INTERMEDIATE GOVERNMENTAL ACCOUNTING

June 19 - 20, 2019

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ILLINOIS GOVERNMENT FINANCE OFFICERS ASOCIATION
INTERMEDIATE GOVERNMENTAL ACCOUNTING
AGENDA

Wednesday June 19	**CHAPTER**	**SPEAKER**
9:00 – 9:15	Introduction and Overview	IGFOA Representative
9:15 – 9:40	Hierarchy of Generally Accepted Accounting Principles	Fred Lantz
9:40-10:40	General Purpose External Financial Statements Overview	Fred Lantz
10:40 – 10:50	Break	
10:50-12:00	Fund Classifications and use of Conversion Funds	Bill Hannah
12:00-12:50	Lunch	
12:50 - 2:20	Measurement focus and basis of accounting	Fred Lantz
2:20 – 2:35	Break	
2:35 – 4:00	Governmental fund revenue and expenditure recognition and converting to governmental activities	Bill Hannah
Thursday June 20		
9:00 – 9:30	Budgets and budgetary reporting	Bill Hannah
9:30 – 10:35	Debt service funds and general long-term debt	Fred Lantz
10:35 – 10:45	Break	
10:45 – 12:00	Capital projects funds and general capital assets	Bill Hannah
12:00 – 12:50	Lunch	
12:50 – 1:30	Enterprise and internal service fund accounting and reporting	Bill Hannah
1:30 – 2:30	Accounting for pensions and postemployment benefits	Fred Lantz
2:30 – 2:45	Break	
2:45 – 3:30	Equity accounting and reporting	Bill Hannah
3:30 – 4:00	Accounting for interfund transactions	Fred Lantz
4:00	Adjourn	

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Hierarchy of Generally Accepted Accounting Principles

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GAAP VS GARP

- Accounting
  - Process of assembling, analyzing, classifying and recording relevant data
    - Cash transactions
    - Noncash transactions
    - Substance over form
- Financial reporting
  - Process of taking accounting information and articulating it in a usable format for those who need it (users)
    - Internal financial reporting
    - Special purpose external financial reporting
      - State Comptroller AFR
      - Department of Insurance pension AFR
      - School District ISBE reporting
    - General purpose external financial reporting
      - Basic Financial Statements
      - Notes to the financial statements
      - Required supplementary information

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WHAT IS GAAP?

- Generally Accepted Accounting Principles
- Standard setting bodies who set GAAP?
  - 1934 NCMA
  - 1951 NCGA (Committee)
    - Issued first Blue Book (GAAFR) in 1968
  - 1979 NCGA (Council)
    - 7 statements, 11 interpretations
    - Recognized as the standard setter by the AICPA in SOP 80-2

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WHAT IS GAAP?

- 1984 GASB was formed
  - Created under Financial Accounting Foundation
    - Sister to FASB
- 7 member board
  - Chair, vice chair
    - Director of research
    - 12-15 research staff
  - 91 Statements, 6 Interpretations, 6 Concept Statements, Numerous Technical Bulletins, Implementation Guides

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4

Old Hierarchy of Government GAAP

	GASB	NCGA	FASB	AICPA	OTHERS
Category 1	Statements Interpretations	Statements Interpretations			
Category 2			Statements Interpretations	APB Opinions ARB Bulletins	
Category 3	Technical Bulletins		Technical Bulletins	Industry audit guides Industry accounting guides Statements of position	
Category 4				Accounting Interpretations	Recognized and prevalent industry practice or pronouncements
Category 5	Concepts Statements Action Report	Concepts Statements	Concepts Statements Status Report	APB Statements Issues Papers	Textbooks Articles GFOA Publications

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5

HIERARCHY OF GAAP

- Pre Statement on Auditing Standards (SAS) No. 69
  - GASB issued negative pronouncements
  - GASB Statement No. 4
    - Don't apply FASB Statement No. 87
- Post SAS 69
  - Moved FASB Statements and Interpretations

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6

SAS 69 Hierarchy of Government GAAP

	GASB	NCGA	FASB	AICPA	OTHERS
Category 1	Statements Interpretations	Statements Interpretations	Pronouncements made applicable by GASB		
Category 2	Technical Bulletins			Audit and accounting guide Statements of Position "Cleared" by GASB	
Category 3	Emerging issues Task force			ACSEC Practice Bulletin "Cleared" by GASB	
Category 4	Implementation Guide			Audit and Accounting Guides Statements of Position not "Cleared" by GASB	Widely Recognized and Prevalent Industry Practice
Category 5	Concepts Statements Action Report	Concepts Statements	Concepts Statements	Technical Practice Aids	Accounting Textbooks, Handbooks and Audits GFOA Publications

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7

HIERARCHY OF GAAP

- Post SAS 69
  - Problem with enterprise funds
  - Specifically, NCGAS-1, paragraph 18 states that "generally accepted accounting principles [for proprietary funds] are those applicable to similar businesses in the private sector...."
- GASB Statement No. 20 solution, one of two approaches for proprietary funds
  - GASB S&I plus FASB S&I issued through November 30, 1989 (SFAS 101)
  - GASB S&I plus all FASB S&I

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8

GASB S 55 Hierarchy of Government GAAP

	GASB	NCGA	FASB	AICPA	OTHERS
Category 1	Statements Interpretations	Statements Interpretations			
Category 2	Technical Bulletins			Audit and accounting guide Statements of Position "Cleared" by GASB	
Category 3	Emerging issues Task force			ACSEC Practice Bulletin "Cleared" by GASB	
Category 4	Implementation Guide				Widely Recognized and Prevalent Industry Practice

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HIERARCHY OF GAAP

- GASB Statement No. 55
  - GASB/NCGA Statements and Interpretations
  - GASB Technical Bulletins, certain AICPA Audit Guides, SOPs
  - AICPA Practice Bulletins, GASB Emerging Issues Task Force
  - GASB Implementation Guides, widely accepted practice
  - Missing FASB
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*
- GASB Statement No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

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GASB S 76 Hierarchy of Government GAAP Issued June 2015

	GASB	NCGA	FASB	AICPA	OTHERS
Category A	Statements Interpretations	Statements Interpretations			
Category B	Technical Bulletins Implementation Guides			Audit and accounting guide Statements of Position "Cleared" by GASB	

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- AICPA STATE AND LOCAL GOVERNMENT AUDIT GUIDE
  - Defines a “government” that should follow GAAP as defined by GASB
  - All state and local governments, both general purpose and special purpose
  - Public corporations and bodies corporate and politic
  - Other entities that meeting one or more of the following:
    - Popular election of officers or appointment of a controlling majority of the organizations Board by one or more governments
    - Potential for dissolution of the organization with the net assets reverting to a government; or
    - Ability to enact and enforce a tax levy
- If the criteria is not met, the organization should follow GAAP as defined by FASB

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HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GAAP and the Government Environment

A. To properly assess why governments have unique accounting and a separate accounting standard-setting body, one must first understand the environment in which governments operate.

B. Three characteristics have been identified that significantly influence the government environment.

   1. Structure of government - various levels and branches of government create a system of checks and balances.

      a. Federal model allows states to determine their own structure of local government.

      b. Local government only posses the powers expressly granted to them by the state (Dillon's Rule). Statutes tell you what you can do, not what you can't do. Accounting standards follow the same principle.

      c. Some states, like Illinois, grant home rule powers that expand a local governments powers.

   2. Nature of resource providers - in the commercial sector there is a direct relationship between goods or services provided by a company and the price paid by the customer. However, in the government environment this relationship does not exist for many transactions financed through tax resources. In these instances, the taxpayer is in effect an involuntary resource provider.

   3. Political process - pressure on elected officials to provide the maximum amount of services at the lowest possible revenue level. This may lead to future years' taxpayers financing goods and services that are currently being provided by the government. This is often referred to as intergenerational equity.

C. Because of the environmental influences just noted, governments have established certain controls to maintain the integrity of budgeting, accounting and financial reporting. These controls include:

   1. Legally adopted budgets - as will be discussed in further detail, budgets that are legally controlled are unique to government.

   2. Fund accounting - although the reliance on the ability to segregate monies for specific purposes has been reduced with the introduction of more sophisticated

accounting systems, fund accounting remains a primary element in demonstrating accountability.

3. Internal control - The internal controls encompasses those policies and procedures established by management to provide reasonable assurance that specific entity objectives (e.g., compliance with legal requirements) will be achieved (referred to in the past as accounting and administrative controls). The internal control framework contains five distinct elements:

   - provide a favorable control environment;
   - provide for the continuing assessment of risk (both of misappropriation of assets and misstatements of financial statements);
   - provide for the design, implementation and maintenance of effective control-related policies and procedures;
     provide for the effective communication of information, and
     provide for the ongoing monitoring of effectiveness of control related policies and procedures.

D. These controls are specifically influenced by the accounting standard setting process. Generally accepted accounting principles (GAAP) have evolved significantly in recent decades.

1. The National Committee on Municipal Accounting (NCMA) was established in 1934 and began to promulgate formal standards for governments.

2. The NCMA was succeeded by the National Committee on Governmental Accounting (NCGA) in 1951. In 1968, the NCGA issued *Governmental Accounting, Auditing and Financial Reporting*, (the "Blue Book") which was widely accepted as an authoritative source of GAAP for governments.

3. The NCGA was succeeded by the National Council on Governmental Accounting (NCGA). From 1979 - 1984, the NGCA issued seven statements and eleven interpretations, some of which remain in effect today. The American Institute of Certified Public Accountants (AICPA) recognized the formal standard setting status of the NCGA with the issuance of SOP 80-2, *Accounting and Financial Reporting by Governmental Units.*

4. In 1984, the NCGA was succeeded by the Governmental Accounting Standards Board (GASB). The GASB, with a seven member board (originally five), twelve research staff and a two million dollar annual budget is the largest standard setting body in the history of governmental accounting.

5. The seven-person board, based in Norwalk, Connecticut, was created under the auspices of the Financial Accounting Foundation (FAF) which also controls the Financial Accounting Standards Board (FASB).

6. The GASB was established as the primary standard setter for governments. Previously, however, several other organizations, including the Financial Accounting Standards Board (FASB) could influence government accounting standards.

7. This hierarchy resulted in the issuance of several "negative pronouncements" by the GASB.

8. In 1992, the Auditing Standards Board of the American Institute of Certified Public Accountants issued SAS 69 (effective March 16, 1992). SAS 69 established a new hierarchy of GAAP for governments.

9. While SAS 69 modified the hierarchy of GAAP for governmental funds (and similar trust funds at that time), questions arose in practice as to its applicability to proprietary funds.

10. Specifically, NCGAS-1, paragraph 18 states that "generally accepted accounting principles [for proprietary funds] are those applicable to similar businesses in the private sector...."

11. Under the old hierarchy of GAAP for governments (prior to SAS 69), this guidance was not problematic since FASB pronouncements were considered level 2 GAAP. However, SAS 69 removed the FASB pronouncements that are not adopted by GASB to level 5. However, the sentence in NCGA Statement No. 1 effectively brought FASB pronouncements back to level 1 for proprietary funds.

12. The GASB issued GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to temporarily rectify this situation.

13. GASBS 20 provides <u>interim guidance</u> pending further GASB research on accounting and financial reporting for proprietary funds (still in effect as of January 2005).

    a. GASBS 20 allows one of two approaches to be adopted for guidance for proprietary funds. GASB S-34 modified this to apply to only enterprise funds.

    b. Under the first approach, all GASB pronouncements as well as FASB Statements and Interpretations, APB Opinions and ARBs issued prior to November 30, 1989 (i.e., up to FASB Statement No. 101) would be GAAP for proprietary funds, unless these FASB and APB pronouncements conflict with or contradict GASB pronouncements.

    c. Under the second approach, all current pronouncements <u>and</u> future pronouncements would be applicable unless these conflict with or contradict GASB pronouncements.

14. GASB Statement No 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in March 2009 and was effective upon issuance. GASB S-55 defined the hierarchy of GAAP for governments into four categories.

    a. GASB Statements and Interpretations, as well as those Statements and Interpretations issued by the NCGA to the extent these are not superceded by GASB. In addition the 1974 *Audits of State and Local Governments* enjoys this same coverage, again to the extent not superceded by GASB.

    b. GASB Technical Bulletins (staff documents), AICPA Audit guides or Statement of Position (SOP) "cleared" by GASB and expressly include state and local governments.

    c. AICPA Practice Bulletins and GASB Sponsored Consensus Positions. To date (January 2013), no guidance has been issued that would qualify as level three GAAP.

    d. GASB Implementation Guides and widely accepted and prevalent practice (where no other guidance exists).

        1) Widely accepted should be evaluated at national level, not a region, state or local level.

15. GASB Statement No 76 *Hierarchy of Generally Accepted Accounting Principles* was issued in June 2015 and was effective for reporting periods beginning after June 15, 2015. GASB S-76:

    a. Simplified the Hierarchy of GAAP to only two categories.

    b. Most significant change was to elevate GASB Implementation Guide to Category B from Level 4.

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General Purpose External Financial Statements

1

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GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

- Defined as minimum needed for fair presentation in conformity with GAAP
- Five essential components:
  1. Management Discussion and Analysis
  2. Government-wide statements
  3. Fund statements
  4. Notes to financial statements
  5. Required Supplementary Information

2

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COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

- Three basic sections:
  1. Introductory
  2. Financial
  3. Statistical

3

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BASIC FINANCIAL STATEMENTS - THREE ESSENTIAL ELEMENTS

1. Government-wide statements
2. Fund statements
   - Governmental funds
   - Proprietary funds
   - Fiduciary funds
3. Notes

4

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GOVERNMENT-WIDE STATEMENTS

- Statement of net position
- Statement of activities
- No statement of cash flows

5

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GOVERNMENTAL FUND STATEMENTS

- Balance sheet
- Statement of revenues, expenditures, and changes in fund balances
- Statement of revenues, expenditures, and changes in fund balances – budget and actual
  - May be presented as RSI

6

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PROPRIETARY FUND STATEMENTS

- Statement of net position
  - May instead be titled “balance sheet,” but then totals must balance
- Statement of revenues, expenses, and changes in net position
  - May instead be titled “statement of revenues, expenses, and changes in equity” (if balance sheet presentation is used)
- Statement of cash flows

7

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FIDUCIARY FUND STATEMENTS

- Statement of net position
  - All fiduciary funds
- Statement of changes in net position
  - All trust funds
  - Not agency funds (assets and liabilities only)
    - GASB S-84, *Fiduciary Activities* will change this

8

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INFORMATION TO BE INCLUDED

- Assets
- Deferred outflows of resources
- Liabilities*
- Deferred inflows of resources
- Net position

9

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ELEMENTS OF FINANCIAL STATEMENTS

- GASB Concepts Statement No. 4, *Elements of Financial Statements*
  - Assets -resources with present service capacity that the government presently controls (BS)
  - Liabilities-present obligations to sacrifice resources that the government has little or no discretion to avoid (BS)
  - Outflow of resources is a consumption of net assets by the government that is applicable to the reporting period (IS)
  - Inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period (IS)

10

GASB STATEMENT NO. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*

- A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a future reporting period (BS)
- A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a future reporting period (BS)
- *Net position* is the residual of all other elements presented in a statement of financial position (BS)

11

GASB STATEMENT NO. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Reporting
  - Deferred outflows
    - After assets
      - No subtotal of assets and deferred outflows required
  - Deferred Inflows
    - After liabilities
      - No subtotal of liabilities and deferred inflows required
  - Net Position
    - A+DO-L-DI=NP
    - Replaces Net Assets

12

GOVERNEMNT-WIDE STATEMENTS

- Include:
  - Governmental Activities
  - Business Type Activities
  - Discretely Presented component units
- Exclude:
  - Internal Service funds
  - Fiduciary funds
  - Fiduciary component units

13

ACTIVITY COLUMNS

- Governmental fund data
  - Incorporated into governmental activities
- Enterprise fund data
  - Incorporated into business-type activities
- Internal service fund data
  - Incorporated into activity of predominant customers

14

DISCRETELY PRESENTED COMPONENT UNITS

- Options:
  - Single column for all units
  - Separate column for each unit
  - Separate column for each major unit

15

STATEMENT OF NET POSITION

- Assets
  - Order of liquidity or classified
- Deferred outflows
- Liabilities
  - Current versus long-term
    - Long term due in one year and beyond one year
- Deferred inflows
- Net Position

16

STATEMENT OF ACTIVITIES

- Presents expenses before revenues
- Governmental activities
  - By function or program
- Business-type activities
  - Different identifiable activities
    - *Different* = Types of goods, services, or programs
    - *Identifiable* = Specific revenue stream and related expenses, gains, and losses that are accounted for separately

17

MINIMUM LEVEL OF DETAIL FOR EXPENSES

- Governmental activities
  - By function or program
- Business-type activities
  - Different identifiable activities
    - *Different* = Types of goods, services, or programs
    - *Identifiable* = Specific revenue stream and related expenses, gains, and losses that are accounted for separately

18

DISPLAY OF PROGRAM REVENUES

- Three basic categories:
  1. Charges for services
     - Including revenues related to interfund services provided and used (excludes internal service funds)
  2. Operating grants and contributions
  3. Capital grants and contributions

19

SOURCES OF PROGRAM REVENUE

- Charges for services includes sources from:
  - Those who purchase, use, or otherwise *directly benefit* from program
  - Those who are otherwise *directly affected,* even though they obtain no benefit (e.g., fines)
- Program-specific grants and contributions

20

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IDENTIFYING PROGRAM REVENUES

- Exclude:
  - Taxes
  - Revenues from tax-increment financing
  - Grants and contributions that are *not* program specific (general aids)
- General revenues

21

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RECONCILATIONS

- Required whenever fund data does not tie directly to the government-wide financial statements
  - Always the case for governmental funds and governmental activities
- Face of fund financial statements
- Separate schedule

22

FUND FINANCIAL STATEMENTS

- Column for general fund
- Column for each major governmental fund
- Single column for aggregate nonmajor
- Column for each major enterprise fund
- Single column for nonmajor enterprise funds
- Total column for enterprise funds
- Single column for internal service funds

23

DETERMINING MAJOR FUNDS

- General fund is always major
- Total Assets + Deferred Outflows, Liabilities + Deferred Inflows, Revenues or Expenses
- > 10% of total for that category
  - Governmental funds
  - Enterprise funds
- >5% of total for both categories
  - Same element
- Can choose to classify more as major

24

GOVERNMENTAL FUND BALANCE SHEET

- Traditional balance sheet
  - Assets
  - Deferred Outflows
  - Liabilities
  - Deferred Inflows
  - Fund balance
- Columns
  - By Major fund and aggregate nonmajor funds

25

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Revenues

<u>Expenditures</u>

Excess (deficiency) of revenues over expenditures

Other financing sources and uses (including transfers)

<u>Special and extraordinary items</u>

Net change in fund balances

<u>Fund balance – beginning of period</u>

<u>Fund balance – end of period</u>

26

PROPRIETARY FUND STATEMENTS

- **Required statements:**
- Statement of net position OR balance sheet
- Statement of revenues, expenses, and changes in net position
- Statement of cash flows

27

PROPRIETARY FUND STATEMENT OF NET POSITION

- Traditional balance sheet
  - Assets
  - Deferred Outflows
  - Liabilities
  - Deferred Inflows
  - Net Position
- Classified or order of liquidity

28

PROPRIETARY FUND STATEMENT OF NET POSITION

- Columns
  - Major Enterprise Funds
  - Aggregate Nonmajor Enterprise Funds
  - Total Enterprise Funds
  - Aggregate Internal Service Funds

PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating Revenues

<u>Operating Expenses (including depreciation)</u>

Operating Income (Loss)

Nonoperating Revenues (Expenses)

Income (Loss) before Transfers, Capital Grants and Contributions

<u>Special and extraordinary items</u>

Change in net position

<u>Net Postion – beginning of period</u>

<u>Net Position – end of period</u>

Statement of Cash Flows

- Third basic financial statement for proprietary funds (GASB 9)
- Also a required financial statement for virtually all private-sector business enterprises and non-profit organizations. (FASB 95)
- Provides relevant information during a fiscal period about an entity's
  - Cash receipts
  - Cash disbursements

31

Categories of Cash Flow Activities – GASB 9

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities
- Change in cash and cash equivalents
- Beginning and ending cash and cash equivalents

32

Reconciliation of Cash Flows from Operating Activities to Operating Income

- Presents effect of noncash transactions, including the following:
  - Depreciation and amortization
  - Changes in assets and liabilities:
    - Accounts receivable
    - Inventory
    - Prepaid items
    - Customer deposits
    - Accounts payable

33

FIDUCIARY FUND STATEMENTS

- **Required statements:**
- Statement of net position
- Statement of changes in net position

34

GENERAL PURPOSE EXTERNAL FINANICAL STATEMENTS

A. Historically, financial reporting for state and local units of government have focused on reporting either by individual fund (prior to 1979 when NCGA Statement No. 1, was issued) or by fund type (subsequent to the issuance of NCGA Statement No.1).

B. Under NCGA Statement No. 1, the minimum reporting to be in conformance with generally accepted accounting principles was the general purpose financial statements, alternatively referred to as Combined Financial Statements. Combined or general purpose financial statements (GPFS) focused on reporting by generic fund type by including one column for each fund type in use.

1. When preparing a comprehensive annual financial report, combining statements by fund type were presented to support the generic fund type columns on the general purpose financial statements.

2. Combining statements reported a separate column for each individual fund used, with a total by generic fund type to trace to the fund type column on the GFPS.

3. The same measurement focus and basis of accounting was used for each fund type at each level of the report. Governmental fund types used the current financial resources measurement focus and the modified accrual basis of accounting while proprietary fund types used the accrual basis of accounting and the economic resources measurement focus.

4. This was often referred to as the “pyramid” approach to financial reporting.

5. While providing useful information to satisfy many of the needs of state and local government financial statement users, critics of the model noted that:

a. The model failed to provide specific information on the government or entity as a whole.

b. The model failed to inform readers, for governmental funds, about whether or not the government was economically better off or worse off as a result of the underlying economic events that occurred or transactions that were entered into.

c. In order to rectify this, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* in June 1999. Statement No. 34 replaced the traditional general purpose financial statements with general purpose external financial statements (GPEFS).

d. GASB Statement No. 34 and the retroactive reporting of infrastructure is currently effective for all units of government, regardless of size or type of government.

D. What did not change under GASB S-34?

1. It did not change basic budget methodology. Governments generally still budget their funds the way that they have historically.

2. S-34 also did not change how governments have historically reported funds at the individual fund level, except for equity classifications for proprietary funds.

E. What did change under GASB S-34.

1. We have a new top of the reporting pyramid (some would say it is the first top of a pyramid).

   a. The model reports by governmental and proprietary separately and in total at the top using the economic resources measurement focus and accrual basis of accounting.

   b. The fund financial statements focus on reporting by major fund, not by fund type.

2. Fund information for governmental funds will still focus on "current operations" using current financial resources measurement focus and modified accrual basis of accounting (same as budget).

3. Consolidated "Entity-wide" information will focus on "economic position of government and whether or not the government is economically better off or worse off as a result of decisions made."

F. Basic Financial Statements (general purpose external financial statements) are comprised of two sets of financial statements.

1. Government-wide financial statements report information for the entity as a whole, including any discretely presented component units.

2. Fund financial statements report information by fund group (governmental, proprietary, fiduciary) with separate columns for major funds and one column for the aggregate of non-major funds.

3. The question becomes which are the real financial statements. The answer is they both are. Fund financial statements present information on a short term basis focusing on current operating costs. Government-wide financial statements present information on a long-term basis focusing on total costs (current operating costs plus long-term operating costs plus use of capital assets plus cost of debt).

G. Government-wide financial statements are comprised of two basic financial statements.

1. The statement of net assets replaces a traditional balance sheet to report on the financial position of the government as a whole.

2. The statement of activities replaces the traditional operating statement and focuses on the total cost of providing services to the constituency, less program revenues, to determine the unfunded cost by program which is funded by general revenues.

