signed Master Agreement / Contract
 - » All addenda

When in doubt ask your agency's legal counsel to review.



Oversight and Accountability:

- Does the cooperative organization have independent and broad oversight of the program and its operations?
- Does the cooperative conduct independent third-party supplier audits to ensure contract compliance?
- Does the cooperative effectively manage its suppliers?
- Does the cooperative have adequate staff?
- How many staff per supplier does the cooperative have?



Public Agency Protection & Supplier Contract Compliance:

- Does the cooperative staff conduct quarterly performance reviews
- Does the cooperative agreement contain terms and conditions that require the supplier to provide their best government pricing to your agency? And does the agreement also require the supplier to demonstrate to you the value of the cooperative contract over other vehicles available from the supplier to your agency, including responding to your agency's own solicitation?
- Does the cooperative have field personnel focused on educating public agencies on the benefits of the cooperative program and resolving problems or concerns?



Transparency

Easily accessible and understandable policies and processes. This value is essential to demonstrate the responsible use of public funds.



Sole Source/Bid Exemption

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



Lake County – 6-102 Bid Exemption

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



Lake County — 6-103 Emergency Procurement

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



Questions?

RuthAnne K. Hall, CPPO

847-377-2180 Purchasing Manager Lake County, IL



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Debt Issuance In Government

4135407



Why borrow?

- Buy a house
- Build a Village Hall/Police Station
- Refinance to get a lower interest rate
- Replace sewer and water main
- Street maintenance/ construction

- Renovate a golf course clubhouse
- Buy an ambulance
- Buy a fire engine
- Buy a PW truck and cardiac heart monitors
- Rollover bonds borrow money to make bond payments on other bonds – huh?



Options and alternatives

- Bonds
- Debt Certificates
- Tax Anticipation Notes
- Pension Obligation Bonds
- Capital Lease
- IEPA low interest loans
- Other specialty bond programs (BABs, PABs, etc.)

3



How will you pay it back?

- Property tax levy
- Other dedicated revenue source
- Double barreled bonds
- General revenues

- Utility usage fees
- Or anything that you can imagine



Who ya gonna call?

- Someone with a <u>fiduciary responsibility</u> to you
 - ☐ Financial advisor (Municipal Advisor)
 - ☐ Helpful for issuers that are not experts in the bond markets
 - ☐ GFOA recommended practice
- There are many members of the financing team each with a different and important role

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PLAYERS

PLAYERS

FUNCTION

A. Independent Financial Advisors [M.A.] Structuring, rating/credit enhancement applications, O.S. preparation, sale, closing

B. Bond Counsel

Draft documentation, legal advice regarding structuring, opinion as to legal authority and tax exemption

C. Rating Agencies

Evaluate credit worthiness, assign rating, respond to investors' questions

D. Credit Enhancers

Enhanced rating for insurance, premium vs. interest savings, necessity for variable rate bonds



PLAYERS

PLAYERS

FUNCTION

- E. Commercial/Investment Bank Structuring vs. marketing bonds
 - 1) Public Finance Dept.
 - 2) Underwriting Dept.
- F. Local Counsel
- G. Registrar/Paying Agent1) Securities Depository
- H. Refunding
 - 1) Escrow Bank
 - 2) Independent Verification

Review documents, explain policy and legal issues, negotiations

Records bond ownership, payment of debt service, book entry system

Holds escrow securities and pays refunded bonds, verifies sufficiency of escrowed funds

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PLAYERS

PLAYERS

- I. Economic Development Consultant (Tax Increment Financing)
- J. Engineer/Architect Firms (Capital Project)
- K. Staff/Elected Officials
- L. Taxpayers/Ratepayers
- M. Disclosure Counsel

FUNCTION

Evaluate development incentives, prepares feasibility study

- Design and cost estimates for the project
- Monitor appropriateness to the issuer, policy decisions
- Ultimate source of bond repayment
- Review O.S., possibly prepare O.S.



CLIENT NAME

County, Illinois General Obligation Bonds, Series 2017

Preliminary Bond Financing Timetable

, 2017

<u>Date</u>	<u>Task</u>	Party Responsible
Week 1	Prepare Draft Preliminary Official Statement (POS)	Client and Speer
Week 3	Distribute Materials to Rating Services(s)	Speer
Week 3	Distribute Draft POS	Speer
Week 4	Comments Received on Draft POS	All Parties
Week 5	Distribute Draft Bond Ordinance	Bond Counsel
Week 6	Rating Call	Client and Speer
Week 8	Receive Rating	Client and Speer
Week 8	Finalize and Print POS	Speer
Week 10	Bond Sale: Bidding or Pricing	All Parties
Week 12	Bond Closing	All Parties