H. Fund financial statements focus on reporting by fund group and major fund. Fund financial statements included as basic financial statements include:

1. Balance Sheet – all governmental funds;

2. Statement of Revenues, Expenditures and Changes in fund Balances – all governmental funds;

3. Statement of Revenues, Expenditures and Changes in fund Balances – Budget and Actual, General Fund and Major Special Revenue Funds;

    a. Governments must choose to report this as a basic financial statements or as required supplementary information (RSI).

    b. GFOA recommends presentation as a basic financial statement.

    c. Most common presentation is as RSI.

4. Balance Sheet (or Statement of Net Assets) all enterprise and internal service fund;

5. Statement of Revenues, Expenses and Changes in Net Assets – all enterprise and internal service funds;

6. Statement of Cash Flows – all enterprise and internal service funds;

7. Statement of Net Assets – all Fiduciary Funds;

8. Statement of Changes in Net Assets – certain Fiduciary Funds.

9. Regardless of the statements that are presented, two important principles must be maintained:

    a. Basic financial statements must articulate; and

    b. The “clean surplus” theory must be maintained on income statements.

I. The Statement of net assets is the first government-wide financial statement to be presented.

1. It is not a traditional balance sheet (A=L+E).

2. Instead, it reports as A-L=E

   a. There are no subtotals showing that the statement is in balance.

   b. There is only one double underscore under total net assets.

3. The statement is prepared on the accrual basis of accounting and the economic resources measurement focus. Therefore, all assets, liabilities and equity related to the activities must be reported in the appropriate columns.

4. The statement excludes all fiduciary funds

5. The statement of net assets reports 1-5 columns.

   a. Governmental activities

   b. Business type activities

   c. Total primary government (consolidated, required)

      1) Interfund activity is eliminated at the total column.

      2) The focus is to be on the primary government.

   d. Discretely presented component unit (DPCU) (if applicable)

      1) If the government has more than one discretely presented component unit, each component unit can be reported in a separate column.

      2) Alternatively, all DPCU can be reported in one column, supported by a separate combining statement in the basic financial statements.

   e. Total reporting entity (optional)

6. Assets and liabilities are reported in order of their relative liquidity or relative drain on financial resources.

   a. Capital assets are segregated between those that are depreciable and those that are not depreciable.

   b. Long-term liabilities must be segregated between those due within one year and those due beyond one year.

7. However, a classified statement can be presented as well.

a. The asset side would report current assets, non-current assets and total assets.

b. Liabilities would be segregated between current (payable in one year) and non-current.

8. The equity section at this level focuses on total economic resources, therefore the focus is on "Total Net Assets", not current financial resources.

   a. Net assets is the difference between total assets and total liabilities.

   b. Net assets are reported in three components.

      1) Invested in capital assets, net of related debt (ICANORD) is calculated by taking the book value of fixed assets, less the principal portion of any debt outstanding that was issued to construct or acquire those fixed assets.

         a) Unspent bond proceeds must be addressed in the calculation by being adjusted out of ICANORD and restricted for capital outlay.

         b) TIF financing or other long-term financing (e.g., intergovernmental agreements, development agreements, annexation agreements) that do not result in a fixed asset owned by the government will reduce unrestricted net assets.

         c) Likewise, long-term operating liabilities reduce unrestricted net assets, not ICANORD.

         d) Accrued interest payable on long-term debt and accreted interest on capital appreciation bonds are also excluded from the ICANORD and instead reduce unrestricted net asset.

      2) The remainder of net assets is reported as restricted or unrestricted. Restricted net assets represents an outside legal restriction on the use of the net assets (e.g., Motor Fuel Tax funds, unspent restricted tax levies), restrictions imposed by laws or enabling legislation. The remainder is reported as unrestricted net assets.

         a) The detail of restricted net assets must be reported on either face of the statement of net assets or in the notes to the financial statements.

         a) Many governments are overstating unrestricted net assets by not correctly reporting all of the restrictions on net assets.

b) This is complicated by many governments not reporting all of their reservations of fund balances at the fund level.

3) Many governments attempt to maintain a certain level of fund balance. A new policy for maintaining a certain level of unrestricted net assets may need to be developed as well.

J. The statement of activities is unlike any operating statement previously promulgated by a standard setting board.

1. The focus of the statement is reporting by function for governmental activities and identifiable segment for business-type activities. .

a. Functions should generally be consistent with functions reported on governmental operating statements and budget versus actual statements.

b. Cost should be allocated across functions (e.g. retirement benefits, insurance) rather than lumped into general government.

c. Total cost requires allocating costs (current and long-term operating as well as capital) at all levels, and requires that the same cost can not be accounted for twice (e.g., overhead allocations from the general fund to other departments/fund).

d. Interest costs on long-term debt reported in governmental activities are not allocated but instead are reported as a separate line item.

e. Interest costs on long-term debt reported in business type activities are reported as part of the identifiable segment and not allocated but instead are reported as a separate line item.

f. Internal service funds are not reported, instead the income (loss) is allocated among the functions (and identifiable segments if allocated to business type activities).

1) The income or loss is allocated since the internal service fund overcharged (undercharged) for the cost of services that it provided to another fund.

2) The effect of similar internal events (such as allocations of accounting staff salaries) that are, in effect, allocations of overhead expenses from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated.

3) The effect of interfund services provided and used (e.g., the sale of water or electricity from a utility to the general fund) should not be eliminated in the statement of activities.

2. The statement begins with a single line to report the total cost of providing a particular service (e.g., public safety).

   a. Total cost requires allocating depreciation expense as well, both for existing general capital assets (e.g., village hall) as well as for infrastructure assets.

   b. Unallocated depreciation expense, if any, is reported as a separate line item.

   c. Total costs exclude extraordinary items and special items.

      1) Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence but outside the control of management (e.g., a flood)

      2) Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence (e.g., contributions of land to a developer for economic development).

      3) Extraordinary items and special items are reported after general revenues.

3. Next the statement reports program revenues by service. Program revenues are reported by function and include.

   a. Charges for services (e.g., building fees, inspection fees, ambulance fees etc) that are for a particular service,

      1) Traffic fines and fees are considered charges for services (public safety).

      2) Other similar types of transactions would be reported as charges for services.

   b. Operating grants that are restricted for providing a particular service (e.g., motor fuel taxes, FAST COPS grants), and,

   c. Capital grants that are restricted for a particular purpose.

      1) This would include capital assets contributed by others that are for a particular function.

2) Capital assets contributed between funds are reported as transfers at this level.

d. Taxes of any type that a government itself levies generally should not be program revenues, but rather reported as general revenues.

e. Program revenues that do not correlate to a function should instead be reported as general revenues.

f. The result is net (expense) revenue by function or program.

4. The remainder of the statement reports general revenues by type of revenue.

a. General revenues are required to be reported by source.

b. Each major source of tax revenue should be reported separately in general revenues.

5. The following are reported after general revenues

a. Contributions

b. Transfers between funds of the primary government

1) Transfers between the primary government and discretely presented component units are reported as revenues/expenses.

2) Transfers between the primary government and fiduciary funds, if any, should also be reclassified.

6. The key figure on the statement becomes "change in net assets".

a. This tells a reader whether or not the government is economically better off or worse off as a result of the transactions it entered into.

b. This would correlate to "net income (loss)" in the private sector.

7. The statement must reconcile beginning and ending net assets.

a. Ending net assets must trace to the comparable figure on the statement of net assets.

b. The clean surplus theory must be maintained.

c. Restatements and prior period adjustments require two additional lines to be reported, amount of the restatement and net assets –beginning of the year – as restated

H. Fund financial statements report separate financial statements for each fund group.

1. Fund groups are defined as governmental funds, proprietary funds and fiduciary funds.

2. Discretely presented component units are not reported on any fund financial statements.

3. The focus on each fund groups' financial statements is reporting by major fund.

   a. A separate column is reported for each major fund.

   b. Aggregated remaining non-major funds are reported in a single column.

   c. Total columns are required and are not labeled as "memorandum only".

4. Major funds are defined as the general fund and other funds that meet the definition of a major fund as follows:

   a. Total assets, liabilities, revenues, or expenditures/expenses (the elements) of an individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and

   b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total of the same element for all governmental and enterprise funds combined.

   c. A government can choose to optionally report additional funds as major funds.

      1) The option should be disclosed in the notes.

      2) The option should be applied consistently.

5. Interfund receivables and payables must equal at the fund level

6. Interfund transfers must also balance between funds

7. Amounts that do not balance must be reconciled in the notes.

I. Fund financial statements for governmental funds consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances. These financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

1. The balance sheet reports columns for each major fund and one column for the aggregate of the non-major funds.

2. A total column is required.

3. Generally, only current assets and current liabilities are reported on the balance sheet, with the remainder reported as fund balance.

    a. Capital assets are excluded with the possible exception of land held for resale.

    b. Long-term operating and capital liabilities are excluded in accordance with GASB Interpretation 6.

4. Assets, liabilities, and fund balances of governmental funds should be displayed in a balance sheet format (assets equal liabilities plus fund balances) with subtotals reported for each component.

5. Fund balance is a measure of available, spendable financial resources and should be reported in its components.

6. The pre GASB S-54 components are:

    a. Reserved fund balances for:

        1) Assets not available for appropriation (e.g., prepaids, loans)

        2) Assets restricted as to use by an outside entity (reserved for debt service).

        3) Reserved fund balance must always be reported as positive amounts.

        4) Reserved fund balance can create an unreserved deficit.

    b. Unreserved fund balance is the remainder and can be further segregated by designations of unreserved fund balance.

        1) Designated fund balance represents tentative management plans for available spendable resources.

        2) Designated fund balance must always be a positive amount and cannot create an unreserved, undesignated deficit.

3) The remainder is reported as unreserved/undesignated and is reported by fund type.

c. The detail of the reserves/designations must be reported on either the face of the statements or in the notes to the financial statements.

J. The total fund balances on the balance sheet – all governmental funds must be reconciled to the total net assets of the governmental activities.

1. The primary reconciling items are capital assets and long-term liabilities, which are differences in measurement focus.

2. Differences in basis of accounting (e.g., revenue recognition, interest on long-term debt, NPO/NPA, NOPEBO/NOPEB) must also be reconciled.

3. Each element should be presented separately on the reconciliation.

4. Additional detail of reconciling items may be presented in the notes to the financial statements.

K. The statement of revenues expenditures and changes in fund balances reports the same columns as on the balance sheet, using the traditional income statement format.

1. The format of the statement should present items in the following order: revenues; expenditures; excess (deficiency) of revenues over (under) expenditures; other financing sources and uses; special items; extraordinary items; and net change in fund balance?

a. Revenues are reported by fund and by source.

1) Classifications should be detailed enough to be meaningful.

2) Negative investment income is reported as a revenue, not an expenditure.

b. Expenditures (not expenses) are reported by fund, character and by function (e.g., general government, public safety, highways and streets).

1. Character includes current, "intergovernmental", debt service and capital outlay.

a) Minor capital outlay can be reported within the current functions.

2. Common functions include general government, public safety, public works, culture and recreation etc.

c. The result is excess (deficiency) of revenues over expenditures.

d. Other financing sources (uses) are financial benefits or detriments to a fund but not to the government as whole.

1. Transfer to other funds are reported separately from transfers from other funds.

2. Issuance of bonds and other long-term debt instruments is reported at face (par) value with issuance costs reported as expenditures, regardless of how the issuance costs are paid.

   a) This includes issuance of notes payable to developers where no proceeds are received.

3. Premiums on debt issues are recorded as other financing sources.

4. Discounts on debt issues are recorded as other financing uses.

5. The issuance of capital leases is reported as a other financing source and expenditure in the year of issuance.

6. Payments to escrow agents for bond refunding are also reported as a other financing use to the extent the escrow is funded with new bond proceeds.

7. The proceeds of no commitment debt is reported as a revenue.

e. The bottom line measure – "net change in fund balances" measures whether or not the government recovered the operating costs of services provided to the constituency.

2. The statement should reconcile beginning and ending fund balances.

a. Again the clean surplus theory applies.

b. Changes in reserves for inventories accounted for using the purchases method are allowed to be reported in equity.

c. Restatements of fund balance are reported as an adjustment to beginning fund balance.

L. The net change in fund balances all governmental funds should be reconciled to the change in governmental activities net assets on the statement of net assets.

1. The primary reconciling items are changes in long-term liabilities and changes in capital assets, which are differences in measurement focus.

2. Differences in basis of accounting (e.g., revenue recognition, interest on long-term debt, NPO/NPA, NOPEBO/NOPEB) also dominate this reconciliation be reconciled.

3. Each element should be presented separately on the reconciliation.

4. Additional detail of reconciling items may be presented in the notes to the financial statements.

M. Governments generally have the option of presenting required budgetary comparisons either as a basic governmental fund financial statement or as RSI.

1. The statement (or RSI) is required to present the general fund and major special revenue funds with legally adopted annual budgets.

2. The original and final amended budget are required to be reported.

3. Actual results of operations are presented on the budgetary basis of accounting, the same basis that the budget was adopted on.

4. Variances columns are optional. However, if they are presented, they must use neutral terminology.

5. GFOA recommends the presentation as a basic financial statement.

6. Practice has reported the presentation as required supplementary information.

N. Fund financial statements for proprietary funds consist of a balance sheet (or statement of net assets), a statement of revenues, expenses and changes in net assets; and a statement of cash flows

1. The first two statements are prepared using the accrual basis of accounting and the economic resources measurement focus.

2. The cash flow statements presents true cash flows.

3. The balance sheet (or statement of net assets) reports

a. One column for each major enterprise fund;

b. One column for the aggregate of all non-major funds enterprise funds

c. A total column for enterprise funds

d. A column for the aggregate of all internal service funds.

4. Generally, all assets, liabilities and net assets of the fund are reported.

5. A classified format should be used in the preparation of the statement, regardless of presenting a balance sheet or a statement of net assets.

6. Equity classifications are the same as the government-wide statement of net assets.

    a. Contributed capital is no longer reported.

    b. The same rules apply for the calculation of ICANORD.

O. The statement of revenues, expenses and changes in net assets – all proprietary funds is prepared using the traditional format.

1. The statement is segregated into operating revenues, operating expenses, non-operating revenues and expenses and transfers, capital contributions and special/extra-ordinary items.

2. Operating revenues generally result from exchange type transactions.

    a. Taxes of any type generally are not exchange transactions.

    b. Likewise, neither are operating grants or capital grants.

3. Operating revenues should be reported by major source

    a. Revenues used as security for revenue bonds should be separately identified.

4. Operating expenses are the direct cost of providing the activity or service.

    a. Operating expenses should be in sufficient detail to be meaningful.

    b. If capital assets are reported, depreciation expense must be reported as a separate line item.

5. Operating income (loss) is required to be reported.

6. Nonoperating revenues and expenses are reported next.

    a. Nonoperating revenues include taxes, investment income and operating grants.

    b. Nonoperating expenses include interest expense and losses on disposals of capital assets.

7. The result is net income (loss) before other items

8. Capital contributions, transfers between fund, special items and extra-ordinary items, if any, are reported next.

9. The bottom line again is increase (decrease) in net assets, which is the equivalent of net income (loss).

10. The statement must reconcile beginning and ending net assets.

11. Again the clean surplus theory applies.

P. The statement of cash flows is reported in accordance with GASB Statement No. 9. The statement reports gross cash inflows and outflows.

1. Cash flows focus on reporting inflows and outflows of cash and cash equivalents.

   a. Cash is defined as cash on hand and in demand accounts.

   b. Cash equivalents are investments with a maturity of three months or less when purchased.

2. Four categories of cash flows are reported, operating, noncapital financing, capital and related financing, or investing activities. These are very different than the three categories used in the private sector.

3. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income as well as cash flows that do not meet the definition of the other three categories

   a. Cash flows from operating activities must be reported using the direct method.

   b. Under the direct method, cash inflows and outflows must be reported for the following categories, if applicable.

      1) Cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising from those sales.

      2) Cash receipts from interfund services transactions with other funds.

      3) Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government. (A grant arrangement of this type is essentially the same as a contract for services.)

      4) Cash receipts from other funds for reimbursement of operating transactions.

5) Cash payments to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods.

6) Cash payments to other suppliers for other goods or services.

7) Cash payments to employees for services.

8) Cash payments for interfund service transactions with other funds, including payments in lieu of taxes.

9) All other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

c. Cash flows from operating activities also include transactions of certain loan programs. Even though loan activities are usually classified as investing activities, certain loan programs are not intended to be investments, but are undertaken instead to fulfill a governmental responsibility.

4. Cash flows from noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest.

a. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing.

b. Also certain other interfund and intergovernmental receipts and payments are included in this category.

1) This includes interfund transfers.

2) This also includes interfund loans.

3) Intergovernmental receipts that are not “restricted” to be spent on capital purposes are reported here.

4) Cash receipts from other non-exchanges revenues that are not restricted for capital purposes.

5. Cash Flows from capital and related financing activities include acquiring and disposing of capital assets used in providing services or producing goods, borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest,

a. this includes paying for capital assets obtained from vendors on credit, including trade accounts payable.

b. This is one of the most common errors in preparing a cash flow statement.

c. The change in accounts payable is often incorrectly adjusted through cash paid to suppliers.

d. Cash inflows from capital and related financing activities include:

  1) Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets.

  2) Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets.

  3) Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed.

  4) Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets.

e. Cash outflows for capital and related financing activities include:

  1) Payments to acquire, construct, or improve capital assets.

  2) Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets.

  3) Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets.

  4) Cash payments to lenders and other creditors for interest directly related to acquiring, constructing, or improving capital assets.

6. Cash flows from investing activities include making and collecting loans, except program loans and acquiring and disposing of debt or equity instruments. Cash inflows from investing activities include:

  a. Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the governmental enterprise.

b. Receipts from sales of equity instruments and from returns of investment in those instruments.

c. Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools.

d. Withdrawals from investment pools that the governmental enterprise is not using as demand accounts.

e. Payments to acquire equity instruments.

f. Deposits into investment pools that the governmental enterprise is not using as demand accounts.

7. The difference is the increase in cash and cash equivalents.

8. The statement reconciles cash and cash equivalents at the beginning and end of the year.

9. The figure reported as cash and cash equivalents at the end of the year must articulate with a similar account on the balance sheet or statement of net assets.

   a. If the figures do not articulate, then a reconciliation must be provided on the face of the cash flow statement.

   b. The reconciliation is not allowed to be presented in the notes.

10. A reconciliation is required to reconcile cash flows from operating activities to operating income loss.

   a. The reconciliation starts with operating income loss.

   b. Changes in assets, liabilities and other transactions impacting operating income (loss) are included in the reconciliation.

   c. non-cash operating transactions are also included.

11. Information about all investing, capital, and financing activities during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported.

   a. This non-cash transaction information should be presented in a separate schedule, which may be in either a narrative or a tabular format,

      1) It should clearly describe the noncash aspects of the transaction.

2) The schedule may be presented, if space permits, on the same page as the statement of cash flows.

3) Examples of noncash transactions are acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining an asset by entering into a capital lease; and exchanging noncash assets or liabilities for other noncash assets or liabilities.

4) Accretion of interest on capital appreciation bonds is often a significant non-cash transaction required to be disclosed.

Q. Fiduciary funds are reported on two statements, a statement of net assets and a statement of changes in net assets.

1. One column is reported for each fiduciary fund type, not each individual fiduciary fund.

2. Agency funds are reported only on the statement of net assets since assets liabilities.

3. Assets are required to be reported by major category.

    a. For pension (and other employee benefit) trust funds, the principal subdivisions of receivables and investments must be reported.

    b. Common investment classifications are US Treasury Obligations; US Agency Obligations; Corporate Debt Securities; Corporate Equity Securities.

4. The difference between assets and liabilities should be reported as net assets.

    a. Pension funds report a line for *assets held in trust for pension benefits.*

    b. OPEB funds report a line for *assets held in trust for OPEB benefits*.

    c. Investment trust fund report a line item reported for *assets held in trust for pool participants*.

5. The statement of changes in fiduciary net assets should include information about the additions to, deductions from, and net increase (or decrease) for the year in net assets for each fiduciary fund type.

    a. The detailed display requirements of GASB S 25 and S-43 apply to the statements of changes in plan net assets for pension and other employee benefit trust funds.

1) The additions section of the statement of changes in plan net assets should include the information in these four categories, separately displayed:

a) Contributions from the employer(s)

b) Contributions from plan members, including those transmitted by the employer(s)

c) Contributions from sources other than the employer(s) and plan members (for example, state government contributions to a local government plan)

d) Net investment income, including (1) the net appreciation (depreciation) in the fair value of plan investments, (2) interest income, dividend income, and other income not included in (1), and (3) total investment expense, separately displayed, including investment management and custodial fees and all other significant investment-related costs.

2) The deductions section of the statement of changes in plan net assets should include

a) Benefits and refunds paid to plan members and beneficiaries and

b) Total administrative expense, separately displayed.

6. The difference is the increase (decrease) in fiduciary net assets.

7. The statement reconciles the fiduciary net assets at the beginning and end of the year.

R. If multiple discretely presented component units are aggregated into one column on the government-wide statements, then detailed information by component unit must be presented as another set of financial statements in the basic financial statements or in the notes to the financial statements.

1. A combining statement of net assets reporting one column for each component unit and a total column is required.

2. A combining statement of activities reporting one column for each component unit and a total column is required.

CITY OF AURORA, ILLINOIS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For the Year Ended
December 31, 2017

Prepared by Finance Department

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Page(s)

INTRODUCTORY SECTION

FINANCIAL SECTION

Page(s)

FINANCIAL SECTION (Continued)

Page(s)

FINANCIAL SECTION (Continued)

Page(s)

FINANCIAL SECTION (Continued)

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES (Continued)

Page(s)

FINANCIAL SECTION (Continued)

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES (Continued)

SUPPLEMENTARY FINANCIAL INFORMATION

STATISTICAL SECTION

ADDITIONAL DISCLOSURES

GENERAL PURPOSE EXTERNAL
FINANCIAL STATEMENTS

As the management of the City of Aurora (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which may be found on pages iv through x of this report.

USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL REPORT

In accordance with generally accepted accounting principles, the City presents its financial statements so as to offer two perspectives of its financial position and results of operations. The government-wide perspective presents financial information for the government as a whole. The fund perspective involves the presentation of financial information for individual accounting entities established by the City for specific purposes. The focus of the fund statements is on major funds. Both perspectives (government-wide and major fund) address likely user questions, provide a broad basis for comparison (year to year or government to government), and enhance the City's accountability.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the aggregate difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and transportation, health and welfare, culture and recreation, and economic development. The business-type activities of the City include a water and sewer system, downtown and commuter parking operations, an airport, and a golf course.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Aurora Public Library (the "Library"). The City is financially accountable for the Library, but the Library has a separate governing board. Because the Library is a component unit, its financial information is reported separately from the financial information of the City.

The government-wide financial statements can be found on pages 4 through 7 of this report.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 28 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Services Fund, which are considered to be "major" funds. Data from the other 27 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 8 through 12 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer system, airport, downtown and commuter parking operations, and a golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the costs of property and casualty insurance, employee health insurance, and employee severance and sick leave. Because the City's costs for these items relate primarily to governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and Airport Fund, which are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 13 through 17 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains six fiduciary funds: the Police Pension Fund, Firefighters' Pension Fund, Retiree Health Insurance Trust Fund, Section 125 Medical Fund, Section 125 Dependent Care Fund, and the Police Charitable Fund.

The basic fiduciary fund financial statements can be found on pages 18 and 19 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 20 through 89 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide benefits to its employees. Required supplementary information can be found on pages 90 through 103 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds, and internal service funds are presented immediately following the required supplementary information on postemployment benefits. Combining and individual fund statements and schedules can be found on pages 104 through 173 of this report.

Financial Analysis of the City as a Whole
Beyond presenting current-year financial information in the government-wide and major individual fund formats, the City also presents comparative information from the prior year in this Management's Discussion and Analysis. By doing so, the City believes that it is providing the best means of analyzing its financial condition and position as of December 31, 2017.

GOVERNMENT-WIDE STATEMENTS

Net Position

The following table reflects the condensed Statement of Net Position.

Table 1
Statement of Net Position
As of December 31, 2017 and 2016
(in millions)

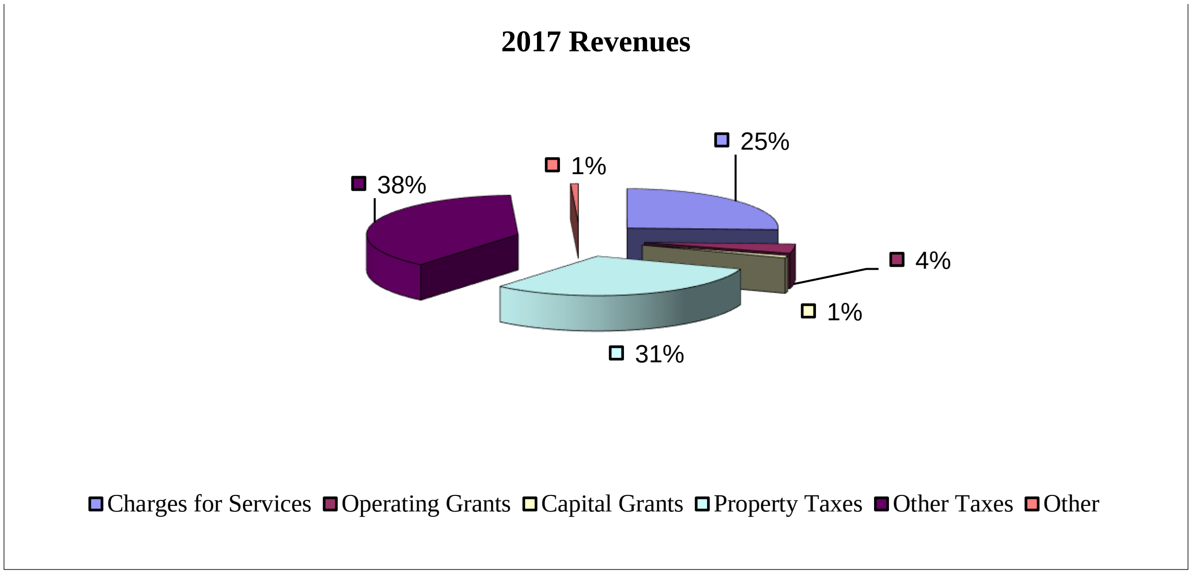
	Governmental Activities		*Business-Type Activities*		*Total Primary Government*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
Current and Other Assets	$ 243.8	$ 219.4	$ 24.3	$ 25.7	$ 268.1	$ 245.1
Capital Assets	525.0	529.6	252.4	248.4	777.4	778.0
Total Assets	768.8	749.0	276.7	274.1	1,045.5	1,023.1
Deferred Outflows of Resources	184.7	182.4	14.1	15.6	198.8	198.0
Total Assets and Deferred Outflows	953.5	931.4	290.8	289.7	1,244.3	1,221.1
Long-Term Liabilities	883.2	899.5	66.6	76.0	949.8	975.5
Other Liabilities	45.7	37.4	7.1	7.6	52.8	45.0
Total Liabilities	928.9	936.9	73.7	83.6	1,002.6	1,020.5
Deferred Inflows of Resources	106.7	78.7	1.4	-	108.1	78.7
Total Liabilities and Deferred Inflows	1,035.6	1,015.6	75.1	83.6	1,110.7	1,099.2
Net Position:						
Net Investment in Capital Assets	399.2	407.7	227.3	221.0	626.5	628.7
Restricted	49.0	51.2	4.3	4.3	53.3	55.5
Unrestricted	(530.3)	(543.1)	(15.9)	(19.2)	(546.2)	(562.3)
Total Net Position	$ (82.1)	$ (84.2)	$ 215.7	$ 206.1	$ 133.6	$ 121.9

The City's combined net position increased by $11.7 million - from $121.9 to $133.6 million - during 2017. This change is the result of $2.1 million and $9.6 million increases in the net position of governmental activities and business-type activities, respectively. The change in net position was due to a slight increase in capital assets and a decrease in long-term liabilities. The decrease in liabilities is impacted by the City's change in benefits related to retiree health insurance.

For more detailed information, see the Statement of Net Position on pages 4 and 5.

Activities

The following charts and table summarize the revenue and expenses of the City's activities.



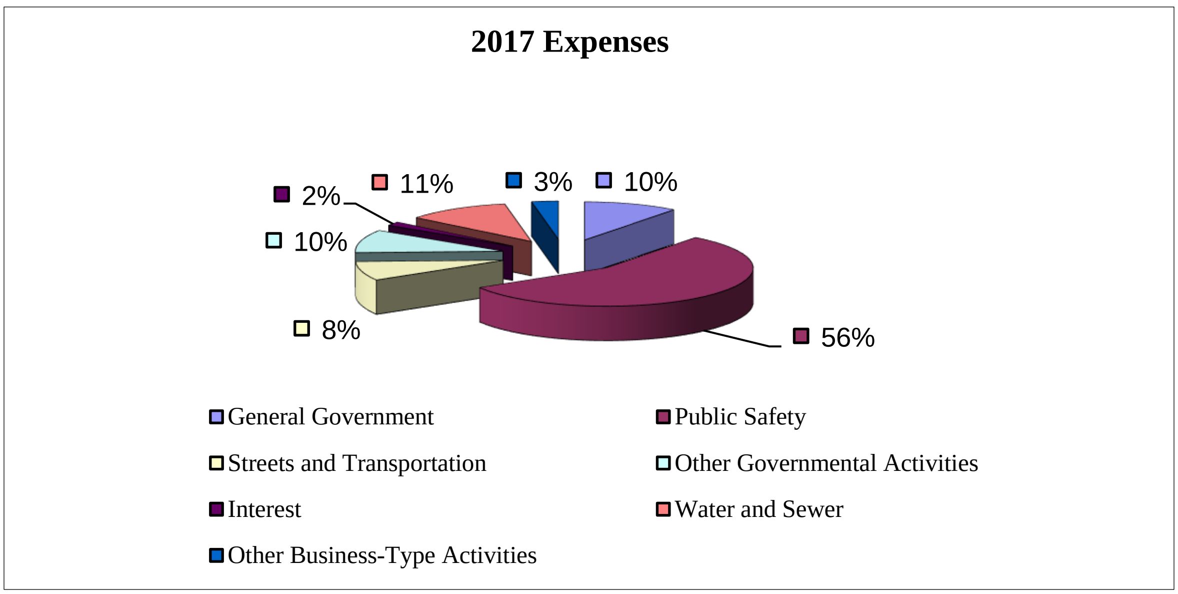


Table 2
Changes in Net Position
For the Fiscal Year Ended December 31, 2017 and 2016
(in millions)

	Governmental Activities		*Business-Type Activities*		*Total Primary Government*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
REVENUES						
Program Revenues:						
Charges for Services	$ 25.9	$ 27.0	$ 38.9	$ 37.7	$ 64.8	$ 64.7
Operating Grants and Contributions	6.9	9.4	0.1	0.2	7.0	9.6
Capital Grants and Contributions	2.6	2.0	0.1	0.3	2.7	2.3
General Revenues:						
Property Taxes	82.2	77.6	-	-	82.2	77.6
Other Taxes	93.1	95.8	0.3	0.4	93.4	96.2
Other	2.6	1.8	0.3	0.3	2.9	2.1
Total Revenues	213.3	213.6	39.7	38.9	253.0	252.5
EXPENSES						
General Government	17.8	30.3	-	-	17.8	30.3
Public Safety	131.5	163.3	-	-	131.5	163.3
Streets and Transportation	28.3	23.4	-	-	28.3	23.4
Health and Welfare	14.6	14.3	-	-	14.6	14.3
Culture and Recreation	4.8	8.1	-	-	4.8	8.1
Economic Development	4.3	5.9	-	-	4.3	5.9
Water and Sewer	-	-	28.4	33.1	28.4	33.1
Airport	-	-	2.3	2.3	2.3	2.3
Downtown Parking	-	-	1.3	1.7	1.3	1.7
Commuter Parking	-	-	2.2	2.8	2.2	2.8
Golf Operations	-	-	1.0	1.7	1.0	1.7
Interest on Long-Term Debt	4.8	4.7	-	-	4.8	4.7
Total Expenses	206.1	250.0	35.2	41.6	241.3	291.6
Excess (Deficiency) Before Transfers	7.2	(36.4)	4.5	(2.7)	11.7	(39.1)
Transfers	(5.1)	(2.8)	5.1	2.8	-	-
Change in Net Position	$ 2.1	$ (39.2)	$ 9.6	$ 0.1	$ 11.7	$ (39.1)
Net Position, December 31	$ (82.1)	$ (84.2)	$ 215.7	$ 206.1	$ 133.6	$ 121.9

For the fiscal year ended December 31, 2017, revenues totaled $253.0 million. The City benefits from a highly diversified revenue base. Revenues from the City's largest single source, property taxes, amounted to $82.2 million. Property taxes support governmental activities, which includes the City's contribution to the Aurora Firefighters' Pension Fund and the Aurora Police Pension Fund. Between 2016 and 2017, total property tax revenues rose by 5.9%.

The "other taxes" classification includes a number of different revenue sources. Among those are sales taxes, income taxes, and gaming taxes. The two major types of sales taxes are the retailer's occupation tax (ROT) and the home-rule sales tax. Both of these sales taxes are collected by the State of Illinois. A portion of the ROT is shared by the state with its municipalities based upon the point of sale. While the ROT is a 7.0% tax, the equivalent of a 1% tax is remitted to Aurora. The City's home-rule sales tax rate is 1.25%. All of the proceeds from the home-rule sales tax are remitted to Aurora.

The ROT is recorded only in the General Fund. During 2017, the City recorded home-rule sales tax revenues in the General Fund; Sanitation Fund; Safety, Health, and Public Enhancement Fund; Capital Improvements Fund; Airport Fund; and the Motor Vehicle Parking Systems Fund.

In 2017, ROT revenues were $22.3 million compared to $22.6 million in 2016. Home-rule sales tax revenues dropped by 8.5% between the two years, decreasing from $20.7million to a total of $18.9 million during 2017. Sales tax remains stable in the City of Aurora, and numerous economic development activities are planned as discussed below in this correspondence to support the Aurora economy.

Income taxes are also shared by the state, but on a per-capita basis. Between 2016 and 2017, the City's income tax revenues dropped from $19.3 million to $18.2 million – a $1.1 million decrease or 5.6%. This decrease is attributable to a 10% reduction in tax distribution from the State of Illinois starting July 1, 2017.

The City collects a $1 per person tax on admissions to Aurora's riverboat casino, the Hollywood Casino. Aurora also benefits from a 5% wagering tax on the casino's revenues. Together, these taxes amounted to $7.0 million in both 2017 and 2016. The decline from previous years reflects the effect of competition from other gaming facilities in the region and the institution of video gaming throughout the state. In 1994, the first full year when the Aurora casino was in operation, the City received $9.3 million in gaming taxes. The revenue high point came in 2002 when $16.3 million was generated for the City.

Overall there was virtually no change in charges for services in 2017 compared to the prior year. Greater revenue was seen in business-type activities while there was a decrease in governmental activities. In governmental activities, the City saw a decrease in revenues from building and permit, plan review and inspection fees. Between 2016 and 2017, building and permit, plan review and inspection fee revenue decreased from $4.5 to $3.7 million. In business-type activities, the water and sewer fee revenue was approximately $33.2 million in 2017, up from $32.0 million in 2016. The revenue increase of 3.6% reflects the city's practice of increasing water rates gradually each year. Over the past few years, the City has migrated to a rate structure that relies more heavily on a fixed base fee. This serves to shore up overall water and sewer utility revenues as customers conserve water and the revenues generated by the volume (consumption) charge are less robust.

Also indicated in Table 2 are changes in grant and contribution revenues. Operating grants and contributions decreased from $9.6 in 2016 to $7.0 million in 2017 (a 27.1% decrease). This decrease was related primarily to changes in funding from the United States Department of Housing and Urban Development as the Home Ownership and Maintenance Empowerment Program and Community Development Block Grant Program were less active in 2017. Capital grants and contributions increased from $2.3 to $2.7 million (a 17.4% increase). The City received additional grant funding in 2017 from the Illinois Department of Commerce and Economic Opportunity and the Illinois Housing Development Authority for efficient lighting projects and abandoned and blighted property programs.

Aurora's expenses amounted to a total of $241.3 million in 2017. This represents an decrease of 17.2% from the prior year.

Public safety costs comprise the greatest proportion of the City's total expenses. Between 2016 and 2017, public safety costs decreased by 19.5%, from $163.3 to $131.5 million. The decrease is attributable to personnel-related and other operating costs associated with the City's fire department and police department as well as the change in benefits to the retiree health plan. The prior year's expense figures reflect the impact of the settlement of collective bargaining agreements as well as higher overtime costs and employer's pension expenses.

Expenses for the streets and transportation fund rose from $23.4 million in 2016 to $28.3 million in 2017 (an increase of $4.9 million or 20.9%). The difference resulted because street maintenance costs were higher in 2017 than in the prior years.

In the business-type activities, the expenses of the water and sewer function decreased from $33.1 million in 2016 to $28.4 million in 2017 – a $4.7 million or 14.2% decrease. Lower personnel and benefit costs in 2017 account for the year-to-year change.

Transfers in 2017 were higher than the prior year. Due to the refunding of the City's debt obligations in the prior year the City's Safety, Health, and Public Enhancement Fund did not need to make a transfer to the Debt Service Fund for bond and interest payments as it had it previous years.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At December 31, 2017, the governmental funds had combined fund balances of $105.8 million. This reflects a $17.0 million increase from the prior year. Summarized results for the General Fund are provided below.

Table 3
General Fund Budgetary Highlights
For the Fiscal Year Ended December 31, 2017
(in millions)

	Original Budget	*Amended Budget*	*Actual*
REVENUES			
Taxes	$147.184	$147.184	$145.736
Licenses, Fees, and Permits	8.230	8.230	8.139
Other	8.879	8.879	10.336
Total Revenues	164.293	164.293	164.211
EXPENDITURES	168.665	168.365	161.660
TRANSFERS IN	1.500	1.500	1.500
TRANSFERS OUT	-	1.650	1.650
Change in Fund Balance	$ (2.872)	$ (4.222)	$ 2.401

In 2017, the fund balance of the General Fund increased by about $2.4 million, bringing the total fund balance at year-end to $23.9 million. The City's policy is to maintain a General Fund balance of no less than 10% of budgeted expenditures. As of December 31, 2017, the minimum fund balance target was $16.9 million. Thus, management deemed the General Fund balance to be at least minimally satisfactory at the end of 2017. Because property tax revenues are not received each year until about mid-year, the City requires a minimum fund balance in the General Fund to satisfy operational cash flow needs early in the fiscal year.

Actual tax revenues were less than the budgeted amount primarily because home-rule sales tax and food and beverage tax revenues were lower than expected. Revenues associated with licenses, fees, and permits were slightly more than the budgeted amount. This was primarily due to vacant property registration fees being higher than amounts budgeted. Actual expenditures were less than the original budget and reflect efforts to control operating and personnel costs during the year.

The fund balance in the Debt Service fund decreased $2.2 million during 2017 from $3.1 million in 2016 to $.9 million in 2016. Principal and interest payments were slightly higher in 2017 than the previous but the change was primarily due to transfers in from other funds. In 2016 the Debt Service Fund received $5.6 million from other funds compared to only $1.6 million in 2017. The City has refunded several series of general obligation bonds over the past several years and has been generally paying down its debt, and as such transfers in for debt payments have not been as high as was needed in prior years.

There were significant changes in the fund balances of three special revenue funds (other governmental funds). The fund balance of the City's Safety, Health, and Public Enhancement Fund increased $1.7 million to $2.4 million as no transfers to the Debt Service Fund were necessary in 2017. The fund balance of the Stormwater Management Fee Fund decreased by $1.1 million to $2.8 million as a result of a transfer to the Debt Service Fund for bond and interest costs associated with the repayment of related debt. Additionally the fund balance of the Long-Term Control Plan Fee Fund declined $1.4 million to $2.5 million as a result of capital outlay for various drainage projects. The separation of combined sewers in certain areas of the community as called for in the City's Long-Term Control Plan has required significant resources from the City funds.

The fund balance of the non-major capital projects funds changed significantly during 2017 due to the issuance of $16.5 million in bonds for various capital projects. The Gaming Tax Fund's balance increased by $2.5 million due to lower expenditures in 2017 than in the prior year.

The Aurora City Council approved one budget amendment during the year. This budget amendment served mainly to provide authority for a) the purchase of $450,000 in lighting supplies for a grant program funded by the Illinois Department of Commerce and Economic Opportunity b) allocation of $4.2 million in additional funds from the United States Department of Housing and Urban Development through the Home Ownership and Maintenance Empowerment Program and Section 108 Loan Guarantees $1.65 million of transfers from the General Fund to the Property and Casualty Insurance Fund for claims that were higher than expected and d) $2.5 million of transfers from the Employee Health Insurance Fund to the Employee Compensated Benefits Fund for accrued sick leave and severance pay that were higher than expected.

Different measurement foci and bases of accounting are used in the accounting and financial reporting for the City's governmental activities and government funds even though the financial statements for each essentially address the same City operations. The economic resources measurement focus and the accrual basis of accounting are used for governmental activities. On the other hand, the current financial resources measurement focus and modified accrual basis of accounting are used for the governmental funds. To reconcile the fund balances of the governmental funds with the net position of governmental activities as of December 31, 2017, the City has provided a reconciliation on page 10 of this report. The most significant reconciling items include:

- $525.0 million of capital assets are included in the assets of governmental activities. During 2017 and prior years, these costs were recorded as expenditures in the governmental funds.

- $142.4 million of general obligation bonds are included in the liabilities of governmental activities. Long-term liabilities are not recorded in the governmental funds. Rather, the principal and interest payments associated with the servicing of this debt are recorded as expenditures when the debt service payments are due and payable.
- A $379.4 million net pension liability is recorded for governmental activities. This liability is not recognized in the governmental funds. Rather, the City's employer contributions are recorded in the General Fund (a governmental fund) as expenditures when the contributions are made to the pension trust funds.
- A $193.4 million net other postemployment benefits obligation is recorded as a liability of governmental activities. This liability is not recognized in the governmental funds. Instead, the City's employer contributions to the Retiree Health Insurance Trust Fund are recorded as expenditures in the governmental funds as the contributions are made.

Capital Assets

The following schedule reflects the City's capital asset balances as of December 31, 2017.

Table 4
Capital Assets
As of December 31, 2017 and 2016
(in millions)

	Governmental Activities		*Business-Type Activities*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
Land and Land Right of Way	$ 133.2	$ 132.2	$ 25.9	$ 25.9	$ 159.1	$ 158.1
Buildings and Land Improvements	148.8	145.9	145.9	145.9	294.7	291.8
Machinery, Vehicles, and Equipment	45.5	38.8	9.6	9.2	55.1	48.0
Works of Art	1.0	1.0	-	-	1.0	1.0
Infrastructure	389.7	379.0	192.0	181.6	581.7	560.6
Construction in Progress	26.1	36.1	18.5	18.4	44.6	54.5
Less:						
Accumulated Depreciation	(219.3)	(203.4)	(139.6)	(132.7)	(358.9)	(336.1)
Total	$ 525.0	$ 529.6	$ 252.3	$ 248.3	$ 777.3	$ 777.9

At year-end, the City's investment in capital assets for both its governmental and business-type activities was $777.3 million (net of accumulated depreciation).

Major capital asset events during 2017 included:

- Several properties were acquired resulting in an increase in land and land right of way of governmental activities. The City acquired the land for economic and neighborhood development purposes.
- Infrastructure recorded for governmental activities rose by $10.7 million. This was due primarily to the completion of fiber optic projects, various storm sewer separation projects and completion of certain street and bridge improvement projects.
- Construction in progress of the governmental activities decreased by $10.0 million due to the completion of fiber optic projects, certain street and bridge improvement projects and the acquisition of a new public safety enterprise resource platform.
- The construction of sanitary sewer lines in the community caused the infrastructure of business-type activities to increase by $10.4 million.
- Ongoing combined sewer separation projects added $.1 million to construction in progress of business-type activities. Most notably, the 2017 projects included work in the vicinity of East Galena Boulevard and East Downer Place.

For more information on the City's capital assets, see Note 4 in the notes to the financial statements.

Long-Term Debt

The table below summarizes the City's bonded and similar indebtedness.

Table 5
Long-Term Debt
As of December 31, 2017 and 2016
(in millions)

	Governmental Activities		*Business-Type Activities*		*Total*	
	2017	***2016***	***2017***	***2016***	***2017***	***2016***
General Obligation Bonds	$ 120.2	$ 110.8	$ -	$ -	$ 120.2	$ 110.8
Revenue Bonds/Notes	10.9	11.9	27.0	28.3	37.9	40.2
Debt Certificates	4.2	1.7	-	-	4.2	1.7
Illinois EPA Loans	7.1	3.2	5.6	6.4	12.7	9.6
Compensated Absences	18.9	19.1	2.1	2.0	21.0	21.1
Insurance Claims Payable	9.0	6.6	-	-	9.0	6.6
Net Pension Liabilities *	421.7	430.1	7.9	9.3	429.6	439.4
Net Other Post-Employment Benefit Liability *	305.6	325.2	25.9	31.8	331.5	357.0
Unamortized Bond Premium	1.3	1.2	0.3	0.3	1.6	1.5
Total	$ 898.9	$ 909.8	$ 68.8	$ 78.1	$ 967.7	$ 987.9

As of December 31, 2017, the City had a total of $967.7 million of long-term debt outstanding. Of this amount, $120.2 million was in the form of general obligation bonds backed by the full faith and credit of the City government. Normally, the debt service on the general obligation bonds is paid with a dedicated component of a local government's property tax levy. However, for the past several years, the City abated a large portion of its property tax levy for debt service and used revenues from other sources, especially gaming taxes and real estate transfer taxes, to pay general obligation debt service.

Also outstanding at the end of 2017 were $37.9 million of revenue bonds and notes. This classification of bonded indebtedness includes water and sewer, golf course, and tax increment revenue bonds and notes. Water and sewer service fees charged to the City's residents and businesses are covering the debt service on the water and sewer bonds. The golf bonds are being repaid from fees charged at the City's golf course and transfers from the Gaming Tax Fund. Incremental property taxes generated in the City's Tax Increment Financing (TIF) Districts #3 and #6 as well as transfers from the Gaming Tax Fund are being used to pay the debt service on TIF bonds and notes issued in 2008 and 2009.

As an Illinois home-rule community, the City is not subject to any debt limitation. In 2017, Standard and Poor's Ratings Services affirmed a AA credit rating for the City's general obligation bonds. Standard and Poor's also gave the new $16.5 million 2017 Bond issue an AA rating. The AA rating indicates a "very strong capacity to meet financial commitments." In assigning the rating, Standard & Poor's cited Aurora's:

- Strong management, with good financial policies and practice under the firm's financial management assessment methodology;
- Very strong budgetary flexibility;
- Adequate budgetary performance;
- Very strong liquidity and access to external liquidity considered to be strong;
- Adequate economy, although the City benefits from access to a broad and diverse metropolitan statistical area; and
- Strong institutional framework.

The City has accepted several low - or no-interest loans from the Illinois Environmental Protection Agency (IEPA) to finance water and sewer improvements. The most recent loan, accepted in 2016 from the IEPA, was in the amount of $7.3 million (of which $6.5 million has been expended). The proceeds of the loan are being used to construct storm sewers and related appurtenances.

Effective January 1, 2015, the City implemented Statement No. 68, *Accounting and Financial Reporting for Pensions*, of the Governmental Accounting Standards Board. The most significant effect of the City's implementation of the standard was the reporting of net pension liabilities in the government-wide statement of net position. Previously, in accordance with generally accepted accounting principles, the City reported roughly similar measures – unfunded actuarial accrued liabilities – as required supplementary information (i.e., not on the face of the government-wide statement of net position). As shown in Table 5 above, the recognition of net pension liabilities resulted in the placement of $429.6 million of long-term liabilities on government-wide statement of net position as of December 31, 2017.