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	Method of Sale Competitive Vs. Negotiated			
Factors to Evaluate	Competitive	Negotiated		
Issue Size	Above \$500,000 and Under \$100 Million	Under \$500,000 or Over \$100 Million		
Financing Structure	Traditional GOs, enterprise revenue bonds, installment contracts	Non-traditional, i.e.: TIF, Special Service Area, Special Assessment		
Issuer	Good reputation in the bond market	No reputation or a poor reputation in the bond market		
Credit Strength	At or above investment grade	Below investment grade		
Bond Market	Relatively stable conditions	Volatile conditions		



Common characteristics of a Bond

- (a) Borrowing for a lawful public project or purpose
- (b) Principal repaid annually for up to 20 years, with semi-annual interest
- (c) Sold in \$5,000 increments with physical bonds held in a central depository system (DTC)
- (d) Redeemable early after 10 years
- (e) Payable from a dedicated revenue source or as a general obligation
- (f) Bond Counsel gives opinion as to validity of bond and tax exemption of interest

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Powers and Limitations of Governmental Units

- Municipal bonds must be issued:
 - (a) for lawful public and corporate purposes;
 - (b) subject to constitutional, statutory or other limitations (such as debt limits); and
 - (c) pursuant to proper constitutional, statutory or other (such as charter) provisions.



Powers and Limitations of Governmental Units (continued)

Home Rule Cities and Villages

- May exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to tax and incur debt
- Subject to constitutional limitations and (possibly) certain statutes
 - Preemption requires three-fifth majority of each house

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Powers and Limitations of Governmental Units (continued)

Non-Home Rule Governmental Units

- Dillon's Rule: may exercise only the powers which are <u>expressly granted</u> by the legislature or powers which are <u>necessarily implied or incident to those powers which are</u> <u>expressly granted</u>
- If the power to borrow is neither expressly granted by statute nor necessarily implied, it does not exist
- Must find powers in the statutes



Primary Hurdles to Bond Sales in Illinois

- Debt Limits
 - □ ½ of 1% Bonds
 - □ 8.625% Debt
- Referendum Approval
 - ☐ Certain bonds must be approved by voters for authorization
- Backdoor Referendum
 - ☐ Certain bonds require notice of intent to issue bonds and expiration of a waiting period for authorization
- Bond Issue Notification Act (BINA) Hearing
 - □ Non-referendum, new money bonds require notice and a hearing, open to the public, for authorization

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Referendum

- Public question posed to the registered voters of the issuer as to whether the bonds should be issued
 - □ Majority vote is necessary to authorize the bonds
- Timeline
 - □ Substantial length of time needed to pass a referendum
 - □ Election Code requires action several months before election
 - $\hfill\square$ Must wait for certification of election before issuing bonds
- Referendum Approval Needed For:
 - □ Projects outside tax cap limitations
 - □ Potential bond issues petitioned in a backdoor referendum



Backdoor Referendum

- Provides voters of the district an opportunity to request a vote on a bond issue proposed by the Issuer
- Bonds subject to backdoor referendum
 - □ Alternate Bonds
 - □ Revenue Bonds

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Backdoor Referendum - Procedures

- Adoption of Ordinance of Intent
- Publication of Ordinance of Intent and Notice of Intent
 - □ Publication Commences the "Petition Period"
 - 30 day period during which a petition containing the requisite number of voter signatures may be submitted to the Clerk of the Issuer to request a referendum on issuing the bonds
 - Clerk must make petitions available to anyone that asks
- If no petition is filed, bonds are authorized
 - ☐ If petitioned, then referendum approval required
- Authorization lasts for 3 years from end of the petition period



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Backdoor Referendum – Example Timeline

- August 1 Meeting to adopt authorizing ordinance
- August 5 Publication of Notice
- August 5 September 3 Petition Period
 - ☐ If no petitions, authorized to issue bonds any time after
 - ☐ If petitioned, question will be placed on ballot at next election
- Earliest date to adopt bond ordinance is September 4

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Backdoor Referendum – Additional Items

- Notice
 - □ Varies by the type of bond being issued
 - ☐ Generally contains:
 - Intent of issuer to issue bonds
 - Time in which petition must be filed
 - Number of signatures necessary to petition
 - Election at which the referendum would be held
- Number of Registered Voters
 - ☐ Generally, 10% of all registered voters
 - □ For alternate bonds, the greater of
 - (i) 7.5% of the registered voters in the District or
 - (ii) The lesser of 200 voters or 15% of the registered voters



Bond Issue Notification Act (BINA)

- Requires district to hold a public hearing concerning the intent to sell Bonds before the bonds are authorized
 - □ Purpose: For bonds that do not require referendum approval, to give the public a chance to comment on the decision to sell the bonds
- Difference from Referendum or Backdoor Referendum
 - ☐ Public approval is not necessary
 - Bonds may still be approved even if all public comments demand rejection of the bond sale
 - Board Members are elected officials, however

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Types of Bonds Subject to BINA

- Applies to non-referendum, new money bonds
 - □ No referendum bonds
 - □ No refunding bonds
- Also excludes
 - □ Emergency situations
 - □ Non-bond issues (where taxes are not levied)
 - Debt Certificates
 - Warrants



BINA Procedures

- Order/Resolution Calling Hearing
- Publish notice of hearing in newspaper of general circulation in the village
 - □ Not less than 7 days and not more than 30 days before hearing
- Must post notice of the hearing 48 hours before the meeting
- BINA hearing is held
 - ☐ Waiting period before bond issuance 7 days
 - □ Authorization remains for 3 years from the date of the hearing

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BINA- Example Timeline

- August 1 Order/Resolution Calling Hearing
- August 5 Publication of Notice (hearing must be between 7 and 30 days from this date)
- August 12 Public hearing
- August 19 and thereafter (for period of three years)
 - $\hfill\Box$ Authorized to adopt bond ordinance and issue the bonds



Types of Municipal Obligations

- A. Full Faith & Credit General Obligation Bonds
- B. Limited Bonds
- C. Revenue Bonds
- D. Alternate or Double-Barreled Bonds
- E. Debt Certificates
- F. Tax Anticipation Warrants

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Types of Municipal Obligations (continued)

A. Full Faith and Credit General Obligation Bonds

- □ Payable from a separate special property tax levy unlimited as to rate or amount
- □ Statutes provide for taxes to be levied "sufficient to pay" the bonds (equals unlimited taxes)
- ☐ Generally, require referendum approval
- ☐ Generally, subject to debt limit



Types of Municipal Obligations (continued)

B. Limited Bonds

- □ Payable from a separate property tax levy unlimited as to rate but limited as to amount
- ☐ Still a general obligation of the issuer
- □ Necessarily issued without direct referendum
- □ Amount of levy is limited to the "debt service extension base"

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Types of Municipal Obligations (continued)

C. Revenue Bonds

- □ Payable solely and only from the revenues derived from a particular enterprise or other revenue source
 - Waterworks system
 - Sewerage system
 - Combined waterworks and sewerage system
 - Sales Taxes
 - Other reliable revenue source
- □ Backdoor referendum may be required



Types of Municipal Obligations (continued)

D. Alternate or Double-Barreled Bonds

- □ Payable from two alternate sources
 - Enterprise revenues or a revenue source
 - Full faith and credit general obligation property tax levy is back-up security
 - In Illinois:
 - □ 1.25x (or 1.10x for a governmental revenue source) coverage
 - Audit or feasibility report demonstrates coverage
 - 30-day backdoor referendum (or 45-day backdoor referendum)
 - □ BINA hearing
 - □ Outside the tax cap

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Types of Municipal Obligations (continued)

E. Debt Certificates/Leases

- ☐ Issued to evidence a payment obligation under a lease or installment purchase contract
- ☐ A "general obligation" payable from any lawfully available funds
- □ No separate property tax levy
- ☐ In Illinois, not "subject to appropriation" obligation
- □ In Illinois, subject to debt limit



Types of Municipal Obligations (continued)

- F. Tax Anticipation Warrants
 - ☐ Issued in anticipation of property taxes levied for a particular fund but not yet collected and ONLY payable from this source (not a general obligation)
 - □ Amount to be issued limited to a statutory formula

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BONDS, INTEREST RATES & KEY DRIVERS OF COST

Robert W. Baird & Co. Incorporated is providing this information to you for discussion purposes. The materials do not contemplate or relate to a future issuance of municipal securities. Baird is not recommending that you take any action, and this information is not intended to be regarded as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934 or the rules thereunder.



What is a Bond?

- A bond is a financial security, similar to a stock. Instead of ownership of a company, bonds represent the issuing government's promise to pay interest and repay principal at specified times.
- Stocks may or may not pay a dividend. Bonds almost always have some agreed method of paying a return to investors, usually in the form of a stated interest rate on the unpaid principal.
- Some bonds pay interest at fixed interest rates, while others at variable rates.
- Bond interest is usually paid every six months while bond principal is paid once a year for a number of years, at which point they mature.
- Maturities for Illinois bonds can legally be issued up to 40 years, but usually mature in 20 years.

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Municipal Bonds

- Municipal bonds are issued by states, territories and possessions of the United States, as well as other political subdivisions such as counties, cities, or districts. Public agencies such as authorities and commissions charged with specific duties; such as water supply, sewage treatment or electric power production, may also issue municipal bonds.
- Municipal bonds issuers are not directly regulated by the federal government like corporate bonds and stocks, but are indirectly regulated by the rules of the Municipal Securities Rulemaking Board (MSRB) that are imposed on municipal securities dealers and enforced by the Securities Exchange Commission (SEC).
- Municipal issues are exempt from the filing provisions of the Securities Act of 1933 and therefore are not registered with the Securities Exchange Commission (SEC). However, municipal bonds are not exempt from the anti fraud provisions of the Act.