Effective January 1, 2016, the City implemented Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, of the Governmental Accounting Standards Board. The most significant effect of the City's implementation of the standard was the reporting of net postemployment benefit liabilities in the government-wide statement of net position. Previously, in accordance with generally accepted accounting principles, the City reported roughly similar measures – unfunded actuarial accrued liabilities – as required supplementary information (i.e., not on the face of the government-wide statement of net position). As shown in Table 5 above, the recognition of net other post-employment benefit liabilities resulted in the placement of $331.5 million of long-term liabilities on government-wide statement of net position as of December 31, 2016. The net decrease in the liability is primarily due to changes in actuarial assumptions and a plan change in benefits for fiscal year 2018.

Despite this reduction in liability for retiree health insurance Standard and Poor's states the major credit weakness of the City is Aurora's large unfunded pension and OPEB obligation, without a plan to sufficiently address it.

For more detailed information on the City's bonded and similar indebtedness, see Note 5 in the notes to the financial statements.

Economic Factors

The City's property tax base possesses significant commercial and industrial components. The value of commercial and industrial properties comprised 17.6% and 10.0%, respectively, of the City's total 2016 EAV of $3.5 billion. The 2012 – 2016 American Community Survey conducted by the United States Bureau of the Census found that 82.1% of residential properties had a value of $100,000 or more. The median home value was $168,100. Property taxes imposed on property within the City's corporate limits provide a stable revenue source. The property of the City's ten largest taxpayers during 2016 accounted for only 7.0% of the City's total EAV.

The City receives revenue from a variety of sources other than property taxes. Two major sales tax generators exist within the community. Since the 1970s, the Fox Valley Mall has been the City's retail anchor. The mall is a 1.5 million square foot structure comprised of 160 stores. In mid-2004, Chicago Premium Outlets was added to the tax base. After an expansion completed in 2015, this upscale, fashion-oriented outlet center now spans 725,000 square feet with space for 170 stores.

Numerous economic development initiatives were started in 2017, but will not be completed until 2018 and beyond. The City has begun the redevelopment of the Yorkshire shopping center with a new investment of approximately $20 million to convert this traditional retail venue into an experience-based center drawing visitors from the entire Chicago region. The Paramount Theater in Downtown Aurora continues to expand with the creation of the Paramount School of Performing Arts. Property values have increased in Aurora through a combination of increasing taxable property through new construction and based on re-assessments of current property by all Township Assessors.

According to the American Community Survey, the estimated median annual income for Aurora households between 2012 and 2016 was $63,967. This compares favorably with the statewide figure of $59,196.

The 2010 census found that Aurora's population was 197,899. This was a 38.4% increase over the 2000 population of 142,990. The increased census count has entitled the City to larger portions of state-shared revenue such as income taxes and motor fuel taxes. The City now estimates that its population has surpassed 200,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Mr. Martin S. Lyons, Chief Financial Officer/City Treasurer, City of Aurora, 44 East Downer Place, Aurora, Illinois 60507.

CITY OF AURORA, ILLINOIS

STATEMENT OF NET POSITION

December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	**Business-Type Activities**	**Total**	**Aurora Public Library**
ASSETS				
Cash and Investments	$ 142,005,317	$ 7,817,532	$ 149,822,849	$ 4,494,463
Restricted Cash and Investments	-	4,300,766	4,300,766	-
Receivables (Net of Allowance Where Applicable)				
Property Taxes				
General and Pension Levies	75,680,550	-	75,680,550	10,629,946
Special Service Areas Levies	722,860	-	722,860	-
Other Taxes	15,676,397	-	15,676,397	-
Utility Customers	-	6,176,188	6,176,188	-
Loans Receivable	161,665	-	161,665	-
Interest	412,515	18,930	431,445	1,075
Miscellaneous	2,874,690	25,594	2,900,284	-
Pledge	-	-	-	1,722,733
Land Held for Resale	386,406	-	386,406	57,682
Inventory	-	313,424	313,424	-
Due from Other Governments	5,881,143	5,702,639	11,583,782	-
Internal Balances	(31)	31	-	-
Prepaid Items	62,492	-	62,492	1,388,345
Capital Assets				
Nondepreciable	160,235,857	44,408,804	204,644,661	3,378,686
Depreciable (Net of Accumulated Depreciation)	364,759,506	207,946,749	572,706,255	36,175,697
Total Assets	768,859,367	276,710,657	1,045,570,024	57,848,627
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized Loss on Refunding	612,736	7,423	620,159	132
Pension Items - IMRF	15,947,552	4,283,871	20,231,423	2,701,498
OPEB Items	115,560,269	9,837,618	125,397,887	18,309
Pension Items - Pension Trust Funds	52,570,503	-	52,570,503	-
Total Deferred Outflows of Resources	184,691,060	14,128,912	198,819,972	2,719,939
Total Assets and Deferred Outflows of Resources	953,550,427	290,839,569	1,244,389,996	60,568,566

(This statement is continued on the following page.)

CITY OF AURORA, ILLINOIS

STATEMENT OF NET POSITION (Continued)

December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	**Business-Type Activities**	**Total**	**Aurora Public Library**
LIABILITIES				
Accounts Payable	$ 10,176,828	$ 2,611,675	$ 12,788,503	$ 235,095
Accrued Payroll	8,899,984	651,335	9,551,319	130,490
Retainage Payable	770,888	68,895	839,783	-
Accrued Interest Payable	-	98,959	98,959	-
Unearned Revenue	6,790,725	577,909	7,368,634	-
Due to Other Governments	1,065,335	4,569	1,069,904	-
Deposits Payable	2,346,907	840,048	3,186,955	-
Noncurrent Liabilities				
Due Within One Year	15,667,548	2,266,110	17,933,658	621,654
Due in More than One Year	883,187,191	66,562,889	949,750,080	24,745,027
Total Liabilities	928,905,406	73,682,389	1,002,587,795	25,732,266
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	76,327,175	-	76,327,175	10,629,946
Unamortized Gain on Refunding	737,481	-	737,481	-
Pension Items - IMRF	4,253,825	1,142,671	5,396,496	720,593
OPEB Items	3,382,522	294,029	3,676,551	43,856
Pension Items - Pension Trust Funds	22,011,008	-	22,011,008	-
Total Deferred Inflows of Resources	106,712,011	1,436,700	108,148,711	11,394,395
Total Liabilities and Deferred Inflows of Resources	1,035,617,417	75,119,089	1,110,736,506	37,126,661
NET POSITION				
Net Investment in Capital Assets	399,174,599	227,313,783	626,488,382	20,038,127
Restricted Nonexpendable for				
Working Cash	446,786	-	446,786	-
Restricted Expendable for				
Debt Service	984,521	4,300,766	5,285,287	106,231
Capital Improvements	-	-	-	3,222,913
Public Safety	14,470,871	-	14,470,871	-
Streets and Transportation	11,602,498	-	11,602,498	-
Health and Welfare	5,445,635	-	5,445,635	-
Economic Development	16,100,578	-	16,100,578	-
Unrestricted	(530,292,478)	(15,894,069)	(546,186,547)	74,634
TOTAL NET POSITION	$ (82,066,990)	$ 215,720,480	$ 133,653,490	$ 23,441,905

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

		Program Revenues		
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
PRIMARY GOVERNMENT				
Governmental Activities				
General Government	$ 17,737,787	$ 3,606,185	$ -	$ 484,789
Public Safety	131,499,906	8,306,074	549,477	4,126
Streets and Transportation	28,331,470	717,274	5,325,411	1,619,208
Health and Welfare	14,626,569	12,897,740	810,549	250,299
Culture and Recreation	4,831,144	399,661	81,232	216,356
Economic Development	4,316,169	7,758	-	-
Interest	4,787,749	-	178,202	-
Total Governmental Activities	206,130,794	25,934,692	6,944,871	2,574,778
Business-Type Activities				
Water and Sewer	28,392,800	34,016,302	-	67,840
Airport	2,269,889	633,227	50,693	-
Downtown Parking	1,287,648	665,063	-	-
Commuter Parking	2,201,472	2,420,710	-	34,778
Golf Operations	1,009,680	1,123,125	-	-
Total Business-Type Activities	35,161,489	38,858,427	50,693	102,618
TOTAL PRIMARY GOVERNMENT	$ 241,292,283	$ 64,793,119	$ 6,995,564	$ 2,677,396
COMPONENT UNIT				
Aurora Public Library and Foundation	$ 12,949,325	$ 141,285	$ 154,657	$ 221,872

	Net (Expense) Revenue and Change in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Aurora Public Library
	$ (13,646,813)	$ -	$ (13,646,813)	$ -
	(122,640,229)	-	(122,640,229)	-
	(20,669,577)	-	(20,669,577)	-
	(667,981)	-	(667,981)	-
	(4,133,895)	-	(4,133,895)	-
	(4,308,411)	-	(4,308,411)	-
	(4,609,547)	-	(4,609,547)	-
	(170,676,453)	-	(170,676,453)	-
	-	5,691,342	5,691,342	-
	-	(1,585,969)	(1,585,969)	-
	-	(622,585)	(622,585)	-
	-	254,016	254,016	-
	-	113,445	113,445	-
	-	3,850,249	3,850,249	-
	(170,676,453)	3,850,249	(166,826,204)	-
	-	-	-	(12,431,511)
General Revenues				
Taxes				
Property and Replacement	82,218,221	-	82,218,221	10,577,987
Sales	46,094,186	277,925	46,372,111	-
Utility	10,302,895	-	10,302,895	-
Income	18,176,859	-	18,176,859	-
Real Estate Transfer	2,891,464	-	2,891,464	-
Food and Beverage Tax	4,739,599	-	4,739,599	-
Gaming Tax	7,382,230	-	7,382,230	-
Hotel/Motel	541,994	-	541,994	-
Other	3,013,646	-	3,013,646	-
Investment Income	1,007,063	315,792	1,322,855	206,994
Miscellaneous	1,546,656	55,611	1,602,267	274,303
Transfers	(5,076,832)	5,076,832	-	-
Total	172,837,981	5,726,160	178,564,141	11,059,284
CHANGE IN NET POSITION	2,161,528	9,576,409	11,737,937	(1,372,227)
NET POSITION, JANUARY 1	(84,228,518)	206,144,071	121,915,553	24,814,132
NET POSITION, DECEMBER 31	$ (82,066,990)	$ 215,720,480	$ 133,653,490	$ 23,441,905

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and Investments	$ 25,597,212	$ 765,527	$ 84,218,875	$ 110,581,614
Receivables (Net of Allowance Where Applicable)				
Property Taxes				
General and Pension Levies	71,720,550	3,960,000	-	75,680,550
Special Service Areas Levies	-	-	722,860	722,860
Other Taxes	13,476,908	-	2,199,489	15,676,397
Loans Receivable	-	-	161,665	161,665
Interest	3,973	-	276,567	280,540
Miscellaneous	198,396	89,244	2,540,779	2,828,419
Land Held for Resale	-	-	386,406	386,406
Due from Other Governments	136,304	129,750	5,615,089	5,881,143
Due from Other Funds	10,058	-	774,994	785,052
Prepaid Items	17,713	-	1,700	19,413
Total Assets	111,161,114	4,944,521	96,898,424	213,004,059
DEFERRED OUTFLOWS OF RESOURCES				
None	-	-	-	-
Total Deferred Outflows of Resources	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 111,161,114	$ 4,944,521	$ 96,898,424	$ 213,004,059

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 2,603,502	$ -	$ 7,499,543	$ 10,103,045
Accrued Payroll	8,843,284	-	-	8,843,284
Retainage Payable	-	-	770,888	770,888
Deposits Payable	2,346,157	-	750	2,346,907
Unearned Revenue	766,718	-	6,024,007	6,790,725
Due to Other Funds	-	-	785,083	785,083
Due to Component Unit	-	-	-	-
Due to Other Governments	944,014	-	121,321	1,065,335
Total Liabilities	15,503,675	-	15,201,592	30,705,267
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	71,720,550	3,960,000	646,625	76,327,175
Unavailable Revenue - Other	-	129,750	-	129,750
Total Deferred Inflows of Resources	71,720,550	4,089,750	646,625	76,456,925
Total Liabilities and Deferred Inflows of Resources	87,224,225	4,089,750	15,848,217	107,162,192
FUND BALANCES				
Nonspendable				
Prepaid Items	17,713	-	1,700	19,413
Restricted				
Debt Service	-	854,771	-	854,771
Working Cash	-	-	446,786	446,786
Public Safety	-	-	14,470,871	14,470,871
Streets and Transportation	-	-	11,602,498	11,602,498
Health and Welfare	-	-	5,445,635	5,445,635
Economic Development	-	-	16,100,578	16,100,578
Capital Projects	-	-	11,940,741	11,940,741
Unrestricted				
Assigned				
Public Safety	-	-	95,429	95,429
Health and Welfare	-	-	541,589	541,589
Capital Projects	-	-	20,425,520	20,425,520
Tourism	781,563	-	-	781,563
Unassigned (Deficit)	23,137,613	-	(21,140)	23,116,473
Total Fund Balances	23,936,889	854,771	81,050,207	105,841,867
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 111,161,114	$ 4,944,521	$ 96,898,424	$ 213,004,059

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION

December 31, 2017

FUND BALANCES OF GOVERNMENTAL FUNDS	$	105,841,867
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		524,995,363
Other long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds		129,750
Premiums or discounts on long-term liabilities and gains and losses on debt refundings are capitalized and amortized at the government-wide level		
Premiums		(1,328,719)
Loss on refundings		612,736
Gain on refundings		(737,481)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds		
General obligation bonds		(120,220,000)
Tax increment revenue bonds		(10,920,000)
Debt certificates		(4,185,000)
Illinois EPA loan		(7,066,686)
Compensated absences		(18,942,908)
Insurance claims payable		(8,962,826)
Less amounts included in internal service funds below		27,905,734
Net other postemployment benefits liability is shown as a liability on the statement of net position		(305,557,392)
Differences between expected and actual experiences, assumption changes, net differences between projected and actual earnings for other postemployment benefits are recognized as deferred outflows and inflows of resources on the statement of net position		112,177,747
Net pension liability for the Illinois Municipal Retirement Fund is shown as a liability on the statement of net position		(29,484,037)
Differences between expected and actual experiences, assumption changes, net differences between projected and actual earnings and contributions subsequent to the measurement date for the Illinois Municipal Retirement Fund are recognized as deferred outflows of resources on the statement of net position		11,693,727
Net pension liability for the Pension Trust Funds is shown as a liability on the statement of net position		(392,187,171)
Differences between expected and actual experiences, assumption changes, net differences between projected and actual earnings for the Pension Trust Funds are recognized as deferred outflows and inflows of resources on the statement of net position		30,559,495
The net position of the internal service funds is included in the governmental activities in the statement of net position		3,608,811
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	(82,066,990)

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	$ 69,433,540	$ 4,037,479	$ 5,089,737	$ 78,560,756
Other Taxes	76,302,092	2,891,464	18,610,537	97,804,093
Intergovernmental	477,132	378,202	8,013,609	8,868,943
Licenses, Fees and Permits	8,138,732	-	135,692	8,274,424
Charges for Services	5,585,762	-	8,580,440	14,166,202
Fines and Forfeits	3,761,510	-	-	3,761,510
Investment Income	197,311	45,051	764,701	1,007,063
Other	315,026	-	144,384	459,410
Total Revenues	164,211,105	7,352,196	41,339,100	212,902,401
EXPENDITURES				
Current				
General Government	21,197,100	-	913,883	22,110,983
Public Safety	117,675,069	-	7,417,109	125,092,178
Streets and Transportation	10,520,251	-	8,300,598	18,820,849
Health and Welfare	7,746,640	-	5,890,353	13,636,993
Culture and Recreation	3,913,149	-	997,391	4,910,540
Economic Development	608,079	-	6,375,885	6,983,964
Capital Outlay	-	-	12,283,673	12,283,673
Debt Service				
Principal	-	7,090,000	1,695,729	8,785,729
Interest and Other Charges	-	4,022,348	874,697	4,897,045
Total Expenditures	161,660,288	11,112,348	44,749,318	217,521,954
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,550,817	(3,760,152)	(3,410,218)	(4,619,553)
OTHER FINANCING SOURCES (USES)				
Illinois EPA Loan Issued	-	-	4,043,507	4,043,507
Transfers In	1,500,000	1,551,400	2,545,200	5,596,600
Transfers (Out)	(1,650,000)	-	(6,046,600)	(7,696,600)
Issuance of Debt Certificate	-	-	3,000,000	3,000,000
Proceeds from Bond Issuance	-	-	16,500,000	16,500,000
Premium on Bond Issued	-	-	258,024	258,024
Total Other Financing Sources (Uses)	(150,000)	1,551,400	20,300,131	21,701,531
NET CHANGE IN FUND BALANCES	2,400,817	(2,208,752)	16,889,913	17,081,978
FUND BALANCES, JANUARY 1	21,536,072	3,063,523	64,160,294	88,759,889
FUND BALANCES, DECEMBER 31	$ 23,936,889	$ 854,771	$ 81,050,207	$ 105,841,867

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 17,081,978
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; however, they are capitalized and depreciated in the statement of activities	12,238,139
Sales of capital assets are reported as a proceed in governmental funds but as a gain (loss) from sale on the statement of activities	(211,765)
The issuance of long-term debt and related costs is shown on the fund financial statements as other financing sources but is recorded as a long-term liability on the government-wide statements	
General obligation bonds	(16,500,000)
Debt Certificates	(3,000,000)
Illinois EPA loans	(4,043,507)
The repayment of long-term debt is reported as an expenditure when due in governmental funds but as a reduction of principal outstanding in the statement of activities	8,785,729
Revenues in the statement of activities that are not available in governmental funds are not reported as revenue in governmental funds until received	(200,000)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
Depreciation	(16,642,696)
Amortization of bond premiums	(87,816)
Amortization of gain or loss on refunding	(60,912)
The change in the net other postemployment benefit liability is reported only in the statement of activities	(19,663,800)
The change in deferred inflows and outflows of resources for other postemployment benefits is reported only in the statement of activities	48,937,372
The change in the net pension liability for the Illinois Municipal Retirement Fund is reported only in the statement of activities	(3,763,964)
The change in deferred inflows and outflows of resources for the Illinois Municipal Retirement Fund is reported only in the statement of activities	(696,121)
The change in the net pension liability for the Pension Trust Funds is reported only in the statement of activities	4,650,559
The change in deferred inflows and outflows for the Pension Trust Fund is reported only in the statement of activities	(23,908,734)
The change in net position of internal service funds is reported with governmental activities	(752,934)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 2,161,528

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2017

	Business-Type Activities				Governmental Activities
	Major Funds				
	Water and Sewer Fund	Airport	Other Enterprise Funds	Total	Internal Service Funds
CURRENT ASSETS					
Cash and Investments	$ 5,644,975	$ 466,655	$ 1,705,902	$ 7,817,532	$ 31,423,703
Restricted Cash and Investments	3,976,051	-	324,715	4,300,766	-
Receivables					
Accounts (Net of Allowance)	5,947,653	53,195	175,340	6,176,188	-
Interest	10,507	3,000	5,423	18,930	131,975
Miscellaneous	-	25,594	-	25,594	46,271
Prepaids	-	-	-	-	43,079
Due from Other Governments	206,584	-	51,188	257,772	-
Due from Other Funds	31	-	-	31	-
Inventory	313,424	-	-	313,424	-
Total Current Assets	16,099,225	548,444	2,262,568	18,910,237	31,645,028
NONCURRENT ASSETS					
Due from Other Governments	5,442,101	2,766	-	5,444,867	-
Capital Assets					
Nondepreciable	19,747,586	13,753,020	10,908,198	44,408,804	-
Depreciable (Net of Accumulated Depreciation)	174,631,501	20,499,246	12,816,002	207,946,749	-
Total Capital Assets	194,379,087	34,252,266	23,724,200	252,355,553	-
Total Noncurrent Assets	199,821,188	34,255,032	23,724,200	257,800,420	-
Total Assets	215,920,413	34,803,476	25,986,768	276,710,657	31,645,028
DEFERRED OUTFLOW OF RESOURCES					
Unamortized Loss on Refunding	-	-	7,423	7,423	-
Pension Items - IMRF	3,550,016	52,746	681,109	4,283,871	-
OPEB Items	8,176,950	-	1,660,668	9,837,618	-
Total Deferred Outflows of Resources	11,726,966	52,746	2,349,200	14,128,912	-
Total Assets and Deferred Outflows of Resources	227,647,379	34,856,222	28,335,968	290,839,569	31,645,028

(This statement is continued on the following page.)