Purpose of Bonds

- Bonds are issued to provide for a variety of activities, including:
 - To fund projects such as buildings and equipment, utilities, road construction or rail car acquisition.
 - To fund short-term cash flow needs when operating expenditures are required to be made before operating funds will be received.
 - To refund already issued bonds to restructure debt payment or take advantage of lower interest rates.
 - For a variety of other purposes such as low income housing or hospitals, etc.

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Benefits to Bond Issuers

- Bonds allow Issuers the ability to fund projects without having to wait until sufficient funds have been accumulated for that purpose.
 - •Costs of projects are locked in with the avoidance of price escalation.
 - •The Issuer is able to combine its own money (grants/contributions) with bondholder funds.
 - •Project costs are repaid during the life of the project.
 - •Intergenerational equity is enhanced as users of projects pay for them during the projects' lifetimes.
 - •For revenue bonds, customers/users pay for part of the cost of their use of the project through user fees rather than imposing that portion of those costs on non-users.



Issuer's Bond Ratings are a Key Driver of Cost

	Moody's	S&P	<u>Fitch</u>	
Investment Grade Ratings	Aaa	AAA	AAA	Highest Possible Rating
	Aa	AA	AA	High Quality
	Α	Α	Α	Upper Medium Grade
	Baa	BBB	BBB	Lowest Investment Grade
Speculative Ratings	Ва	BB	BB	Non Investment Grade
	В	В	В	Highly Speculative
	Caa	CCC	CCC	Extremely Speculative
	Ca	CC	CC	Default Imminent
	С	С	С	No Longer Paying Interest
		D	DDD	In Default
			DD	
			D	



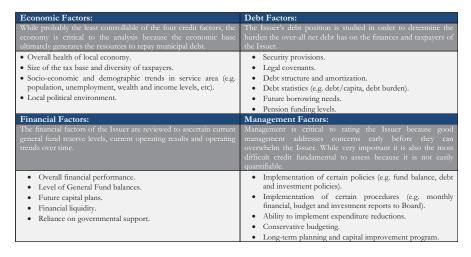
Ratings Process

- The rating application process includes the following:
 - Municipal Advisor or underwriter applies on behalf of the issuer.
 - A presentation of the Issuer's credit profile is prepared by your financial professional.
 - A preliminary call is held with municipal officials and its financial professionals to practice presentation.
 - Presentation is scheduled and delivered, and the issuer answers any questions.
 - Rating report is reviewed and then released.



Bond Ratings Key Factors

- The four factors that impact a rating of any issuer are: the local economy; debt factors; financial factors; and management.
 - It is important to touch on each category in a rating agency presentation.



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Current Market Update

20-Bond GO

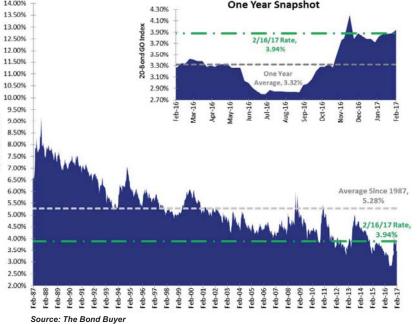
Bond Buyer 20 – Bond Index Rate Statistics Since 1987:

All-time High: 9.17%All-time Low: 2.80%

12-month High: 4.20%

12-month Low: 2.80%

Bond Buyer 20-Bond Index (1987 to Present) 4.30% One Year Snapshot 4.10%





Federal Reserve Forecast

- On March 15, 2017, Fed officials raised its short-term "Fed Funds" interest rate by another 25 basis points to 1.00% (also increased rates in December 2015 and 2016).
- The Fed is currently forecasting two additional interest rate hikes of 25 basis points each in 2017, followed by three per year for the next two years (goal of 3.0% by 2019).
 - Baird was previously skeptical of three rate hikes because of the Fed's reluctance to move rates higher in the past.
 - While Baird is still skeptical of aggressive rate increases, the Fed tone has changed.
- The Federal Reserve's balance sheet (Treasuries and mortgage back securities) has over \$4 trillion.
 - The Fed, which normally would prefer to hold \$1-\$1.5 trillion, has said it will reduce the holdings at an appropriate time after they begin raising interest rates but have been vague as to the actual timing.
- If the Fed began to unwind its holdings this year, it could have negative impact on interest rates.
 - Baird doesn't believe they will begin the "run-off" (vs. "sold off") of the portfolio until 2018 at the earliest.

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Federal Reserve Forecast (cont.)

- According to Morningstar, Fed officials are expected to continue to raise rates gradually if the economy performs in line with their forecast.
- The March Bloomberg Economist's survey shows 100% likelihood of rate increases at the May 3rd and June 14th meetings compared to a 28% to 70% chance back in early February.

Fed Funds Futures Probability of a Rate Hike

Chances of a 25 bps interest rate hike at each of the scheduled meetings for the rest of this year according to Bloomberg Economist's Survey

Meeting Date	3/10/17	3/3/17	2/24/17	2/10/17	2/3/17
3/15/17	100.0%	94.0%	40.0%	28.0%	28.0%
5/3/17	100.0%	94.7%	61.3%	47.1%	47.1%
6/14/17	100.0%	97.2%	73.3%	70.4%	70.4%

Source: Bloomberg



Tax Cut Stimulus (Target 4%?)

- Stimulus is expected to come in the form of tax cuts, both corporate and individual rates, and spending on infrastructure programs.
- Tax cuts discussed by President Trump have four individual brackets (0%, 10%, 20% and 25%) and the corporate tax lowered to 15%.
- Meanwhile, Speaker of the House Paul Ryan discussed having three individual tax brackets (12%, 25% and 33%) and the corporate tax lowered to 20%.
- Either of these plans makes municipal bonds less attractive to individual investors.
- There has been discussion of a 20% border tax and possible elimination of the tax deductibility for corporations making interest income from municipal bonds taxable.
 - · Baird does not think either of these are likely to be enacted.

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Infrastructure Stimulus

- President Trump talked about spending a trillion dollars on infrastructure which could have an impact on the municipal bond market if it is assumed that municipal bonds will be the principal funding source.
 - Some doubt that Congress will agree to spending this much on infrastructure while the federal government has almost \$20 trillion of debt.
 - Chicago Fed President Charles Evans said in early December that "a major infrastructure-building program implemented just to stimulate the economy could be ill-timed."
 - Infrastructure development could also involve private investments.
- Baird expects that Congress will scale back the infrastructure program to less than \$100 billion with the focus on private-public partnerships.



Baird's Interest Rate Outlook

- Baird expects the Fed will increase rates as projected to bring the Fed funds target to 1.50% as long as inflation remains at the current 1.70% level or higher.
- Expectations are that the benchmark 10-year Treasury note will finish the year around 2.90% (currently 2.47%) while the two-year note is forecast to finish the year at 1.89%, which would create a yield curve slope of 101 basis points.

Bloomberg Monthly Survey Median Rate Summary							
	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018
Fed Funds Lower	1.00%	1.00%	1.25%	1.50%	1.75%	1.75%	2.00%
Fed Funds Higher	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%	2.25%
2-Year Note	1.50%	1.70%	1.89%	2.01%	2.21%	2.40%	2.52%
10-Year Note	2.65%	2.80%	2.90%	3.00%	3.13%	3.24%	3.40%
30-Year Note	3.26%	3.36%	3.49%	3.57%	3.61%	3.76%	3.90%
3-Month Libor	1.36%	1.56%	1.70%	1.88%	2.11%	2.35%	2.58%

Source: Bloombera

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Another Driver of Cost: Illinois

- Interest rates are relatively higher for Illinois issuers.
 - Estimated 50 basis points higher in yield widening to 60 basis points out 20 years versus comparable Wisconsin credits.
 - Wider for lower rated credits.
 - Additional 20 basis points for Cook County issuers.
- Illinois has seen secondary trades +225 basis points.
 - Outstanding ratings of BBB, Baa2, BBB.
 - Lowest rated State.
- Investors perceptions of Illinois drive the higher interest rates.
 - State of Illinois fiscal challenges including lack of budget, political gridlock and pensions.
 - Chicago, Chicago Public Schools, Cook County challenges.



News to Watch

- Illinois, Chicago and Cook County
- Puerto Rico financial and debt crisis.
 - · Federal oversight Boards approval of fiscal plan.
 - Bondholder treatment.
- Fed Actions.
- Global and U.S. economics.
- Proposals on future tax exemption of municipal bonds.

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Questions?

Stephanie Masson

masson.stephanie@rigov.org City of Rock Island 309-732-2117

Kevin Wachtel

kwachtel@invillapark.com Village of Villa Park 630-592-6064

Kevin McCanna

kmccanna@speerfinancial.com 312-780-2279 Speer Financial, Inc.

Stephan Roberts

scroberts@rwbaird.com Robert W. Baird & Co. 630-848-6440

Larry White

white@chapman.com Chapman and Cutler LLP 312-845-3426



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Who Ya Gonna Call?

Building Peer Relationships



Diane Gillian Lantz Executive Director, IGFOA

- Executive Director, IGFOA since 2015
- Public Accounting 2013-2015
- Government Finance Services 1996 2011
- Village of Elk Grove 1992 1996
- National GFOA 1989 1992
- State of Ohio 1984 1989
- CPA in Ohio and Illinois



Justin VanVooren Director of Finance, Village of Montgomery

- Village of Montgomery since 2013
- Village of Sugar Grove from 2004 2013
- Public Accounting from 1995 2004
- Certified Public Accountant 1997
- Certified Management Accountant 1995
- Member of the Metro West Council of Government Finance Committee (2016)