CITY OF AURORA, ILLINOIS

STATEMENT OF NET POSITION (Continued)

PROPRIETARY FUNDS

December 31, 2017

	Business-Type Activities				Governmental Activities
	Major Funds				
	Water and Sewer Fund	Airport	Other Enterprise Funds	Total	Internal Service Funds
CURRENT LIABILITIES					
Accounts Payable	$ 2,352,307	$ 65,223	$ 194,145	$ 2,611,675	$ 73,783
Accrued Payroll	539,741	4,606	106,988	651,335	56,700
Retainage Payable	68,895	-	-	68,895	-
Accrued Interest Payable	98,959	-	-	98,959	-
Other Unearned Revenue	460,686	3,516	113,707	577,909	-
Due to Other Governments	4,569	-	-	4,569	-
Deposits Payable	840,048	-	-	840,048	-
Claims Payable	-	-	-	-	5,945,574
Compensated Absences Payable	84,416	1,062	20,089	105,567	947,145
Illinois EPA Loan Payable, Due Within One Year	780,543	-	-	780,543	-
Bonds Payable, Due Within One Year	980,000	-	400,000	1,380,000	-
Total Current Liabilities	6,210,164	74,407	834,929	7,119,500	7,023,202
NONCURRENT LIABILITIES					
Compensated Absences Payable	1,603,894	20,180	381,668	2,005,742	17,995,763
Net Other Postemployment Benefits Liability	21,614,385	(96,669)	4,389,695	25,907,411	-
Net Pension Liability - IMRF	6,563,315	97,517	1,259,240	7,920,072	-
Claims Payable	-	-	-	-	3,017,252
Illinois EPA Loan Payable (Less Current Portion)	4,804,376	-	-	4,804,376	-
Bonds Payable (Less Current Portion)	25,507,942	-	417,346	25,925,288	-
Total Noncurrent Liabilities	60,093,912	21,028	6,447,949	66,562,889	21,013,015
Total Liabilities	66,304,076	95,435	7,282,878	73,682,389	28,036,217
DEFERRED INFLOW OF RESOURCES					
Pension Items - IMRF	946,925	14,069	181,677	1,142,671	-
OPEB Items	239,661	5,694	48,674	294,029	-
Total Deferred Inflows of Resources	1,186,586	19,763	230,351	1,436,700	-
Total Liabilities and Deferred Inflows of Resources	67,490,662	115,198	7,513,229	75,119,089	28,036,217
NET POSITION					
Net Investment in Capital Assets	170,147,240	34,252,266	22,914,277	227,313,783	-
Restricted for Debt Service	3,976,051	-	324,715	4,300,766	-
Unrestricted (Deficit)	(13,966,574)	488,758	(2,416,253)	(15,894,069)	3,608,811
TOTAL NET POSITION	$ 160,156,717	$ 34,741,024	$ 20,822,739	$ 215,720,480	$ 3,608,811

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended December 31, 2017

	Business-Type Activities				Governmental Activities
	Major Funds				
	Water and Sewer Fund	**Airport**	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
OPERATING REVENUES					
Charges for Services	$ 34,016,302	$ 633,227	$ 4,208,898	$ 38,858,427	$ 26,497,911
Total Operating Revenues	34,016,302	633,227	4,208,898	38,858,427	26,497,911
OPERATING EXPENSES EXCLUDING DEPRECIATION					
Personnel Services	7,886,353	96,658	1,534,048	9,517,059	-
Materials and Supplies	6,013,697	140,295	570,752	6,724,744	-
Other Services and Charges	8,852,752	478,263	1,579,946	10,910,961	29,182,826
Miscellaneous	-	5,997	-	5,997	-
Total Operating Expenses Excluding Depreciation	22,752,802	721,213	3,684,746	27,158,761	29,182,826
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	11,263,500	(87,986)	524,152	11,699,666	(2,684,915)
Depreciation	4,614,431	1,548,676	784,003	6,947,110	-
OPERATING INCOME (LOSS)	6,649,069	(1,636,662)	(259,851)	4,752,556	(2,684,915)
NON-OPERATING REVENUES (EXPENSES)					
Sales Tax	-	92,642	185,283	277,925	-
Intergovernmental	-	50,693	-	50,693	-
Investment Income	293,017	4,175	18,600	315,792	281,981
Miscellaneous	-	-	989	989	-
Recovery of Cost	35,165	-	-	35,165	-
Sale of Asset	-	17,500	1,957	19,457	-
Interest Expense	(1,025,567)	-	(30,051)	(1,055,618)	-
Total Non-Operating Revenues (Expenses)	(697,385)	165,010	176,778	(355,597)	281,981
INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS	5,951,684	(1,471,652)	(83,073)	4,396,959	(2,402,934)
TRANSFERS					
Transfers In	-	-	450,000	450,000	4,150,000
Transfers (Out)	-	-	-	-	(2,500,000)
Total Transfers	-	-	450,000	450,000	1,650,000
CAPITAL GRANTS AND CONTRIBUTIONS	4,701,832	-	27,618	4,729,450	-
CHANGE IN NET POSITION	10,653,516	(1,471,652)	394,545	9,576,409	(752,934)
NET POSITION, JANUARY 1	149,503,201	36,212,676	20,428,194	206,144,071	4,361,745
NET POSITION, DECEMBER 31	$ 160,156,717	$ 34,741,024	$ 20,822,739	$ 215,720,480	$ 3,608,811

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended December 31, 2017

	Business-Type Activities				Governmental Activities
	Major Funds				
	Water and Sewer Fund	Airport	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	$ 33,590,355	$ 771,482	$ 4,156,046	$ 38,517,883	$ 2,963,143
Receipts from Interfund Services	-	-	-	-	23,672,519
Payments to Suppliers	(13,134,107)	(616,224)	(2,072,378)	(15,822,709)	(24,306,159)
Overhead Payments to Other Funds	(2,317,130)	-	(163,036)	(2,480,166)	-
Payments to Employees/Retirees	(11,082,395)	(182,767)	(2,503,292)	(13,768,454)	(2,813,040)
Miscellaneous Revenues	-	-	989	989	-
Net Cash from Operating Activities	7,056,723	(27,509)	(581,671)	6,447,543	(483,537)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Recovery of Costs	35,165	-	-	35,165	-
Sales Taxes	-	92,642	159,097	251,739	-
Intergovernmental Income	202,853	47,927	50,818	301,598	-
Due from Other Funds	7,797	-	2,607	10,404	150
Transfers In	-	-	450,000	450,000	150,000
Transfers (Out)	-	-	-	-	1,500,000
Net Cash from Noncapital Financing Activities	245,815	140,569	662,522	1,048,906	1,650,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Property, Plant and Equipment Acquired or Constructed	(5,953,064)	(196,500)	(72,926)	(6,222,490)	-
Principal Paid on Bonds and Illinois EPA Loans	(1,720,160)	-	(390,000)	(2,110,160)	-
Proceeds from the Sale of Capital Assets	-	17,500	1,957	19,457	-
Interest and Fiscal Agents' Fees	(1,032,077)	-	(30,000)	(1,062,077)	-
Net Cash from Capital and Related Financing Activities	(8,705,301)	(179,000)	(490,969)	(9,375,270)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale and Maturities on Investment Securities	5,885,000	225,000	1,440,000	7,550,000	12,495,000
Purchase of Investment Securities	-	(375,288)	(956,587)	(1,331,875)	(8,359,911)
Interest on Investments	337,503	(1,778)	32,458	368,183	397,004
Net Cash from Investing Activities	6,222,503	(152,066)	515,871	6,586,308	4,532,093
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,819,740	(218,006)	105,753	4,707,487	5,698,706
CASH AND CASH EQUIVALENTS, JANUARY 1	2,514,051	531,139	445,451	3,490,641	5,882,339
CASH AND CASH EQUIVALENTS, DECEMBER 31	$ 7,333,791	$ 313,133	$ 551,204	$ 8,198,128	$ 11,581,045

(This statement is continued on the following page.)

STATEMENT OF CASH FLOWS (Continued)

PROPRIETARY FUNDS

For the Year Ended December 31, 2017

	Business-Type Activities				Governmental Activities
	Major Funds				
	Water and Sewer Fund	Airport	Other Enterprise Funds	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	$ 6,649,069	$ (1,636,662)	$ (259,851)	$ 4,752,556	$ (2,684,915)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities					
Miscellaneous Income	-	-	989	989	-
Depreciation	4,614,431	1,548,676	784,003	6,947,110	-
(Increase) Decrease in					
Other Taxes	-	60,584	-	60,584	-
Accounts Receivable	(425,947)	77,446	47,624	(300,877)	137,751
Prepaid Expenses	-	-	-	-	34,464
Inventory	(126,698)	-	-	(126,698)	-
Deferred Outflows of Resources - Pension Items - IMRF	954,887	25,024	303,978	1,283,889	-
Deferred Outflows of Resources - OPEB	113,039	1,251	130,576	244,866	-
Increase (Decrease) in					
Accounts Payable	(472,652)	8,331	(84,716)	(549,037)	(94,518)
Accrued Payroll	50,021	(2,486)	3,476	51,011	(98,393)
Retainage Payable	-	-	-	-	-
Claims Payable	-	-	-	-	2,411,964
Other Unearned Revenue	26,493	225	(100,476)	(73,758)	-
Deposits	(11,931)	-	-	(11,931)	-
Compensated Absences	42,494	561	19,120	62,175	(189,890)
Deferred Inflows of Resources - IMRF	946,925	14,069	181,677	1,142,671	-
Deferred Inflows of Resources - OPEB	200,556	4,443	40,224	245,223	-
Net Pension Liability - IMRF	(956,552)	(32,302)	(385,130)	(1,373,984)	-
Net Other Postemployment Benefits Liability	(4,547,412)	(96,669)	(1,263,165)	(5,907,246)	-
NET CASH FROM OPERATING ACTIVITIES	$ 7,056,723	$ (27,509)	$ (581,671)	$ 6,447,543	$ (483,537)
CASH AND INVESTMENTS					
Cash and Cash Equivalents	$ 7,333,791	$ 313,133	$ 551,204	$ 8,198,128	$ 11,581,045
Investments	2,287,235	153,522	1,479,413	3,920,170	19,842,658
TOTAL CASH AND INVESTMENTS	$ 9,621,026	$ 466,655	$ 2,030,617	$ 12,118,298	$ 31,423,703
NONCASH TRANSACTIONS					
Contributions of Capital Assets	$ 4,701,832	$ -	$ 27,618	$ 4,729,450	$ -
Unrealized Gain (Loss) on Investments	(105,987)	-	(16,571)	(122,558)	(252,213)
TOTAL NONCASH TRANSACTIONS	$ 4,595,845	$ -	$ 11,047	$ 4,606,892	$ (252,213)

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF FIDUCIARY NET POSITION

PENSION AND OPEB TRUST FUNDS

December 31, 2017

	Pension and OPEB Trust Funds	Agency Funds
ASSETS		
Cash and Short-Term Investments	$ 18,077,879	$ 46,793
Investments, at Fair Value		
Fixed Income Securities	132,436,332	-
Domestic Equity Securities	148,321,282	-
International Equity Securities	74,464,462	-
Real Estate Investment Trusts	40,694,463	-
Blended Mutual Funds	16,913,304	-
Accrued Interest	879,765	-
Accounts Receivable	72,847	-
Pension Service Credit	149,475	-
Prepaid Expenses	54,955	-
Total Assets	432,064,764	$ 46,793
LIABILITIES		
Accounts Payable	117,614	$ -
Deposits Payable	73,612	-
Benefits Payable	530,615	-
Due to Others	-	46,793
Due to Primary Government	8,100	-
Total Liabilities	729,941	$ 46,793
NET POSITION RESTRICTED FOR PENSION/OPEB BENEFITS	$ 431,334,823	

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

PENSION AND OPEB TRUST FUNDS

For the Year Ended December 31, 2017

ADDITIONS	
Contributions	
Employer Contributions	$ 24,819,765
Employee/Retiree Contributions	5,467,487
Total Contributions	30,287,252
Investment Income	
Net Appreciation in Fair Value of Investments	49,916,856
Interest	7,584,996
Total Investment Income	57,501,852
Less Investment Expense	(993,559)
Net Investment Income	56,508,293
Total Additions	86,795,545
DEDUCTIONS	
Benefits	34,457,981
Administrative Expenses	121,741
Total Deductions	34,579,722
NET INCREASE	52,215,823
NET POSITION RESTRICTED FOR PENSION/OPEB BENEFITS	
January 1	379,119,000
December 31	$ 431,334,823

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

INDEX TO NOTES TO FINANCIAL STATEMENTS

December 31, 2017

FUND CLASSIFICATIONS AND ACCOUNT GROUPS

A. The first of NCGA Statement No. 1's twelve basic principles of GAAP states that a governmental accounting system must make it possible both to: (1) present fairly and with full disclosure the financial position and changes in financial operations of the funds and account groups of the government in conformity with GAAP, and (2) determine and demonstrate compliance with finance-related legal and contractual provisions.

1. GAAP reporting and legal compliance reporting are not mutually exclusive.

   a. Many of the GAAP disclosures required in NCGAS 1 (fund and fund type segregations, required budgetary comparisons in accordance with Illinois Compiled Statutes) are designed to explicitly demonstrate compliance with finance-related legal and contractual provisions.

   b. In addition, GAAP require disclosure in the notes to the financial statements of material violations of legal and contractual provisions. The most common violations of legal requirements usually relate to budgetary requirements (e.g., overspending a budget appropriation at the legal level of budgetary control) and revenue bond indentures (e.g., allocating restricted assets in required accounts).

2. In NCGA Statement No. 1, it is clear that neither GAAP nor legal compliance take "precedence" in governmental financial statements. Both are essential. When legal provisions conflict with GAAP, governments should prepare basic financial statements in conformity with GAAP and also present such supporting schedules, in addition to the GAAP-based basic financial statements, as may be necessary to report clearly upon their legal compliance responsibilities and to demonstrate accountability.

   a. Therefore, interim reporting in accordance with budgetary philosophies may, in certain instances, be prepared on a budgetary basis.

   b. In a comprehensive annual financial report (CAFR), the basic financial statements (both entity-wide and fund financial statements) should be prepared in accordance with GAAP. Any additional information that conflicts with GAAP should be presented as supplementary schedules at the end of the financial section.

Fund Classifications

B. In governmental accounting, individual resources are allocated to and accounted for in separate accounting entities known as funds. NCGA Statement No. 1 defines each fund is a separate fiscal and accounting entity, reporting its own assets, liabilities and equity.

Moreover, the accounting equation (assets = liabilities + equity) must remain in balance within each fund.

1. Governmental financial statements used to report by fund type (general purpose financial statements) and by individual fund (combining financial statements) rather than reporting for the government as a whole. With the implementation of the reporting model required by GASB S-34, governmental financial statements report by major funds (basic financial statements) and by individual funds (combining financial statements).

2. Funds are defined by generally accepted accounting principles, but specific funds to be used may be determined by legal requirements (e.g., Compiled Statutes, bond covenants, your municipal code) and by user information needs (e.g., governing boards, creditors and investors, taxpayers).

3. Therefore, separate data must be maintained in the accounting system for each individual fund.

4. NCGA Statement No. 1 states that governments should establish the **minimum number of funds** required by law and operating requirements, since unnecessary funds result in inflexibility, undue complexity and inefficient financial administration.

5. The use of sub-funds within a fund can reduce the number of individual funds to be reported on while still providing the ability to track information necessary by management or legal requirements.

    a. This depends on the sophistication of your accounting system (i.e., sub-fund tracking).

    b. Alternatively, separate funds could be maintained in the accounting system but “consolidated” for external financial reporting.

    c. Therefore, professional judgment should be used when considering aggregating these funds for external reporting purposes.

C. NCGAS – 1, as amended by GASB S-34 and GASB S-54, classifies all individual funds into three broad fund categories which are further classified by eight generic fund types.

1. Governmental funds - Governmental funds are used to account for the general governmental revenues and expenditures of the entity. There are five governmental “fund types"; general, special revenue, debt service, capital projects and permanent. GASB Statement No. 6 disaggregated special assessment funds and removed them as a fund type in the 1990s.

2. Proprietary funds - Proprietary funds are used to account for the business or service type operations of the entity that are similar to private sector operations that are funded by exchange type transactions. There are two proprietary “fund types"; enterprise and internal service.

3. Fiduciary funds - Fiduciary funds are used to account for those resources held by the entity in a fiduciary capacity on behalf of others. There is one fiduciary “fund type", trust and agency. However, this fund type is disaggregated into the following components; pension trust (including other post employment benefits (OPEB)), investment trust, private purpose trust and agency funds.

D. NCGA Statement No. 1, as amended by GASB S-34 and GASB S-54, provides general guidance regarding when each fund type should be used to account for a specific revenue source or for the cost of providing a service.

1. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

   a. The previous definition (pre GASB S-54) limited the use of other funds by including the term “required to be” accounted for in the definition.

   b. GASB never intended the definition of the general fund to limit the use other funds. Therefore, the new definition dropped the term “required”.

   c. Based on this definition, it can be interpreted that all reporting entity's (including components units) with minor exceptions, should report a general fund.

   d. In addition, NCGAI 9 precludes the reporting of multiple general funds.

      1) When legal requirements exist that require the use of multiple general funds (e.g., school districts, counties, tort liability insurance funds), then sub-funds within the general fund should be used to demonstrate legal compliance, while only one general fund would be reported on GAAP based financial statements.

      2) A schedule would be included as supplementary information to report the sub-fund components of the general fund.

2. Special revenue funds are used to account for and report the **proceeds of specific revenue sources** that are **restricted or committed** to expenditure for **specified purposes** other than debt service or capital projects.

a. The use of special revenue funds is **<u>not</u>** required by GAAP, with one exception, reporting the general fund of a "blended" component unit in the reporting entity's financial statements.

b. GASB S-54 notes that **the proceeds of specific revenue sources** means that one or more **specific restricted or committed recurring** revenues should be the foundation for classification as a special revenue fund.

   1) Restricted is defined as an externally enforceable legal restriction or legally enforceable enabling legislation.

      a) External legal restrictions include those imposed by creditors (e.g., use of bond proceeds, funds for repayment of bonds), grantors (e.g., use of MFT, CDBG funds), contributors (e.g., donors), or laws or regulations of other governments (e.g., compiled statutes, restricted tax levies).

      b) Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources from external resource providers **and** includes a legally enforceable requirement that those resources can only be used for the purpose stipulated in the legislation.

      c) Legal enforceability means that a government can be compelled by an external third party to use the resources only for the specified purpose.

   2) Committed is defined as constrained by limitations that the government imposes upon itself by formal action at its highest level of decision making (usually the governing board) **and** that remains binding unless removed in the same manner.

c. The resources must be derived from a **specific revenue source or sources** to support classification as a special revenue fund.

   1) Therefore, a **constraint** on the **purpose** for which the resources in the fund may be used is not sufficient to justify the use of a special revenue fund (e.g., working cash, donations) without the existence of a specific revenue source.

d. If a **substantial** portion of the resources are not derived from restricted or committed revenue sources, then the activity would not qualify for reporting in a special revenue fund and should instead, be accounted for in the general fund or, possibly an other governmental fund.

1) Substantial was not specifically defined or quantified in GASB S-54.

e. Other resources can be placed in the fund (e.g., transfers, investment earnings) if those resources are also restricted, committed or assigned to the purposes of the fund.

f. The notes to the financial statements must disclose, for each major special revenue fund, which revenues and other resources are reported in those funds.

g. Primary examples of activities currently accounted for in special revenue funds include federal and state grants and specific tax resources (e.g., tax increment financing (TIF) districts, motor fuel taxes, CDBG revolving loan pools and grants).

h. In addition, many governments use special revenue funds to account for separate components of a property tax levy that are legally restricted as to their use. However, separate tax levies do not require the use of separate funds (e.g., IMRF, social security, liability insurance) and further complicate reporting in accordance with GASB S-34 when accounted for in separate funds.

i. Questions in practice arise as to whether a separate fund should be established for each legally restricted revenue source. The key question to ask is can I demonstrate legal compliance with the restrictive spending requirements of revenue source by accounting for it in the general fund (or a separate fund in the accounting system that is consolidated with the general fund for reporting purposes). If not, then a special revenue funds should be used.

j. Special revenue funds should always report the expenditures incurred from the restricted revenue source.

   1) If a majority of the revenue source is “transferred” to another fund, then strong consideration should be given to reporting the revenue source in that fund and eliminating the separate fund as legal compliance is not being demonstrated in this instance.

   2) Alternatively, reimbursement accounting could be used to report the expenditures (or a portion of the expenditures) in the special revenue fund and reducing the expenditure in the fund being reimbursed.

k. GASB Statement No. 10 required governments that want to report their insurance activity in a separate fund to use either the general fund or a an internal service fund.

   1) This would not allow the use of a special revenue fund to account for a tort levy and related insurance premiums.

2) GASB Statement No 66, *Technical Corrections – an Amendment of GASB Statements No. 10 and 62* allow the fund definitions contained in GASB Statement No. 54 to take precedence in classifying a tort fund.

3. Debt service funds are used to account for and report financial resources that are **restricted, committed, or assigned** to expenditure for principal and interest, except for that payable by proprietary funds/business type activities.

a. Debt service for proprietary funds should be accounted for in those funds.

b. Debt service funds are required to be reported by GAAP only if use of a debt service fund is legally mandated (e.g., by bond covenants or ordinances) or if financial resources are being accumulated for principal and interest payments maturing in future years (e.g., for term bonds or deep discount bonds).

c. Restricted and committed are defined the same as in the definition of special revenue funds.

1) Often the revenues used to repay the debt are "restricted" by the bond ordinance authorizing the issuance of the bonds.

d. Assigned is the government's *intent* to use the resources specific purpose, in this instance debt service.

1). The intent should be expressed by the governing body itself, or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes, but does not require "formal action" of the governing body.

2) Recording interest income on investments in a debt service fund without a legal requirement to do so would "assign" the interest to be used to pay principal and interest.

e. Once again, the question of the number of debt service funds to use may arise in practice. It is not necessary to **report** a separate debt service fund for each bond issued.

1) However, separate subfunds of one fund or separate funds in the accounting system should be maintained if legally required (e.g, by a bond ordinance).

2) The consolidated debt service fund(s) could then be reported as one fund in the financial statements,.

3) Debt service funds may also be aggregated by the type of debt being serviced (e.g., general obligation debt, special assessment debt, TIF debt).

4. Capital projects funds are used to account for and report financial resources that are **restricted, committed or assigned** to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets, excluding those types of capital related outflows financed by proprietary funds.

   a. This significantly expands the definition of when a capital project fund can be used in accordance with existing practice.

      1). GASB assumes, in GASB S-54, that creating a separate fund and reporting funds in a separate fund at least assigns the resources to be used for the purpose of that fund.

   b. However, S-54 clearly notes that capital project funds should not be used to account for the acquisition of capital assets financed by and for proprietary funds. That capital activity should be accounted for directly in the proprietary funds.

   c. The definition of restricted and committed is the same as discussed above.

   c. Many bond ordinances require the use of a separate (capital projects) fund to account for the bond proceeds.

5. GASB S-34 created a new category of governmental funds called "Permanent Funds".

   a, Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not corpus of the trust or principal, may be used for purposes of supporting the government's programs and activities.

      1) If both principal and interest can be spent but only for a specified purpose then a special revenue fund or the general fund should be used.

      2) The unrestricted donations could be "assigned" for capital purposes and reported as a capital projects fund.

   b. Most non-expandable trust funds previously used (e.g., cemetery perpetual care funds, working cash funds, library book funds and memorials) are reported as permanent funds under the new reporting model.

6. Enterprise funds are required to be used by GAAP to be used to account for a state governments unemployment compensation trust, or a public entity risk pool (GASB

S-10) in a government's reporting entity. In addition, GASB S-34 states that enterprise funds may be used to account for any activity for which a fee is charged to an external user. In addition, GASB S-34 requires that an enterprise fund must be used to account for a particular activity if any of the following criteria are met;

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity (i.e., revenue bonds). Debt that is payable from these fees and contains a full faith and credit pledge by the government (i.e., general obligation bonds and/or general obligation alternate revenue source bonds) does not meet this definition, or

b. Laws or regulations require that the activity’s costs of providing services be recovered with fees and charges, or

c. The pricing policies of the activity establish fees and charges designed to recover its costs.

d. However, the definition of enterprise funds permit governments to use this fund type for any service for which there exists a significant potential for financing through user charges, even if the governing body decides not to finance the service 100 percent through user charges, but rather to subsidize the service from general governmental resources.

e. In addition, enterprise funds are used when the government desires to account for the “total” cost of providing a service on an economic resources measurement focus.

f. Enterprise funds should rarely be used when the cash basis of accounting is being used for financial reporting as this contradicts the definition of an enterprise fund (cash basis does not measure “total” costs).

    1) A separate fund could still be maintained in the accounting system for this activity.

    2) This fund would be reported as a special revenue fund or a component of the general fund if the definition of a special revenue fund is not met.

7. Internal service funds are used to account for the providing of goods or services to other funds or other governments on a cost reimbursement basis (internal users). They are really just cost centers to account for the cost of a service or benefit charged off to governmental funds.

    a. GASB S-10 requires the use of an internal service fund to account for an entity's self insurance activity if a separate fund (other than the general fund) is used.

b. Cost reimbursement implies that significant net asset surpluses and/or deficits should not be accumulated in internal service funds.

8. The use of fiduciary funds generally should be limited to instances where a formal legal trustee relationship exists. The use of an agency fund should be limited to those instances where the government is holding assets in an agent capacity for others (i.e., the asset does not belong to the government).

   a. If a trustee relationship does not exist and the use of a separate fund is desired, then a separate fund could be maintained in the accounting system but this “fund” would be reported as a subfund of the general fund.

   b. Pension trust funds should be used to account for single employer pension plans (e.g., police and fire), or for multiple-employer pension plans (IMRF in the state government reporting entity) and for advance funding OPEB. A separate pension trust fund should not be used to account for a local government’s contribution to a statewide pension plan.

   c. Investment trust funds will be used to report the external portion of investment pools reported by the sponsoring government (e.g., Illinois Funds in the State of Illinois CAFR).

   d. Private purpose trust funds will be used to report all trust arrangements where the government is trustee but the principal and income of the trust benefits individuals, private organizations or other governments.

   e. Agency funds are used to temporarily hold resources that belong to others.

      1) For example, a county may collect property taxes for all taxing bodies located within the county and report the tax receipts as assets and liabilities of the agency fund until distributed to the other taxing bodies.

      2) GASBS-2 required most employers to report assets of deferred compensations plans adopted under the provision of Internal Revenue Code Section 457 at market value in an agency fund, offset by a liability "due to employees". However, these assets must be placed in trust by January 1, 1999, at which time GASB Statement No. 32 removed the requirement to report these in an agency fund.

9. The use of the special assessment fund type has been discontinued for GAAP reporting purposes by GASB Statement No. 6.

   a. Service-type special assessments (and special service areas) can be reported in the general fund, a special revenue fund, or an enterprise fund.

b. Capital oriented special assessments (and special service areas) that do not affect the operations of enterprise funds should report the proceeds of special assessment financing instruments and construction of the asset using a capital projects fund.

1) If the entity is "obligated in some manner," for the debt then the financing instrument should be reported in the general long-term debt account group. A debt service fund could be used to account for the collection of the special assessment and repayment of the financing instrument.

2) If the entity is not "obligated in some manner" for the debt, then the financing instrument should not be reported on the entity's balance sheet, but rather disclosed in the notes. An agency fund should be used to account for the collection and remittance of the special assessment.

10. The reporting of “account groups” (i.e., general fixed assets and general long-term debt) has been eliminated by GASB S-34. However, accounts groups can and should be maintained in a government’s accounting system to record the conversion entries and activities necessary to covert and consolidate governmental fund’s fund information (modified accrual basis of accounting, current financial resources measurement focus) into governmental activities (accrual basis of accounting, economic resources measurement focus).

APPLICATION OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING STANDARDS

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Illinois Government Finance Officers Association
Learning • Connecting • Progressing

1

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

- Basic building block of everything we do in accounting and financial reporting
- Underlies every transaction we record
- Answers the three W questions
  - What
  - Where
  - When

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2

GASB STATEMENT NO. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Deferred revenue – modified accrual
  - Need to differentiate between
    - Unearned revenue
      - Generally result from an exchange transaction
        - Fee charged before service provided
      - Nonexchange transaction where cash received before eligibility requirements are met
        - Other than a time requirement
      - Report as a liability

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3

GASB STATEMENT NO. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Deferred revenue – modified accrual
  - Need to differentiate between
    - Unavailable revenue
      - Nonexchange transactions
        - Not period intended to finance
      - Exchange transactions
        - Receivable greater than one year
      - Report as a deferred inflow

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DEFINTION OF MEASUREMENT FOCUS

- Determines what is being measured in the operating statements
  - Which resource inflows and outflows to report
- Determines where fixed (capital) assets and long-term liabilities are recorded
  - In the fund or not in the fund
- Determines if we report an expenditure or an expense

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DEFINTION OF MEASUREMENT FOCUS

- An expenditure is an outflow of a current financial resource
- An expense is a consumption of an asset or the incurrence of a liability

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TWO MEASUREMENT FOCUSES

- Flow of economic resources/total cost of services measurement focus
  - Proprietary Funds (enterprise and internal service)
  - Fiduciary Funds
- Flow of current financial resources
  - Governmental Funds

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ECONOMIC RESOURCES

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

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CURRENT FINANCIAL RESOURCES

- Generally only current assets, deferred outflows and current liabilities, deferred inflows
- 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 (fund f/s)

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DIFFERENCES BETWEEN MEASUREMENT FOCUSES

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

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PURCHASE OF A CAPITAL ASSET

- Economic resources
  - Capital asset (B) 100
  - Cash (B) 100, or
  - Capital outlay expense (I) 100
  - Cash (B) 100
- Year end adjustment in the fund
  - Capital asset (B) 100
  - Capital outlay expense (I) 100

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PURCHASE OF A CAPITAL ASSET

- Current financial resources
  - Capital outlay expenditure (I) 100
  - Cash (B) 100
- Year end adjustment (interactive account group)
  - Capital asset (B) 100
  - Capital outlay expenditure (I) 100

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USE OF A CAPITAL ASSET

- 10 year useful life, 0 salvage, S/L depreciation
- Current financial resources - fund
  -
- Year end adjustment (interactive account group)
  - Depreciation expense 10
  - Accumulated depreciation 10

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13

USE OF A CAPITAL ASSET

- Economic resources – fund
  - Depreciation expense 10
  - Accumulated depreciation 10

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14

SALE OF A CAPITAL ASSET

- After 5 years, sold for $60
- Current financial resources – fund
  - Cash 60
  - Other financing source 60
- Year end adjustment (interactive account group)
  - Accumulated depreciation 50
  - Capital asset 100
  - Loss on disposal 50

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SALE OF A CAPITAL ASSET

- After 5 years, sold for $60
- Economic resources – fund
  - Cash 60
  - Accumulated depreciation 50
  - Capital asset 100
  - Gain on disposal 10

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16

ISSUANCE OF LONG-TERM DEBT

- Bond issued, 500K, no discount or premium or issuance costs
- Current financial resources – fund
  - Cash 500
  - Issuance of bonds 500
- Year end adjustment (IAG)
  - Issuance of bonds 500
  - Bonds payable 500

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17

ISSUANCE OF LONG-TERM DEBT

- Bond issued, 500K, no discount or premium or issuance costs
- Economic resources – fund
  - Cash 500
  - Bonds payable 500

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18

REPAYMENT OF LONG-TERM DEBT

- Principal paid 50K, interest paid 5K
- Current financial resources - fund
  - Principal expenditure 50
  - Interest expenditure 5
  - Cash 55
- Year end adjustment (IAG)
  - Bonds payable 50
  - Principal expenditure 50

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REPAYMENT OF LONG-TERM DEBT

- Principal paid 50K, interest paid 5K
- Economic resources – fund
  - Bonds payable 50
  - Interest expense 5
  - Cash 55

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20

BASIS OF ACCOUNTING

- Timing of recognition
- Determines when a transaction should be reported on the operating statement

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21

TWO BASIS OF ACCOUNTING

- Full Accrual
  - Revenues when measurable and earned
    - Exchange type transaction
    - Water service to constituency
      - Earned
      - Measurable
  - Expenses when the liability has been incurred
    - Goods received or services provided or benefits earned by employees before year end
    - Recognize in period incurred

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TWO BASIS OF ACCOUNTING

- Modified Accrual
  - Revenues when measurable and available
    - Nonexchange transactions
  - Expenditures when the fund liability is incurred (draw on current financial resources)
    - Goods received or services provided or salaries earned by employees before year end

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CASH BASIS OF ACCOUNTING

- Prevalent in many smaller units of governments
  - Revenue is recognized when received
  - Expenditures are recognized when paid
- This can result in distorted financial information
  - Timing of depositing/paying cash
  - Expenses are never reported under the cash basis of accounting.

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24

CASH BASIS OF ACCOUNTING

- Balance sheets generally only report cash and investments and assets or liabilities resulting from cash transactions
- Do not present fairly in accordance with generally accepted accounting principles
- Most governments accounting systems are maintained on the cash basis throughout the year
  - Due to budgetary reporting requirements
  - Complicates year end close process

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25

MODIFIED ACCRUAL BASIS REVENUE RECOGNITION

- Measurable
  - When received in cash
  - Before cash is received
- Available
  - Bill paying cycle (ILCS Prompt Payment Act)
  - Standardized period of time
  - Operating cycle (12 months)
- GASB defined for property taxes (at most 60 days)

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MODIFIED ACCRUAL BASIS EXPENDITURES

- Accrued when incurred (good received or service provided), unless exception allowed in GASB I-6, regardless of period budgeted
  - Inventories (purchases or consumption method)
  - Prepaid items (purchases or consumption)
  - Long-term Obligations
    - matured (due) and payable

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MODIFIED ACCRUAL BASIS LONG-TERM OBLIGATIONS

- Expenditure when matured (due) and payable
  - Debt – due date
  - Compensated absences
    - Terminated or retired before end of year
  - Landfill closure and post closure (due for goods and services used during the period)
  - Special termination benefits – matured and payable

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28

MODIFIED ACCRUAL BASIS EXPENDITURES

- Expenditure when matured (due) and payable
- If not due and payable?
  - Don't record – NO!
    - Problem for many governments
  - Record liability in interactive account group

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ATTRIBUTES OF PROPRIETARY FUNDS (AND GOVERNEMNTAL 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)

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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)

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31

PROPERTY TAX RECOGNITION

- Receivable (asset) – when the levy attaches as an enforceable lien
  - Levy not adopted by year end, do not accrue
- Revenue
  - Modified accrual basis – must meet two criteria in order
    - Period legally intended to finance, and
    - Collected by year end or within sixty days after year end

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32

PROPERTY TAX RECOGNITION

- Accrual basis
  - Only one criteria
    - Period legally intended to finance, regardless of when collected

33

PROPERTY TAX REVENUES

- Problem with year intended to finance in Illinois
  - Tax levy ordinance
  - Budget/appropriation ordinance
  - Management intent
- Budget is deciding factor for year intended to finance
  - See ICPAS/IGFOA Position Paper

34

PROPERTY TAX REVENUES

- Modified accrual
  - 60 days is maximum
  - Can use 0 days
  - In fund that receives benefit
- Pension funding via tax levy for single employer plans must flow through governmental fund first
  - Pension fund reports employer contributions

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35

RECONCILIATIONS

- Reconcile governmental funds at fund level to entity-wide level
  - Measurement focus differences
    - Purchase of assets
    - Sale of Assets
    - Depreciation of assets
    - Issuance and Repayment of long-term debt
  - Basis differences
    - Timing of revenue
- Understanding this session is the basis for performing the reconciliation

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36

MEASUREMENT FOCUS AND
BASIS OF ACCOUNTING

Measurement Focus and Basis of Accounting

A. All accountants responsible for the preparation of financial statements are interested in identifying, assembling, analyzing, classifying, recording and reporting transactions and events affecting the entity.

B. How a transaction or event affects the entity's financial statements, however, depends upon the entity's measurement focus.

C. Specifically, an entity's measurement focus determines what resources are to be measured in the operating statements; in other words, which resource inflows and outflows should be reported on that statement. It also determines where capital assets and long-term liabilities are reported. Finally, it determines whether we report an expense or expenditure.

D. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements of financial statements for state and local governments.

   1. Assets – Resources with present service capacity that the government presently controls.

   2. Liability – Present obligation to sacrifice resources that the government has little or no discretion to avoid.

   3. Outflow of resources is a consumption of net assets by the government that is applicable to the reporting period.

   4. Inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period.

E. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, introduced two new categories of classifications and reclassified net assets.

   1. Deferred Outflows – Consumption of net assets applicable to a future reporting period.

   2. Deferred Inflow – Acquisition of net assets applicable to a future reporting period.

   3. In addition, the statement of net position should report the residual amount as *net position.*

      a. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components

         1) Net investment in capital assets;

2) Restricted (distinguishing between major categories of restrictions);

3) Unrestricted.

b. Net position only replaces net assets, not fund balance.

F. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, no longer allows the use of the term deferred except when referring to deferred inflows or deferred outflows.

1. Deferred revenue will be reclassified into new accounts.

a. Unearned revenue should be used to report revenue from an exchange transaction where the “earned” criteria has not been met

b. Unavailable revenue should be used to report revenue from an exchange or non-exchange transaction where the “available” criterion has not been met.

G. Generally accepted accounting principles (GAAP) recognize two different measurement focuses:

1. Operating statements prepared using the <u>flow of economic resources measurement focus</u> are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities and net position).

a. Increases in economic resources are reported in the operating statement as <u>revenues</u> or <u>gains</u>.

b. Decreases in economic resources are reported in the operating statement as <u>expenses</u> or <u>losses</u>.

2. Operating statements prepared using the <u>flow of current financial resources measurement focus</u> are designed to report events and transactions that increase or decrease an entity's current financial (i.e., “spendable” or “appropriable”) resources.

a. Increases in current financial resources are reported in the operating statement as <u>revenues</u> or <u>other financing sources</u>.

b. Decreases in current financial resources are reported in the operating statement as <u>expenditures</u> or <u>other financing uses</u>.

H. Different funds use different measurement focuses in their operating statements.

1. Proprietary funds (i.e., enterprise funds and internal service funds) and fiduciary funds (i.e., pension trust, investment trust, private purpose trust and agency funds) use the flow of economic resources measurement focus.

2. Governmental funds (i.e., general fund, special revenue funds, debt service funds, capital projects funds and permanent funds) use the flow of current financial resources measurement focus **at the fund financial statement level**. This measurement focus is unique to the public-sector.

3. Agency funds do not have an operating statement, therefore they cannot be properly said to have a measurement focus.

I. There are two important differences between measuring flows of an <u>economic resource</u> and flows of <u>current financial resources</u>.

1. Capital outlays

a. When a government surrenders one asset (i.e., cash) to acquire another asset (e.g., equipment), there is no net increase or decrease in the government's economic resources. Therefore, capital outlays are not reported in operating statements prepared using the flow of economic resources measurement focus. Instead, such transactions are reported on a statement of position and on a statement of cash flows.

b. When a government surrenders a current financial asset (e.g., cash) for a nonfinancial asset (e.g., equipment), there is a net decrease in the government's current financial resources. Therefore, capital outlays are reported in operating statements prepared using the flow of current financial resources measurement focus.

2. Debt service principal

a. When a government reduces assets and liabilities by the same amount, there is no net increase or decrease in the government's economic resources. Therefore, payments of debt service principal are not reported in operating statements prepared using the flow of economic resources measurement focus. Instead, such transactions are reported on a statement of position and on a separate statement of cash flows.

b. When a government uses current financial assets (e.g., cash) to reduce a noncurrent liability it has decreased its net current financial resources. Therefore, payments of debt service principal are reported in operating statements prepared using the flow of current financial resources measurement focus.

J. The term <u>basis of accounting</u> is used to refer to the timing of when a transaction should be recognized in the operating statement (e.g., when should an "expense" or "expenditure" be recognized?).

K. The basis of accounting used by a fund is determined by its measurement focus.

1. Funds using the flow of economic resources measurement focus use the <u>accrual</u> basis of accounting.

a. Revenues are recognized when earned and measurable (for exchange transactions).

1) A revenue is earned when the government has provided the service.

2) For example, a government provides water service to its customers.

a) The revenue is earned when the water is used by the customer.

b) The revenue is measurable when the water meters are read or the amount of usage can be estimated based on experience.

c) After the meters are read, the water usage would be considered revenue regardless of when the customer pays the bill.

b. Expenses are recognized when incurred, if measurable.

1) For an expense to be incurred, the item purchased must be received or the service purchased must be performed in the period.

2) For an expense to be measurable, the amount must be determined. This determination is typically made when the invoice is received.

2. Funds using the flow of current financial resources measurement focus use the <u>modified accrual</u> basis of accounting.

a. Revenues are recognized when both <u>measurable and available</u> (i.e., collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period) since most are non-exchange transactions.

1) The requirement that revenues be "measurable" before they are recognized is not unique to the modified accrual basis of accounting. Revenues are never recognized before they are "measurable" under either the modified accrual basis of accounting or the accrual basis of accounting.

2) Revenues are considered measurable if the amount of the transaction can be reasonably determined. For example, fines and

forfeits, golf and swimming fees, inspection charges, parking meter receipts and similar revenues generally are not considered “measurable” until received in cash.

a) The treatment of certain revenues as only being “measurable” when received in cash should <u>not</u> preclude their being recognized as revenue if cash receipts are abnormally delayed.

b) Similarly, revenues considered “measurable” when received in cash should be reported as “unavailable revenue” if for some reason cash is received earlier than usual.

3) As mentioned earlier, both the accrual basis and the modified accrual basis require that revenues be measurable before they can be recognized. The requirement that revenues be “available” before they can be recognized, on the other hand, distinguishes modified accrual basis revenue recognition from accrual basis revenue recognition.

4) In practice, governments have been interpreting the term “available” differently.

a) Within a period of time after year end equal to the government's normal bill-paying cycle (e.g., 60 days in accordance with the prompt payment act).

b) Within a specified standardized period after year end (e.g., 30, 60 or 90 days).

c) Within 12 months after year end (i.e., the item is a current asset at year end).

d) GASB has refined this definition by stating that for property taxes, the maximum period is 60 days.

1. In addition, GASB is requiring the number of days used to define revenue recognition be disclosed in the notes.

2. Based on GASB’s evaluation of these disclosures, further refinement in this definition is probable.

b. In the absence of an applicable accrual modification, governmental fund liabilities and expenditures should be accrued when incurred. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability. There are, however, several important exceptions to this rule as defined in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*:

c. Specifically a government's unmatured long-term indebtedness (other than "specific fund debt" of proprietary and trust funds) should be reported as general long-term liabilities, rather than governmental fund liabilities. This requirement applies not only to formal debt issues, such as bonds, but also to other forms of general long-term indebtedness, including compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs, and "other obligations" that are not due for payment in the current period.

d. Matured liabilities should be reported as governmental fund liabilities. Matured liabilities include liabilities that normally are due and payable in full when incurred and the matured portion of long-term indebtedness.

    1) Therefore, debt service (principal and interest) on formal debt issues is recognized as expenditure when matured and payable.

    2) Liabilities for compensated absences, claims and judgments, special termination benefits, and landfill closure and postclosure care costs are "normally expected to be liquidated with expendable available financial resources," and should be recognized as governmental fund liabilities, to the extent that they <u>mature</u> each period. The accumulation of financial resources in a governmental fund for eventual payment of unmatured liabilities (for example, compensated absences) does not constitute an outflow of current financial resources or result in the recognition of an additional governmental fund liability or expenditure.

        A) For compensated absences, matured means the employee has retired or terminated by the end of the period but has not been paid out.

        B) For landfill closure and post closure care, matured means the payments due for goods and services used in the closure and post-closure process.

C) Special termination benefits would also have to be "matured" to recognize as a fund liability, subject to modification by a future GASB pronouncement.

e. Expenditures and liabilities not meeting this definition would not be reported as an expenditure and fund liability in the governmental fund fund financial statements.

f. In addition, other exceptions to the general rule of recognizing expenditures when incurred include:

1) Inventories of materials and supplies may be recognized as expenditures either when purchased (purchases method) or when used (consumption method).

2) Prepaid insurance and similar items may be recognized as expenditures either when purchased (purchases method) or on a pro rata basis throughout the period outstanding (consumption method).

L. Some governments still use the cash basis of accounting to prepare their financial statements.

1. Sometimes the use of the cash basis of accounting is mandated by state statute.

2. There are significant disadvantages to the use of the cash basis of accounting:

a. Cash basis financial statements omit recognition of assets and liabilities not arising from cash transactions.

1) Accordingly, they ignore the effect upon financial position and results of operations of accounts receivable, accounts payable, and other accrued items.

2) Because these items are commonly of significant dollar magnitude, cash basis financial statements rarely present financial position or results of operations in conformity with GAAP.

b. Cash basis accounting can result in distortions in financial statements resulting from shifts in the timing of cash receipts and disbursements near the end of the fiscal period.

c. Cash basis financial statements are also subject to manipulation because their reported operating results can be affected by speeding up and/or slowing down cash collections and payments near the end of the fiscal period.

d. The AICPA S-34 Audit Guide requires the issuance of an adverse opinion if the cash basis is used without including capital assets and depreciation expense for governmental activities at the entity-wide level and for all proprietary funds.

M. A number of specific items need to be discussed in conjunction with the application of the flow of current financial resources measurement focus and the modified accrual basis of accounting.

1. Property taxes

a. A receivable for property taxes should be recognized as of the date of the levy.

b. Property tax revenue should be reported net of estimated uncollectibles.

	DR	CR
Property taxes receivable	XXX	
Uncollectible property taxes		XXX
Property tax unavailable revenue		XXX

(For bookkeeping purposes, the entire collectible portion of the levy is typically recorded as either "unavailable revenue" or "revenue," with an appropriate adjustment being made at the end of the fiscal year, to reflect the true "deferred" balance).

c. Under GASB Interpretation No. 5 and GASB Statement No. 33, two criteria must be met before recognizing property taxes as revenue.

1) Property taxes may not be recognized as revenue prior to the year for which they are levied (i.e., intended to finance).

a) The tax levy ordinance for a non-calendar year end government in Illinois will specify that the tax levy (e.g., 2003 levy) is legally to finance the fiscal year ended April 30, 2004, even though none will be collected by fiscal year end (for non-Cook County governments).

b) The legal budget (if following the budget act) or the working budget (if following the appropriation act) or management's intent is usually contradictory to the legal requirement in the tax levy ordinance.

c) GASB relied on the IGFOA and the ICPAS to provide specific guidance for consistently reporting property tax revenue. This guidance is as follows:

1. If a conflict exists between the budget (appropriation) and the tax levy, the budget/appropriation should take precedence. Accordingly, property taxes would be recognized as revenue in the year intended to finance as determined by the budget, if the remainder of the criteria are met.

2) Property taxes must be collected by year end or within at most sixty days after year end to be recognized as revenue in the current fiscal year. It should be noted that a period less than 60 days can be used.

3) Property taxes should be recognized in the fund that receives the benefit, except for property taxes levied to finance the employer's contribution to single employer pension plans.

4) Property taxes levied for single employer pension plans should be recognized as property tax revenue in fund where the related pensionable salaries are recorded. An expenditure, employer contributions, would be recognized for the same amount.

5) The single employer pension fund would report a like amount of the employer contribution as revenue – employer contributions.

2. Inventories

a. Inventories may be accounted for using either the purchases method or the consumption method.

b. If the purchases method is used, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

1) There is, however, a requirement to report any material amount of inventory on the balance sheet.

2) To report material balances of inventory on the balance sheet when the purchases method is used, the following journal entry should be made:

	DR	CR
Inventory	XXX	
Nonspendable fund balance		XXX

3) The fund balance account is reported as "nonspendable" to indicate to users of the balance sheet that inventory is not "spendable" or

"appropriable" when the purchases method is used, even though it is a component of net current assets.

c. If the consumption method is used, inventories are recorded as assets at acquisition and only recognized as expenditures when used.

d. The selection of a method normally is based on the method used by the government for budgeting.

e. The summary of significant accounting policies (SSAP) should indicate whether funds using the flow of current financial resources measurement focus are using the purchases method or the consumption method to account for inventories.

3. Prepaid items

a. Insurance and rent are common examples of prepaid items.

b. Prepaid items are subject to the same accounting just described for inventory.

4. Net pension assets (NPAs) should never be reported as assets in funds using the modified accrual basis of accounting as the NPA is not a current financial resource.

g. Net pension assets (and net pension obligations) are reported as assets/liabilities in funds (statements) using the economic resources measurement focus.

5. Compensated absences

a. Compensated absences should be calculated using the criteria set forth in GASB Statement No.16, *Accounting for Compensated Absences*.

1) A liability should be accrued for future vacation and other leave benefits (e.g., sick leave, compensatory time) that meet <u>all</u> of the following conditions:

a) The employers' obligation results from leave attributable to employee services already rendered.

b) The employer's obligation relates to rights that vest <u>or</u> accumulate or will be paid upon termination or retirement (either in cash or a non-cash benefit).

c) The payment of the compensation is probable.

d) The amount of the compensation is reasonably estimable.

2) GASB Statement No. 16 requires that the liability be valued at current cost as of the end of the fiscal year (salary rate in effect as of the balance sheet date), including FICA (but not IMRF).

b. While the entire liability must be reported at the entity-wide level on the statement of net assets, only that portion expected to be liquidated with expendable, available financial resources should be reported as an expenditure and a fund liability.

1) GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, now limits the amount to be recorded as a fund liability at the fund financial statement level.

2) Compensated absences liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. This implies that only liabilities for employees who have terminated or retired but not yet been paid out can be accrued as an expenditure/governmental fund liability at the end of the year.

3) The journal entry to report all or a portion of this liability in the GLTDAG would be:

GLTDAG	DR	CR
Functional expenditure	XXX	
Compensated absences		XXX

6. Capital leases

a. According to NCGA Statement No. 5, leases should be capitalized if they meet the criteria of SFAS No. 13, Accounting for Leases.

b. The existence of a fiscal funding clause should not preclude the classification of the lease as a capital lease if there is only considered to be a remote chance that the clause will be used.

c. Special journal entries apply to capital lease transactions. These journal entries treat lease financing in the same way as other types of debt financing of capital acquisition:

Date of lease:

General Fund

	DR	CR
Expenditure	XXX	
Other financing source		XXX
GFAAG		
Capital assets	XXX	
Expenditure Function		XXX
GLTDAG		
Proceeds of capital leases (Amount to be provided)	XXX	
Capital leases payable		XXX

Lease payment date:

	DR	CR
General fund		
Expenditure	XXX	
Cash		XXX
GLTDAG		
Capital leases payable	XXX	
Principal paid (Amount to be provided)		XXX

7. Reconciliations

A. Governments are required to reconcile the balance and income statement for the governmental funds from the fund financial statements to the entity-wide financial statements.