Government Finance Hosts





Professional Development, Networking, and Connecting with Others

- Where can I network and meet people?
 - □ Your Department
 - □ Know Your Organization
 - Department Heads
 - Other Employees
 - ☐ Know your Neighbors
 - Township(s)
 - School Districts
 - Park District(s)
 - Library
 - Bordering Communities



Professional Development, Networking, and Connecting with Others

- □ What County or Counties are you located in?
 - Know your County Officials
 - Clerks Office
 - Assessors Office
 - Tax Extension Department
- ☐ State and Supporting Agencies
 - Department of Revenue
 - Tax Allocation
 - Tax Distribution
 - Department of Transportation
 - Department of Insurance
 - Office of the Treasurer
 - Office of The Comptroller



Professional Development, Networking, and Connecting with Others

- □ Federal Government and Agencies
 - Internal Revenue Service
 - Social Security Administration
 - Department of Treasury
 - Department of Justice
- □ Grant Agencies
 - Department of Commerce and Economic Opportunity
 - Federal Emergency Management Agency
 - Illinois Emergency Management Agency
 - Department of Energy
 - Department of Housing and Urban Development
 - Environmental Protection Agency



Professional Development, Networking, and Connecting with Others

- □ Professional Organizations
 - Government Finance Officers Association (GFOA)
 - Illinois Government Finance Officers Association (IGFOA)
 - Illinois Municipal League (IML)
 - Municipal Conferences (By District)
 - International City/County Management Association (ICMA)
 - Illinois City/County Management Association (ILCMA)
 - Illinois Association of Municipal Management Assistants (IAMMA)
 - National Public Employer Labor Relations Association (NPELRA)
 - Illinois Public Employer Labor Relations Association (IPELRA)
 - Illinois Association of Public Procurement Officers (IAPPO)
 - Municipal Association of Public Procurement (MAPP)



So you Belong to an Organization, Now What?





Attend Training and Events

- Go to Training
- Meet Speakers/Presenters
- Meet 2 attendees
 - ☐ Make small talk since everyone is there for a similar reason/purpose.
- Take advantage of Opportunities to Network.



Successful Networking





Successful Networking

- Have a Plan or Strategy
- Take Advantage of Every Opportunity
 - □ Review Attendee List
 - □ Arrive Early
 - □ Volunteer
- Listening Vs. Speaking
 - □ Networking is not talking
 - □ Non-Verbal Communication Skills
 - ☐ Find Balance and Contribute
 - □ Retain, Retain, Retain
 - ☐ Etiquette and Getting out of the Conversation



Successful Networking

- Follow-Up
 - ☐ Find a way to follow up after the event
 - "Nice to Meet You"
 - A topic that was discussed
 - Alert to other trainings or events
- Follow Through
 - □ Remember what you promise
 - □ Don't over extend
 - □ Send Information
 - □ Provide Feedback



Things To Keep in Mind

- You Represent
 - ☐ You ALL THE TIME
 - ☐ The Municipality you Work For
 - ☐ The Organizations you are a member of
- Your Co-Worker or Boss might be in the room
 - □ No one knows where they will be in 2 years, 5 years, or 20 years!
 - □ Don't Burn Bridges!



Building Peer Relationships

- Questions?
- Questions you think of in the Car...
 - □ Diane Gillian Lantz
 - □ execdir@igfoa.org
 - □630-942-6587
 - □ Justin VanVooren
 - □jvanvooren@ci.montgomery.il.us
 - □331-212-9031

Anthony Cervini, CPA, Partner, Sikich LLP

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

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

RuthAnne K. Hall, CPPO has worked in municipal and county government for over 15 years and is currently serving as the Purchasing Manager for Lake County since 2011. In her role as the Purchasing Manager, RuthAnne oversees a staff of purchasing officers that procures over \$250 million annually on various goods, contracted services, construction and professional services for 26 county departments. She has served as a Board Member for the Illinois Association of Public Procurement Officials (IAPPO) and is active member of the Midwest Association of Public Procurement (MAPP) and the National Institute of Governmental Purchasing (NIGP). RuthAnne is a graduate of Augustana College in Illinois and holds a MS degree from Columbia University in New York.

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

Elizabeth Holleb is the Finance Director and Treasurer for The City of Lake Forest, Illinois, having joined the City staff in June of 2012. She has her BS in Accounting from Ball State University, where she was a Cum Laude graduate of the Honors College. She is a Certified Public Accountant and brings more than 25 years of work experience in municipal finance. Previous employers include the Government Finance Officers Association, the Village of Northbrook, the Village of Oak Park and the City of Highland Park. Elizabeth oversees the Finance and Information Technology activities for the City, including development of the annual budget, coordination of the annual independent financial audit, serving as staff liaison to the City Council Finance Committee and the Audit Committee, and administration of a five-year information technology master plan which guides the City's technology initiatives. The City has received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for thirty-eight (38) consecutive years, recently earned its first Distinguished Budget Presentation Award from GFOA, and maintains a "Aaa" bond rating from Moody's Investors Service, which is the highest bond rating achievable by a governmental entity. Current professional contributions include serving on the GFOA Governmental Budgeting and Fiscal Policy Committee, the Intergovernmental Risk Management Agency's Administration and Finance Committee and its Board of Directors. She has previously served in various roles with the Metro Chapter of the Illinois GFOA and the Illinois Metropolitan Investment Fund Board of Trustees. She is a member of the Government Finance Officers Association and the Illinois GFOA.