B. The reconciliation focuses on measurement focus differences (capital assets, debt, long-term operating liabilities) and basis of accounting differences (unavailablerevenue versus revenue).

C. Understanding this chapter is the basis of the reconciliation.

SUMMARY OF DIFFERENCES IN MEASUREMENT FOCUS

TABLE 3-1

	FLOW OF ECONOMIC RESOURCES	FLOW OF CURRENT FINANCIAL RESOURCES
INCREASE IN RESOURCES	REVENUES/GAINS	REVENUES/OTHER FINANCING SOURCES
DECREASE IN RESOURCES	EXPENSES/LOSSES	EXPENDITURES/OTHER FINANCING USES
CAPITAL OUTLAY REPORTING	STATEMENT OF POSITION/CASH FLOWS	OPERATING STATEMENT
DEBT SERVICE PRINCIPAL REPORTING	STATEMENT OF POISTION/CASH FLOWS	OPERATING STATEMENT
DEPRECIATION IN FUND	YES	NO
BASIS OF ACCOUNTING	ACCRUAL	MODIFIED ACCRUAL
REVENUE RECOGNITION CRITERIA	EARNED AND MEASURABLE	MEASURABLE AND AVAILABLE
KEY BALANCE SHEET ITEM	NET POSITION	UNRESTRICTED FUND BALANCE
MEANING OF KEY BALANCE SHEET ITEM	CUMULATIVE ECONOMIC SURPLUS RESULTING FROM OPERATIONS	“SPENDABLE” OR “APPROPRIABLE” RESOURCES

SUMMARY OF DIFFERENCES IV MEASUREMENT FOCUS

TABLE 3-2

EXPENSE/EXPENDITURE RECOGNITION	FLOW OF ECONOMIC RESOURCES	FLOW OF CURRENT FINANCIAL RESOURCES
INVENTORIES	WHEN CONSUMED	WHEN PURCHASED OR CONSUMED
PREPAID ITEMS	WHEN CONSUMED	WHEN PURCHASED OR CONSUMED
COMPENSATED ABSENCES	WHEN INCURRED	WHEN MATURED (EMPLOYEE RETIRED OR TERMINATED BY YEAR END BUT NOT YET PAID OUT)
CLAIMS AND JUDGMENTS	WHEN INCURRED	WHEN MATURED (DUE AND PAYABLE)
PENSION EXPENSE/ EXPENDITURE	WHEN INCURRED	WHEN MATURED (DUE AND PAYABLE) (TO BE MODIFIED BY TB 2004-a)
DEBT SERVICE PRINCIPAL	NOT REPORTED IN OPERATING STATEMENT	WHEN DUE*
DEBT SERVICE INTEREST	WHEN INCURRED	WHEN DUE*
OTHER EXPENSES/ EXPENDITURES	WHEN INCURRED	WHEN INCURRED

* If debt service fund resources have been provided during the current year for payment of principal and interest due early in the following year, the expenditure and related liability may be recognized in the debt service fund and the debt principal amount removed from the general long-term debt account group.

DIFFERENCES IN MEASUREMENT FOCUS

SITUATION	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS (and entity-wide statements)
CAPITAL OUTLAY REPORTED		
ON OPERATING STATEMENT?	YES	NO
DEBT SERVICE PRINCIPAL		
PAYMENTS REPORTED ON		
OPERATING STATEMENT?	YES	NO
RECEIPT OF DEBT PROCEEDS		
REPORTED ON OPERATING		
STATEMENT?	YES	NO
DEPRECIATION REPORTED		
ON OPERATING STATEMENT?	NO	YES

Session 2 Questions

1. A government with an April 30, 2015 year end adopts its property tax levy in December 2014 which attached as a lien on property as of January 1, 2014. The property tax levy is payable to the county (collecting agent) in two equal installments one in June 2015 and one in September 2015 and is remitted to the government in June 2015 and October 2015. The government budgets the entire tax levy to fund the fiscal year ending April 30 2016. The total property tax levy is $1,000,000 ($800,000 corporate levy, $100,000 police pension levy and $100,000 fire pension levy) and the government estimates that the allowance for doubtful accounts is .5%. What is the journal entry to record the property tax receivable at April 30, 2014 since the tax attached as a lien on January 1, 2014.

What is the journal entry to record the same property tax receivable at April 30, 2015 on a) the modified accrual basis and b) the accrual basis of accounting.

What would the journal entry be if the government budgets the entire tax levy to fund the fiscal year ending April 30, 2015 on a) the modified accrual basis of accounting and b) the accrual basis of accounting.

2. A government entered into a capital lease during the year for the acquisition of a computer system with one payment due by the end of the year. The lease is for 4 years with principal payments of $25,000 each year. The leased equipment has a fair value at the inception of the lease of $105,000. In addition, the lease contains a purchase option that enables the government to purchase the leased equipment for $500 at the end of the lease term.

Is this a capital lease or an operating lease and why?

If a capital lease, what is the journal entry to record the lease in the year of inception in the general fund. What is the journal entry necessary to convert this from the general fund to the governmental activities?

3. A government calculates a compensated absences liability related to employees paid in governmental funds to be $500,000 at year end. The liability at the previous year end was $400,000. The increase (decrease) in the total liability is as follows; ($25,000) for general government, $50,000 for public safety, $40,000 for highways and streets and $10,000 for culture and recreation. All of the liability is payable from available spendable resources.

What is the entry to record the liability at year end and where would it be recorded?

INTERMEDIATE GOVERNMENTAL ACCOUNTING

GOVERNMENTAL FUND REVENUE AND EXPENDITURE RECOGNITION AND CONVERTING TO GOVERNMENTAL ACTIVITIES

1

TYPES OF TRANSACTIONS

- Exchange and exchange-like transactions: each party receives and gives up essentially equal values.

- Nonexchange transactions: a government gives (or receives) value without receiving (or giving) equal value in exchange.

2

EXCHANGE TRANSACTIONS

- Exchange transactions are earned by the recipient upon completion of its portion of the transaction
  - Receivables are recognized when the right to receive exists (sometimes prior to the completion of the transaction)
  - Revenue is recognized when earned, if available
    - If not available, offset by unavailable revenue, a deferred inflow of resources
    - Recognize as revenue when available

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EXCHANGE TRANSACTIONS

- Revenue earned but not available
  - Recognized as revenue at the governmental activities entity-wide level
  - Conversion entry to entity-wide revenue
- Receivable recognized (or cash received) before earned
  - Offset by unearned revenue, a liability
  - Same treatment for governmental funds and governmental activities at the entity-wide level

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EXCHANGE TRANSACTIONS

- Examples of exchange type revenue transactions
  - Charges for services
    - Ambulance fees/rent a cop fees
    - Engineering services
    - Refuse collection
    - Park programs
    - Tuition and fees
    - Leases
    - Investment income
  - Sales of goods
    - Land/inventory held for resale
    - Others

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GASB STATEMENT NO. 33 NONEXCHANGE TRANSACTIONS

- Types of nonexchange revenue transactions
  - Derived tax revenues when the tax is your own source revenue
  - Imposed nonexchange transactions
  - Government-mandated nonexchange transactions
  - Voluntary nonexchange transactions

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GASB STATEMENT NO. 33 NONEXCHANGE TRANSACTIONS

- Sole (own) source revenue
  - Revenues that are generated by a government itself, such as certain tax revenues where the government determines the amount of the tax or base
  - Charges for services are own source revenues, as is investment income
  - Intergovernmental aid and shared revenues are not own source revenue

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DERIVED TAX REVENUES

- Result from assessments imposed on exchange transactions by your government
  - Assets recognized when underlying exchange has occurred or when resources received, whichever is first
  - Revenues is recognized in the period when the underlying exchange has occurred and the amounts are available
    - If not available, offset by a deferred revenue, a deferred inflow of financial resources

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DERIVED TAX REVENUES

- Examples of derived tax revenues at the local government level in Illinois
  - Hotel/Motel
  - Utility/Telecommunication
  - Local gas tax (not state shared MFT)
  - Home rule and non home rule sales taxes
  - Video gaming/amusement taxes
- Examples of derived tax revenues at the state level but not at the local government level in Illinois
  - Income taxes
  - Personal property replacement taxes
  - Motor fuel taxes

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REVENUES: DERIVED TAX REVENUES *Sales Taxes, Utility Taxes*

- Recognize revenue as soon as the underlying sales (use) takes place and the related amounts become available to finance expenditures of the current period
- For Illinois municipalities, sales tax revenue is recognized in the "liability month" indicated in Illinois Department of Revenue notices
- Utility/telecom, hotel/motel, local gas, video gaming should recognize receivable and revenue when underlying usage occurs

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IMPOSED NONEXCHANGE TRANSACTIONS

- Result from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions
  - Assets recognized when an enforceable legal claim has arisen or when resources received, whichever is first (receivable when lien attaches, Illinois exception)
  - Revenue recognized when resources are required to be used or first period that use is permitted and revenue is available, net of refunds
  - Purpose restrictions are restrictions of fund balance.

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IMPOSED NONEXCHANGE TRANSACTIONS

- Examples
  - Property taxes
  - Road and bridge taxes
  - Most fines and forfeitures
  - Foreign fire insurance
  - Certain franchise fees

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IMPOSED NONEXCHANGE TRANSACTIONS

- Property Taxes
  - Receivable – when the tax attaches as an enforceable lien on property is measurable
    - To be measurable the tax should be levied before the governments fiscal year end or report issue date
    - January 1st of the calendar year preceding the collection year in Illinois
  - Revenue
    - Fiscal year legally intended to finance (budgeted for, per IGFOA/ICPAS white paper), and
    - Collected within 60 days of fiscal year end

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IMPOSED NONEXCHANGE TRANSACTIONS

- Property Taxes
  - Receivable recognized before revenue is recognized
    - Offset by deferred property tax revenues, a deferred inflow of resources
  - Receivable/revenue net of estimated uncollectible

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GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS

- Result when a government at one level provides resources to a government at another level and requires the resources to be used for a specific purpose
  - Receivable recognized when all eligibility requirements have been met
  - Revenue recognized when all eligibility requirements have been met and the resources are available

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GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS

- Examples
  - State collected motor fuel taxes remitted to local governments based on population of some other formulae
    - Receivable/revenue when allotted by state to the local government
    - Usually 1 month before received
  - Expenditure driven grants
    - Must incur qualifying expenditure
    - CDBG grants

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VOLUNTARY NONEXCHANGE TRANSACTIONS

- Result from legislative or contractual commitments, other than exchanges, entered into willingly by two or more parties where revenue is not restricted to be used for a specific purpose
  - Assets and liabilities recognized when all eligibility requirements have been met
  - Revenue recognized when all eligibility requirements have been met and resources should are available

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VOLUNTARY NONEXCHANGE TRANSACTIONS

- Examples
  - Unrestricted grants, entitlements and shared revenues
    - State collected income taxes distributed to local governments on a per capita basis
    - Personal property replacement taxes collected by the state
    - Use taxes
    - Revenue/receivable when allocated/vouchered by the state as this is when eligibility requirements are met
  - Most donations, ~~restricted or~~ unrestricted

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TIMING OF REVENUE RECOGNITION NONEXCHANGE TRANSACTIONS

- Time requirements
  - Specify the period when the resources are required to be used or may be used
- Purpose restrictions
  - Specify the purpose or purposes for which the resources are required to be used
- If these are eligibility requirements, then revenue would be recognized when all eligibility requirements have been met

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REVENUES: EXCHANGE & EXCHANGE-LIKE TRANSACTIONS
Investment Income

- Report investments at fair value, not cost or amortized cost
- Recognize investment income in the period of change in fair value
- Negative investment income also reported as a revenue, not an expenditure

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REVENUES:
GOVERNMENT-MANDATED &
VOLUNTARY NONEXCHANGE TRANSACTIONS
Reimbursement Grants

- Also known as expenditure-driven grants.
- Recognize revenue as soon as all eligibility requirements have been met and the related amounts become available.

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REVENUES:
GOVERNMENT-MANDATED &
VOLUNTARY NONEXCHANGE TRANSACTIONS
Donations of Capital Assets

- If capital asset donation will be kept, it is not reported in a governmental fund since it is not a financial resource
  - Recognized as revenue at the entity-wide governmental activities
  - Recognize in conversion fund
  - GASB Statement No 72 requires valuing at acquisition value

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GASB S-85 *Omnibus*

- On-behalf payments
  - Payments made by one entity to another entity on-behalf of another entity's employees (salaries and benefits)
  - Common example:

    Payments made by State of Illinois to the State University Retirement System or Teachers Retirement System on behalf of universities and school districts
  - Revenue and expenditure in employer's financial statements based on cash paid by other entity

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GASB S-87 *Leases*

- GASB issued S-87 to improve lease accounting and financial reporting
- Effective date is periods beginning after December 15, 2019

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GASB S-87 *Leases*

- Applied to any contract that meets the definition of a lease: "A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."

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GASB S-87 *Leases*

- The right-to-use asset is that "specified in the contract"
- Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset

- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

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GASB S-87 Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)

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GASB S-87 Short-Term Leases

- At beginning of lease, *maximum possible term* under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on the terms of the contract
  - Do not recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

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28

GASB S-87 Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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GASB S-87 Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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Implementing GASB S-87

- Implementation
  - Apply retroactively
    - Restate if practicable, cumulative effect if not
  - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
  - Create a standardized approach to gather all relevant contracts that contain a lease or possible lease
  - Lessors should *not* restate the assets underlying their existing sales-type or direct financing leases
    - Any residual assets for those leases would become the carrying values of the underlying assets

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Application of GASB Statement No 87

- A park district (PD, lessor) leases space in the district owned recreation center (RC) to another unit of government, a special recreation district (SRD, lessee) via a lease agreement. The lease agreement:
  - Is for a period of 30 calendar years, non-cancellable by either party
  - The lease calls for 30 annual payments of $20,000 due on the first day of the year with an additional $20,000 due upon signing the lease (total $620,000)
  - The lease does not contain an interest rate, therefore a rate of 2.5% annually has been assumed, with a net present value of future lease payments of $418,000
  - The lease does not transfer ownership of the center at the end of the lease agreement
  - The lease does not contain any options for extensions

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32

Application of GASB Statement No 87

- Is this a lease as defined by GASB Statement No 87?
- Why or why not?
- If yes, how should this lease be accounted for by
  - The lessor (PD)
  - The lessee (SRD)

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33

Application of GASB Statement No 87

- Is this a lease as defined by GASB Statement No 87?
  - Yes, the agreement conveys control of the right to use the center (underlying nonfinancial asset) for a period of time (30 years) in an exchange like transaction
- Lessor accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)
    - Lease receivable (dr.) 418,000
    - Cash (dr.) 20,000
    - Deferred inflow of resources
      - leases (cr.) 418,000
    - Lease revenue (cr.) 20,000
    - Governmental activities
    - No conversion entry

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34

Application of GASB Statement No 87

- Lessor accounting
  - Payment received for year 1
  - Governmental fund, CFRMF, MABOA)
    - Deferred Inflow – lease revenue (dr.) 19,510
    - Cash (dr.) 20,000
    - Revenue – leases (cr.) 19,510
    - Interest revenue – leases (cr.) 490
    - Lease Receivable (cr.) 19,510
  - Governmental activities
    - No conversion entry

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35

Application of GASB Statement No 87

- Is this a lease as defined by GASB Statement No 87?
  - Yes, the agreement conveys control of the right to use the center (underlying nonfinancial asset) for a period of time (30 years) in an exchange like transaction
- Lessee accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)
    - Expenditure – Leased asset (dr.) $438,000
    - Cash (cr.) 20,000
    - Other financing source – leases (cr.) 418,000
  - Governmental activities
    - Intangible asset right to use RC (dr.) 418,000
    - Other financing source – leases (dr.) 418,000
    - Lease payable (cr.) 418,000
    - Expenditure – leased asset (cr.) 418,000

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36

Application of GASB Statement No 87

- Lessee accounting
  - Payment made for year 1
  - Governmental fund, CFRMF, MABOA)

Principal paid leases (dr.)	19,510	
Interest paid leases (dr.)	490	
Cash (cr.)		20,000

Governmental activities

Lease payable (dr.)	19,510	
Principal paid leases (cr.)		19,510
Amortization expense – leases (dr.)	13,933	
Accumulated amortization leases (cr.)		13,933

(418,000, 30 year useful life)

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Application of GASB Statement No 87

- A village leases space on its water tower to a private company to place a communications device on the tower. The agreement:
  - Is for a period of 5 calendar years, non-cancellable by either party
  - The lease calls for 5 annual payments of $25,000 due on the first day of the year (total $125,000)
  - The lease does not contain an interest rate, therefore a rate of 2.5% annually has been assumed, with a net present value of future lease payments of $116,150
  - The lease does contain one option for a 5 year extension that the Village assumes will not be exercised

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38

Application of GASB Statement No 87

- Is this a lease as defined by GASB Statement No 87?
- Why or why not?
- If yes, how should this lease be accounted for by the Village?

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39

Application of GASB Statement No 87

- Is this a lease as defined by GASB Statement No 87?
  - Yes, the agreement conveys control of the right to use the village water tower (underlying nonfinancial asset) for a period of time (5 years) in an exchange like transaction
- Lessor accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)
    - Lease receivable (dr.) 116,150
    - Deferred inflow of
      resources - leases (cr.) 116,150
  - Governmental activities
    - No conversion entry

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Application of GASB Statement No 87

- Lessor accounting
  - Payment received for year 1
  - Governmental fund, CFRMF, MABOA)
    - Deferred Inflow – lease revenue (dr.) 24,390
    - Cash (dr.) 25,000
    - Revenue – leases (cr.) 24,390
    - Interest revenue – leases (cr.) 610
    - Lease Receivable (cr.) 24,390
  - Governmental activities
    - No conversion entry

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41

Application of GASB Statement No 87

- Payment in full (125,000) is received at the inception of the agreement
- Is this a lease as defined by GASB Statement No 87?
  - Yes, the agreement conveys control of the right to use the village water tower (underlying nonfinancial asset) for a period of time (5 years) in an exchange like transaction
- Lessor accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)
    - Cash (dr.) 125,000
    - Deferred inflow of resources - leases (cr.) 125,000
  - Governmental activities
    - No conversion entry

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42

Application of GASB Statement No 87

- Lessor accounting
  - Recognition of revenue for year 1
  - Governmental fund, CFRMF, MABOA)
    - Deferred Inflow
      - – lease revenue (dr.) 25,000
    - Revenue – leases (cr.) 24,390
    - Interest revenue – leases (cr.) 610
  - Governmental activities
    - No conversion entry

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DEFINTION OF EXPENDITURE VERSUS EXPENSE

- An expenditure is an outflow of a current financial resource
- An expense is a consumption of an asset or the incurrence of a liability

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EXPENDITURE/EXPENSE REPORTING

- GASB Statement No 34 requires reporting expenditures/expenses by function
  - Common examples of functions include general government, public safety, public works, highways and streets, culture and recreation, economic development
    - Functions can be further reported by department and/or activity
  - This reporting requires tracking expenditures and expense and changes in liabilities by function

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GOVERNMENTAL FUND EXPENDITURE RECOGNITION

- Basic rule for expenditure recognition:

  In the absence of an explicit requirement to do otherwise, a government should accrue a governmental fund expenditure and liability in the period in which the government incurs the liability, that is the period when the goods are received or the services are provided or wages are earned by employees, regardless of when budgeted.

- Exceptions are provided in GASB Interpretation No 6. *Exceptions only allow expenditures to be recognized when the transaction is matured, due or payable, not "when payable from expendable available financial resources"*

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EXPENDITURE RECOGNITION
Exceptions to the Basic Rule

- Debt service
- Certain specified accrued liabilities
- Pensions and other postemployment benefits (OPEB)
- Inventories of supplies
- Prepaids

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EXPENDITURE RECOGNITION
Certain Specified Accrued Liabilities

- Compensated absences
- Claims and judgments
- Termination benefits
- Landfill closure and post-closure costs

Do not recognize expenditures until the liability becomes due and payable.

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48

EXPENDITURE RECOGNITION
Pensions and OPEB

Do not recognize expenditures until payments are actually made or are due and payable

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49

EXPENDITURE RECOGNITION
Inventories of Supplies

- Recognize expenditures using the purchases or consumption method
  - Expenditure when purchased
  - Expenditure when used
- If using the purchases method and significant inventories are on hand at year end, record:

Inventories – Supplies	XX	
Fund Balance – Nonspendable		XX

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EXPENDITURE RECOGNITION
Prepaids

- Recognize expenditures using the purchases or consumption method
  - Expenditure when purchased
  - Expenditure when consumed
- Required to adjust for significant prepaids at year end previously recorded as expenditures under the purchases method at governmental activity level
  - Reduces expenditure

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51

LIABILITY RECOGNITION

- In general, recognize a liability as soon as it is incurred
  - Payroll when earned by employees
  - Employee benefits – depends on type of benefit
- Exceptions:
  - Debt principal and interest are only recognized when due.

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52

COMPENSATED ABSENCES

- GASB S-16
- Vacation, sick and compensatory time
  - Obligation results from service already rendered
  - Rights vest or accumulate
  - Payment is probable (cash or benefit)
  - Can be estimated
- Comp time is most often missed

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53

COMPENSATED ABSENCES

- Determining if you have a liability
  - Obligation results from services rendered
  - Vacation leave
    - Vests or accumulates (carryover)
  - Sick leave
    - Accumulates and vests
    - Payment upon termination or conversion to some other cash based benefit
  - Compensatory time
  - Sabbatical leave

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COMPENSATED ABSENCES

- Valuing the liability
  - Termination method
  - Vesting method
  - Salary as of year end
    - Not 1st day of next year
  - Include benefits
    - FICA – Yes
    - Agent multiple employer pension plan – NO!

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COMPENSATED ABSENCES

- Reporting the liability
  - Governmental Fund
    - Fund liability if employee terminated or retired at year end but not yet paid out
  - Entity-wide and proprietary/fiduciary funds
    - When incurred
  - Converting from governmental fund to entity-wide governmental activities

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COMPENSATED ABSENCES

- Assume the liability at the beginning of the year is 1,000,000 recorded in the general long-term debt conversion fund
- Assume the liability by function increased or decreased as follows to total of 1,160,000 at year end
  - General government increased 30,000
  - Public safety increased 110,000
  - Public works increased 40,000
  - Culture and recreation decreased 20,000
- All of the liability relates to current employees

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Compensated Absences Conversion Entry

Expense – General government	30	
Expense – Public safety	110	
Expense – Public works	40	
Expense – Culture and recreation		20
Compensated absences payable		160

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58

COMPENSATED ABSENCES

- After making the entry the liability in the general long-term debt conversion fund is 1,600,000
- Adding the accounts by function that recorded the change in the liability with the total balances by function from the governmental fund income statement converts the modified accrual basis numbers to the accrual basis

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59

LIABILITY RECOGNITION
Termination Benefits

Recognize a liability only to the extent that related payments are due within the period.