Diane Gillian Lantz, Executive Director, Illinois Government Finance Officers Association

Diane Gillian Lantz has served as the Executive Director of the IGFOA since 2015. Prior to the IGFOA, she worked served as Interim Executive Director for IMET twice and as a consultant to the NWMC, IGFOA, and many Illinois local governments. Ms. Lantz has held the positions of Assistant Director of Finance for the Village of Elk Grove, Assistant Director of Technical Services for the GFOA, and Financial Reporting Manager for the State of Ohio Office of Budget and Management. While at the State of Ohio, she was integral in preparing the State's first CAFR. Ms. Lantz is a graduate of Miami University, Oxford, Ohio and a registered CPA in Illinois and Ohio. She is a member of the GFOA, Illinois CPA Society and the AICPA.

Brian D. LeFevre, CPA, MBA, Partner, Sikich LLP

Brian D. LeFevre, CPA, MBA, is responsible for providing technical services to Sikich's governmental clients in all areas of governmental accounting, auditing, financial reporting, budget development, revenue and expenditure forecasting, and cash and debt management. Brian has participated in hundreds of audits of municipalities and other governmental units since he began his career with Sikich in 1993. He has also been responsible in developing and serving as lead instructor for governmental accounting, auditing and financial reporting training courses internally for the firm and for the Illinois Government Finance Officers Association (IGFOA). Brian serves as Chair of the Government Report Review Committee of the Illinois CPA Society. Brian's service areas include Governmental Audit, Accounting, Governmental Financial Reporting, and Police and Fire Pension Accounting Services. Brian received a Bachelor's Degree in Accounting, from Valparaiso University and a Master of Business Administration from Northern Illinois University.

Stephanie Masson, Finance Director, City of Rock Island, IL

Stephanie Masson, Finance Director of the City of Rock Island since 2016, previously worked at the Village of Park Forest Illinois where she held the position of Assistant Finance Director from 2006 to 2016 and Accounting Supervisor for three years prior to that post. As Finance Director, she is responsible for planning, organizing and directing all operations of the Finance Department including budgeting, collections, accounting, treasury and other fiscal activities. Prior to her work in local government she was employed for seven years in various finance and accounting positions in the healthcare industry. Stephanie holds a Bachelor degree in Accounting from Governors State University. She is Past President of the South Metro Chapter of the Illinois Government Finance Officers Association (IGFOA) and is currently serving as President on the IGFOA Executive Board. She completed GFOA's Certified Professional Finance Officer (CPFO) designation in 2012.

Kevin W. McCanna, CIPFA; CFA, Chairman of the Board, Speer Financial

Kevin W. McCanna, CIPFA; CFA, is Chairman of the Board of Speer Financial. He is a Certified Independent Public Finance Advisor by National Association of Municipal Advisors, earned a B.A. Political Science, University of Chicago; J.D. Loyola University; and M.B.A. Municipal and Economics, Northwestern University. He is a member of the Chartered Financial Analysts Society of Chicago and Illinois Government Finance Officers Association and the Chicago Bar Association. Speaker at local, state and national gatherings. Kevin has been employed by Speer Financial since 1981.

Eileen Roberts, Executive Director, Treasury Services, J. P. Morgan

Eileen Roberts is a member of the Public Sector & Healthcare Solutions Group at J. P. Morgan. She works with state and local government agencies to provide innovative, results-oriented ideas reflecting her broad experience in strategic and transactional situations within the public sector industry. Eileen has been with the firm and predecessor organizations for 30 years and over her career has developed a keen understanding of the public sector processing needs. The solutions developed are driven by each client's specific needs and range from receivables collection to full out sourced processing of a variety of government specific remittance programs. A graduate of Loyola University, Eileen holds a BS in Accountancy. She is a Certified Public Account. Eileen is an active member of the AICPA. Eileen is active in the Federation of Tax Administrators.

Stephan C. Roberts, Director, Baird

Stephan joined the Baird Public Finance team in 1998. Since then he has provided issuers, large and small, with leadership and investment banking expertise. Stephan provides services to such large clients as the Cities of Chicago, and St. Louis and the State of Illinois. He has also worked with the Chicago Transit Authority, the Villages of Addison, Glen Ellyn and Tinley Park, the Cities of Moline, Rochelle, Rockford and Woodstock, and the Rock Island County Metropolitan Mass Transit District. In total, he has served on over \$15 billion in bonds. Stephan seeks to provide innovative solutions to solve clients' unique needs. Testament to his skills was his participation on The Bond Buyer's Midwest Regional Deal of the Year Award in 2005 on a complicated transaction and Nontraditional Deal of the Year in 2009. Another of his clients won the award again in 2011 for the National Small Issue Deal of the Year.

Brian Smith, Assistant Director of Finance, Village of Wheeling, IL

Brian is a registered Certified Public Accountant with a B.S. in accounting from North Central College in Naperville. Brian began his career auditing municipalities as a staff accountant for Sikich, LLC, but has also worked in various finance positions for the Villages of Bloomingdale, Carpentersville, and Wheeling. He currently serves as the Assistant Finance Director for the Village of Wheeling.

Lee Szymborski, Senior Vice President, GovHR USA

Lee Szymborski is a Senior Vice President with GovHR USA, working on both executive search and general management consulting assignments. He has more than 33 years of experience in local government administration. Mr. Szymborski's experience spans both Wisconsin and Illinois communities. Mr. Szymborski served more than 15 years as City Administrator in Mequon, Wisconsin. In addition to his Wisconsin service in Mequon, he also worked for the City of Wauwatosa and Milwaukee County. In Illinois, he served for 12 years, as Assistant Village Manager in Buffalo Grove. Since joining GovHR USA in 2014, Mr. Szymborski has assisted or managed more than 30 executive searches for communities in Wisconsin, Illinois, Missouri and Massachusetts, as well as non-profit agencies including the International City/County Management Association. Mr. Szymborski has published articles in Public Management magazine, and is an adjunct instructor at Upper Iowa University – Milwaukee Center. He holds a B.A. in Political Science, and an M.S. in Urban Affairs, both from the University of Wisconsin – Milwaukee. He has also served in leadership roles with the International City/County Management Association, the Wisconsin City/County Management Association of Municipal Management Association, the Illinois City/County Management Association and the Illinois Association of Municipal Management Assistants (past-president).

Justin E. VanVooren, CMA, CPA, Director of Finance, Village of Montgomery, IL

Justin E. VanVooren is the Director of Finance for the Village of Montgomery having held this position since September 2013. Prior to this, he held the Finance Director position for the Village of Sugar Grove for 9 years and previously spent 10 years in public accounting where he specialized in government and non-profit auditing. He is a Certified Management Accountant, Certified Public Accountant, and holds a Bachelor of Science in Accounting and Finance from Drake University, Des Moines, Iowa. As the Director of Finance for the Village of Montgomery, Mr. VanVooren is responsible for directing and supervising the accounting, financial reporting and internal controls, treasury (cash management and investments), budgeting, payroll, accounts payable, accounts receivable, cash receipts, utility billing, debt management, and information technology and is supported by a staff of five individuals. Mr. VanVooren is a member of the American Institute of Certified Public Accountants (AICPA), the Illinois Certified Public Accountants Society (ILCPAS), the Government Finance Officers Association of United States and Canada (GFOA), the Illinois Government Finance Officers Association (IGFOA), and the Institute of Certified Management Accountants.

Kevin Wachtel, Finance Director, Village of Villa Park, IL

Kevin Wachtel has nearly 20 years of experience in local government management and finance administration. Mr. Wachtel was appointed Finance Director for the Village of Villa Park in 2014 and serves as a Trustee on the Villa Park Fire Pension Board. Prior to working in Villa Park, Mr. Wachtel served in leadership roles in Glen Ellyn, Riverside, and other communities. Kevin earned a B.S. in Political Science in 1998 and Master of Public Administration degree in 2000 from Northern Illinois University. In 2011, Mr. Wachtel was recognized by the GFOA as a Certified Public Finance Officer. Mr. Wachtel has been active in the Illinois Government Finance Officers' Association, where he is currently serving on the Executive Board. He has served on PEC and the South Metro Chapter board from 2005 – 2009, including President from 2007-2008.

Larry White, Partner, Chapman and Cutler

Larry White is a partner in the Illinois Public Finance Department at Chapman and Cutler LLP and has been practicing law since 1990. He serves as bond counsel, disclosure counsel and underwriter's counsel to governmental entities and underwriters on a wide variety of governmental financings. Larry also counsels investment banks, commercial banks and financial advisors on a wide variety of government related topics, including public offering disclosure and regulatory compliance. In addition, Larry is a frequent speaker on public finance and related regulatory topics. Larry has focused his public finance practice on general obligation and revenue bond transactions, including financings for cities, villages, school districts, park districts, counties, libraries and fire protection districts. In addition, he is one of the lead attorneys in the firm's bond counsel representation of each of the City of Chicago and Cook County, Illinois.

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

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

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Illinois Government Finance Officers Association

800 Roosevelt Road, Building C, Suite 312

Glen Ellyn, IL 60137 Phone: 630-942-6587

Email: info@igfoa.org
Visit http://www.igfoa.org