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60

WHAT IS A TERMINATION BENEFIT

- GASB Statement No. 47, *Accounting for Termination Benefits*
  - Issued in July 2004
  - Effective for fiscal years ending June 30, 2006 and thereafter
  - An offer made by an employer for a short period of time to encourage employees to retire
  - Inducement to leave employment prior to retirement
  - Includes both voluntary and involuntary retirement early retirement programs

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Special Termination Benefits

- S-47 requires the government to recognize a liability as soon as employees accept the offer, and the liability can be reasonably estimated for both voluntary and involuntary termination benefits.
  - Liability and expense in all financial statements using the accrual basis of accounting
    - Net present value of the future benefit (e.g., deferred compensation, health insurance)
  - Expenditure in governmental funds as payments are made to or on-behalf of the former employees

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62

Special Termination Benefits Conversion Entry

- The long-term liability is recorded in the general long-term debt conversion fund at year end
  - The increase in the liability is recorded by function by debiting the functional expenses
  - In future years amounts are paid out in the governmental funds by debiting expenditures and crediting cash
  - The liability is reduced and the expenses by function are credited in the conversion fund for the amount of cash paid out
  - When consolidating the governmental funds with the conversion funds, the functional expenses are reduced to report the expenses on the accrual basis of accounting

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LIABILITY RECOGNITION

Landfill closure and post closure care costs

- Recognize a liability in a governmental fund at year end as payments come due each period upon receipt of goods and services used in the closing and post-closure care processes
- The long-term liability for closing and monitoring post closing is recorded in the general long-term debt conversion fund at year end

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LIABILITY RECOGNITION
Claims and Judgments

Recognize a liability in a governmental fund at year end only to the extent that related payments on claims are due within the period or by year end

65

Claims and Judgements

- Generally result from self insurance activities
- Governmental funds - modified accrual basis recognize claims as payments are made
  - Accrue liability at year end to the extent claims are matured (due) and payable
    - Health insurance – claims filed with TPA by year end
    - Workers compensation – claims adjudicated but not paid at year end
    - Property and casualty – claims settled but not paid at year end
  - Remainder of liability for claims incurred but not accrued in a governmental fund? No

66

66

Claims and Judgements

- Record the liabilities in the general long-term debt conversion fund at year end
- Changes in the liabilities are recorded by function
  - Provides information to convert governmental funds to governmental activities
  - Liabilities adjusted up or down at each fiscal year end

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67

RANS, GANS, AND TANS

- Revenue anticipation notes, grant anticipation notes, tax anticipation notes
- Used to fund operations until resources received
- NCGA I-9
  - Always a fund liability of the fund that issued the RAN/GAN/TAN
  - Regardless of length of maturity
- Legal requirement to repay from another fund
  - Still show liability in the issuing fund, paid by transfer between funds

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68

68

INTERMEDIATE GOVERNMENTAL ACCOUNTING

BUDGETS AND BUDGETARY REPORTING

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Budgetary Accounting

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What is a budget?

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THE GOVERNMENTAL BUDGETING ENVIRONMENT

- Different from the private sector
- Participation in developing
- Allocation of resources for public needs
- Few restrictions on how to develop and format a budget (line-item, program, zero-base, incremental)

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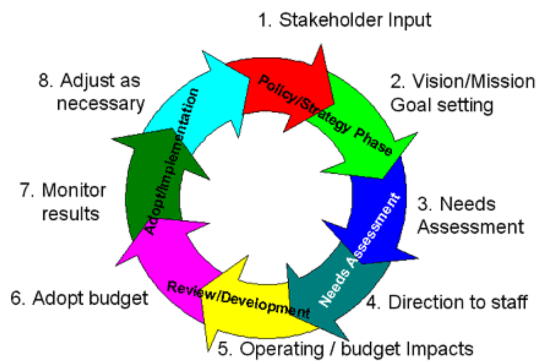
BUDGETING ENVIRONMENT



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FINANCIAL SYSTEMS FOR ILLINOIS GOVERNMENTS

- Appropriation System
  - Enacted during the first quarter of the FY
  - Governing board approval required for amendment
  - Working Budget also in place
- Budget Act
  - Enacted prior to the start of the FY
  - Three Years of Information
  - Budget officer may be empowered to amend (transfers)
  - Only Municipalities

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INTEGRATION OF BUDGETING AND ACCOUNTING

- GASB recommends formal integration of budgets into the general ledger.
- Budgetary accounts are different from actual revenue/ expenditure/expense accounts.
- Budgetary accounts reflect the legally adopted annual operating budget.

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BUDGETARY JOURNAL ENTRIES - REVENUES

EST. REVENUES – SALES TAXES	100	
BUDGETARY CONTROL		100
To record budgeted sales tax revenues		
Cash	10	
Sales Taxes		10
To record the receipt of sales taxes		

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GENERAL LEDGER SUMMARY - REVENUE ACCOUNT

Sales Taxes (Account No. XXX-XX)

Budget	100
Revenue	-10
Unrealized Revenue	90

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General Ledger

Budget Status

User: mflatt
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Period: 10, 2017

VILLAGE OF NORTH AURORA
Crossroads on the Fox

Account Number	Description	Budget Amount	Period Amount	YTD Amount	YTD Var	Encumbered Amount	Available	% Available
Fund 01	General Fund							
Dept 01-305	Taxes							
R01	Revenues							
01-305-3010	Property Tax	2,035,000.00	0.00	2,012,526.62	22,473.38	0.00	22,473.38	1.10
01-305-3011	Property Tax - Road & Bridge	150,000.00	0.00	156,235.55	-6,235.55	0.00	-6,235.55	0.00
01-305-3020	Sales Tax	4,460,000.00	426,528.57	3,898,680.38	561,319.62	0.00	561,319.62	12.59
01-305-3024	Use Tax	406,000.00	55,256.61	354,984.95	51,015.05	0.00	51,015.05	12.57
01-305-3026	Auto Rental Tax	8,000.00	223.39	2,302.96	5,697.04	0.00	5,697.04	71.21
01-305-3027	Charitable Games Tax	1,000.00	0.00	0.00	1,000.00	0.00	1,000.00	100.00
01-305-3030	Illinois Income Tax	1,898,000.00	323,421.03	1,503,574.42	394,425.58	0.00	394,425.58	20.78
01-305-3037	Telecommunications Tax - 1%	68,000.00	5,464.12	55,694.68	12,305.32	0.00	12,305.32	18.10
01-305-3040	Replacement Tax	40,000.00	5,267.74	34,145.35	5,854.65	0.00	5,854.65	14.64
01-305-3042	Video Gaming Dist Fund Tax	70,000.00	7,085.57	66,906.34	3,093.66	0.00	3,093.66	4.42
01-305-3045	OTB Handle	0.00	0.00	1,994.20	-1,994.20	0.00	-1,994.20	0.00
01-305-3046	Amusement Tax	70,000.00	5,085.40	69,135.97	864.03	0.00	864.03	1.23
	R01 Sub Totals:	9,206,000.00	828,332.43	8,156,181.42	1,049,818.58	0.00	1,049,818.58	11.40
	Revenue Sub Totals:	9,206,000.00	828,332.43	8,156,181.42	1,049,818.58	0.00	1,049,818.58	11.40
	Dept 305 Sub Totals:	-9,206,000.00	-828,332.43	-8,156,181.42	1,049,818.58	0.00		
Dept 01-310	Licenses and Permits							
R01	Revenues							
01-310-3110	Business Licenses	38,000.00	205.00	29,950.08	8,049.92	0.00	8,049.92	21.18
01-310-3118	Liquor Licenses	56,000.00	0.00	63,012.50	-7,012.50	0.00	-7,012.50	0.00
01-310-3119	Antenna/Tower License Fee	4,000.00	0.00	3,000.00	1,000.00	0.00	1,000.00	25.00
01-310-3125	Business Registration	13,000.00	1,450.00	15,550.00	-2,550.00	0.00	-2,550.00	0.00
01-310-3130	Building Permits	200,000.00	35,710.36	210,538.36	-10,538.36	0.00	-10,538.36	0.00
01-310-3133	Plumbing Permits	13,000.00	595.00	7,495.00	5,505.00	0.00	5,505.00	42.35
01-310-3134	Contractor Licenses	35,000.00	7,650.00	41,326.50	-6,326.50	0.00	-6,326.50	0.00
01-310-3136	Temporary Occupancy Fee	0.00	0.00	2,000.00	-2,000.00	0.00	-2,000.00	0.00
01-310-3137	Storm Drain Fees	4,000.00	100.00	800.00	3,200.00	0.00	3,200.00	80.00
01-310-3138	ROW Permits and Fees	0.00	0.00	420.00	-420.00	0.00	-420.00	0.00
01-310-3140	Zoning/Annex/Sp. Use Fees	3,500.00	0.00	700.00	2,800.00	0.00	2,800.00	80.00
01-310-3145	Solicitor's Permit	1,000.00	25.00	675.00	325.00	0.00	325.00	32.50
01-310-3150	Overweight Truck Permits	10,000.00	4,775.00	16,325.00	-6,325.00	0.00	-6,325.00	0.00

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10

BUDGETARY JOURNAL ENTRIES - EXPENDITURES

BUDGETARY CONTROL	60	
APPROPRIATIONS - SUPPLIES		60
To record the annual budget for supplies		
Supplies (Expenditures)	10	
Cash		10
To record supplies received and paid for		

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GENERAL LEDGER SUMMARY - EXPENDITURE ACCOUNT

Supplies (Account No. YYY-YY)

Budget	60
Expenditures	-10
Encumbrances	-5
Available Balance	45

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ALLOTMENTS

- Allotments are apportioned appropriations/expenditure budgets.
- Allotment budgetary account is used in addition to the appropriation budgetary account.
- Can provide more accurate budget vs. actual reporting and more meaningful variaances
- Allotment account supersedes appropriation account in controlling expenditures and encumbrances.
  - Use of encumbrances vary

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BUDGETARY JOURNAL ENTRIES - ALLOTMENTS

BUDGETARY CONTROL	60	
APPROPRIATIONS - SUPPLIES		60
To record the annual budget for supplies		
APPROPRIATIONS - SUPPLIES	15	
ALLOTMENTS - SUPPLIES		15
To record first quarter's allotment for supplies		

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BUDGETARY ACCOUNTING - AMENDMENTS AND YEAR-END IMPLICATIONS

- If a budget is amended or amounts transferred, changes are posted in the accounting system.
- Accounting system must be able to differentiate between original amounts and amended amounts.
- Budget amounts have no effect on the measurement of actual revenues/expenditures/expenses for financial reporting purposes.
- In the accounting system, budget entries are effectively reversed at year-end closing process.

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Budgetary Reporting

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BUDGETARY REPORTING IN GENERAL

- Including budget-vs-actual amounts in financial statements is required.
- Actual is presented on budgetary basis.
- Variance columns are optional. If used, headings must be neutral.
- Budgetary reporting requirements differ depending upon whether a CAFR is issued.

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BUDGETARY REPORTING REQUIRED FOR ALL REPORTS

- Reporting is required whether or not a CAFR is issued.
- Original and final budget figures must be presented.
- General and major special revenue funds must be included.
- If there are differences between budgetary-basis actuals and GAAP actuals, a reconciliation must be provided.
- Level of detail presented is function/program.
- May be presented as Basic Financial Statement or RSI, RSI encouraged

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BUDGETARY REPORTING
EXTRA FOR CAFRS

- Supplementary reporting is required for CAFRs.
- Only final budget figures must be presented.
- In general, all governmental funds must be included.
- If there are differences between budgetary-basis actuals and GAAP actuals, no reconciliation need be provided.
- Level of detail presented is the legal level of budgetary control which is defined by the governing body, i.e. fund, department, etc.

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VILLAGE OF NORTH AURORA, ILLINOIS

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended May 31, 2016

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Taxes	$ 7,161,400	$ 7,161,400	$ 7,193,708	$ 32,308
Licenses and Permits	370,800	370,800	830,157	459,357
Intergovernmental	1,755,600	1,755,600	1,733,591	(22,009)
Charges for Services	438,850	438,850	401,447	(37,403)
Fines and Forfeits	132,500	132,500	125,525	(6,975)
Investment Income	55,000	55,000	57,797	2,797
Miscellaneous	2,500	2,500	287	(2,213)
Total Revenues	9,916,650	9,916,650	10,342,512	425,862
EXPENDITURES				
Current				
General Government	2,381,254	2,381,254	2,173,623	(207,631)
Public Safety	5,093,196	5,260,196	5,043,757	(216,439)
Public Works	1,932,422	2,002,422	1,827,836	(174,586)
Total Expenditures	9,406,872	9,643,872	9,045,216	(598,656)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	509,778	272,778	1,297,296	1,024,518
OTHER FINANCING SOURCES (USES)				
Transfers In	-	18,144	18,144	-
Transfers (Out)	(471,725)	(1,070,625)	(1,070,625)	-
Insurance Claim Reimbursement	25,000	25,000	3,248	(21,752)
Total Other Financing Sources (Uses)	(446,725)	(1,027,481)	(1,049,233)	(21,752)
NET CHANGE IN FUND BALANCE	$ 63,053	$ (754,703)	248,063	$ 1,002,766
FUND BALANCE, JUNE 1			6,400,063	
FUND BALANCE, MAY 31			$ 6,648,126	

20

BUDGETARY REPORTING IN EXTREME CASES

- CAFR issued.
- If the legal level of control is at a low level, supplemental budgetary reporting can be voluminous.
- Can produce a separate budgetary compliance report.
- Notes to the financial statements should make reference to the report.
- Supplementary budgetary comparison must still be included in the CAFR.
- Use same level of detail as mandatory comparisons.

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CHAPTER 4

BUDGETS AND

BUDGETARY REPORTING

Budgetary Accounting

A. Budgets have an important control function in the government environment. In the commercial sector, budgets are primarily used as an internal management tool, whereas the budget has both internal and external value in government.

B. Because of the public nature of government monies, parties both inside and outside the government participate in the development of annual operating budgets.

C. In this manner, citizens, taxpayers, governing bodies, government employees and other compete with each other to have scarce government resources allocated to their own preferred government programs.

D. Budgets can be developed based on several theories (e.g., zero-base) or length of time (e.g., project length) and the discipline has no body of generally accepted standards. However, based on the legal status of the budget and the importance of demonstrating legal compliance, budgets play a significant role in governmental accounting and financial reporting. The GASB Codification, Section 1700, specifically states that budgetary compliance is a paramount consideration in government.

E. Annual appropriated (and/or operating) budgets are the primary means by which most of the financing, acquisition, spending and service-delivery activities of government are controlled legally.

   1. The use of annual operating budgets usually is prescribed by state law. Even where not required by law, however, annual operating budgets are essential to sound financial management and should be adopted by every government.

      a. ILCS require governments to use one of two methods for adopting a budget, the Appropriation act or the Budget Act.

         1) The appropriation act requires adoption of an appropriation ordinance within the first three months of the start of the covered fiscal year.

         2) The budget act requires appointment of a budget officer and adoption of a budget prior to the start of the covered fiscal year.

         3) Only the governing board can legally amend the appropriation under the appropriation act. Under the budget act, the budget officer, depending on the degree of authority granted, can amend the budget.

b. Many governments following the appropriation act also adopt a working budget in amounts less than the legal appropriation.

2. The annual operating budget should be viewed both as a:

a. Collection of separate legal budgets for individual funds that provides authority to spend monies.

b. Comprehensive planning and control device for the government as a whole.

3. Legal authorization for the spending of individual debt service and capital projects funds sometimes is provided indirectly by governing body approval of bond ordinances, intergovernmental grant agreements and special assessment rolls.

F. Once adopted, a government's annual operating budget(s) is formally enacted into law through the passage of an appropriations act or ordinance. It thus becomes the legal authority for all government spending. It establishes spending limits that cannot be exceeded legally and spending mandates.

G. Because of these spending limits, the GASB Codification, Section 1700.110, recommends the formal integration of budgetary accounts into the general ledgers of governmental funds.

1. The GASB Codification, Section 1700.119, describes formal budgetary integration as <u>essential</u> for general and special revenue funds.

2. Formal budgetary integration often is confusing to persons unfamiliar with governmental accounting, but it need not be so.

a. <u>Budgetary</u> accounts report estimated amounts. They are thus quite different from <u>actual</u> accounts, which report real revenues, expenditures, assets, liabilities and fund equity amounts.

b. Budgetary accounts are used to record the legally adopted annual operating budget(s).

c. Budgetary accounts are recorded in the general ledger to facilitate control over government revenues and expenditures during the year.

d. Budgetary accounts are distinguished from general ledger accounts with the use of capital letters (e.g., APPROPRIATIONS).

e. In general, amounts are recorded in budgetary accounts in the opposite direction (debit vs. credit) from their general ledger counterparts. Encumbrances are the exception to this rule.

3. Sample journal entries are included in the GAAFR (2012) on pages 430-434.

4. Special combined revenues/estimated revenues ledgers are used to provide management with convenient access, during the budget period, to information on the status of revenues actually realized compared to estimated revenues (page 430).

   a. These ledgers are considered subsidiary revenue ledgers.

   b. In effect, this type of combined ledger format merely combines the budgetary account ESTIMATED REVENUES and the actual account revenues on a single page.

   c. The addition of an unrealized revenues column provides management with a convenient, ongoing visual indication of the amount of still unrealized revenue.

   d. The combined ledger format also facilitates the convenient preparation of interim budgetary comparison financial statements.

   e. Recording estimated revenues is particularly important for more volatile revenue sources (e.g., sales taxes).

5. Special combined expenditures and encumbrances/appropriations ledgers are used to provide management with convenient access, during the budget period, to information on the status of actual expenditures and encumbered amounts compared to appropriations (page 430).

   a. These ledgers are considered subsidiary expenditure ledgers.

   b. In effect, this type of combined ledger format merely combines the budgetary account APPROPRIATIONS and the actual accounts encumbrances and expenditures on a single page.

   c. The addition of an unencumbered balance (the balance available) column provides management with a convenient, ongoing visual indication of the amount of the appropriation balance still available.

6. If the legally adopted budget is not amended, budgetary account balances remain unchanged until the end of the accounting period.

   a. If the budget is amended, appropriate revisions are posted to the affected budgetary accounts. However, the original budget needs to be maintained as well for financial reporting purposes.

   b. When their interim managerial control purposes are served, the balances of budgetary accounts are eliminated in the process of closing the books at year end by reversing the entry(ies) that recorded them.

c. The formal integration of budgetary accounts into the general ledger affects internal management decision making during the year and the form and content of interim budgetary comparison financial statements.

d. Budgetary accounts have no effect on the measurement of actual revenues and expenditures or the reporting of actual results of operations in the annual GAAP financial statements.

7. Some governments employ an allotment system as an element of formal budgetary integration.

a. Under such a system, each annual appropriation is divided into component parts designated for expenditure during a period of time shorter than a year--usually a quarter or a month.

b. An ALLOTMENTS budgetary account is used in addition to the APPROPRIATIONS budgetary account.

c. An entry is made at the beginning of each allotment period debiting APPROPRIATIONS and crediting ALLOTMENTS for the portion of the appropriation allotted to the period.

d. Subsequent expenditures and encumbrances then are controlled by the ALLOTMENTS account rather than by the APPROPRIATIONS account.

e. It is also possible, particularly in very small governments, to facilitate appropriate budgetary control through the use of a simple file of outstanding purchase orders.

1) When a particular purchase is proposed, this file is checked to determine whether any encumbrances are outstanding against the relevant appropriation.

2) If so, no commitment can be made unless the unencumbered balance is sufficient to cover the proposed purchase.

Budgetary Reporting

A. The requirements for budgetary reporting (i.e., comparing actual amounts with budgeted amounts) differ depending upon whether a government issues a CAFR or not.

   1. Budgetary reporting is always required (mandatory) for the general fund and major special revenue funds.

      a. This reporting may be in the basic financial statements or required supplementary information (RSI).

      b. The GFOA recommends that budgetary information be presented as a basic financial statement.

   2. If a government issues a CAFR, the government must report *supplementary* budgetary information for each *governmental fund* with a legally adopted annual or biennial budget. No supplementary budgetary comparison is required for capital projects funds with project-length budgets.

B. There are similarities between mandatory and supplementary comparisons.

   1. Both must present the final amended budget.

   2. Both must present actual expenditures in accordance with the basis of budgeting.

   3. Both *may* present a variance column for the difference between the two. Neutral terms should be used to describe variances (e.g., over/under).

C. There are differences between mandatory and supplementary comparisons.

   1. Supplementary information must be presented in sufficient detail to demonstrate compliance with the legal level of control. (In cases where such disclosure would cause the report to be very voluminous, a separate budgetary report may be issued instead. If a separate budgetary report is issued, the notes to the financial statements should make reference to the report. Even if a separate budgetary compliance report is issued, a government issuing a CAFR is required to provide supplementary budgetary comparisons at the level of detail used for the mandatory budgetary comparisons.) Mandatory comparisons may present information at a higher level (e.g., function or program level).

   2. Mandatory comparisons must present the original budget.

   3. Mandatory comparisons must include a reconciliation between the basis of budgeting and GAAP, if there are differences.

D. The legal level of budgetary control is the level at which a government's management may not reallocate resources without approval from the legislative body. The legal level of budgetary control may include any of the following.

1. Fund (general fund).

2. Function (public safety).

3. Department (fire department).

4. Activity (prevention).

5. Object (personnel services).

6. Sub-object (full-time salaries).

INTERMEDIATE GOVERNMENTAL ACCOUNTING

DEBT SERVICES FUNDS AND

LONG-TERM DEBT

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DEBT SERVICE FUNDS

- When to use
  - Accumulation of resources restricted, committed or assigned to pay principal and interest on general long-term debt related to governmental activities
- Required by GAAP
  - Legally required (e.g., bond ordinance)
  - Accumulating resources
    - Sinking fund

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DEBT SERVICE FUNDS

- Minimum number of funds principal
  - Bond indenture
  - Accounting versus reporting
- Potential problem if not tracked by issue
  - Disposition of residual or other balances when bonds are paid off
  - Correct classification of fund balance
    - Restricted
    - Unrestricted

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DEBT SERVICE FUNDS

- Current financial resources measurement focus
  - Current Assets
  - Current Liabilities
- Modified Accrual Basis of Accounting
- Revenues – measurable and available
- Expenditures – when due (matured and payable)

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DEBT SERVICE FUNDS

- Property tax revenue
  - Measurable, period intended to finance, available
- Special Service Area Tax
  - Levied annually
- Special Assessment
  - Levied (assessed) once, billed annually
- Other taxes/shared revenues/grants
  - Utility, Sales, Income

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DEBT SERVICE FUNDS

- Debt that your government issued in its name that is being repaid by others, other than conduit debt or no commitment debt
  - Receivable
  - Unavailable Revenue/Unearned
    - Deferred inflow
    - Revenue when collected
  - Entity-wide level
    - Revenue at inception of agreement
    - Restricted net position

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DEBT SERVICE FUNDS

- Principal and Interest Expenditure recognition
  - When Due
    - Matured and payable
    - Not when transferred to paying agent
    - Government primarily liable until paid to bondholders

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DEBT SERVICE FUNDS

- Principal and Interest Expenditure recognition
- Exception to the rule
  - Payment due shortly after year end
  - Can accrue at year end
  - Cash with paying agent

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DEBT SERVICE FUNDS

- Cash with paying agent

Cash with paying agent	110	
Cash		110

- Optional entry (budget driven)

Expenditure principal	100	
Expenditure interest	10	
Bonds payable		100
Interest payable		10

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DEBT SERVICE FUNDS

- General long-term debt conversion fund (if optional entry made in the debt service funds)

Bonds payable	100	
Expenditure principal		100

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DEBT SERVICE FUNDS

- Fund balance reporting
  - GASB Statement No. 54
- Flow of funds determines source of what is left in fund balance
  - Positive change in fund balance
    - Restricted
    - Committed
    - Assigned

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- No longer reported as a column on basic financial statements
  - Old (Pre GASB S-34) reporting model
- Maintain on general ledger
  - Conversion of governmental funds to governmental activities
  - Preparation of notes to the financial statements
- Both balance sheet accounts and income statement accounts (interactive)

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WHERE TO REPORT LT DEBT

- Which fund or activity to report in
  - Depends on where repayment is coming from
    - Governmental fund revenue stream
      - Governmental Activities (GA)
      - GLTDAG
    - Enterprise fund revenue stream
      - In the enterprise fund/business type activities
    - Governmental fund revenue stream but produces a enterprise fund capital asset
      - Debt in GA, capital asset in enterprise fund
      - Impact on net investment in capital assets

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- Good debt versus bad debt
  - Good debt
    - Produces capital asset owned by the issuer (and reporter) of the debt
  - Bad debt
    - Produces capital asset owned by others
    - Does not produce capital asset
  - Net Investment in Capital Assets
    - Complex calculation

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- Used to record governmental fund long term liabilities
  - General Obligation Debt
    - Bonds
    - Debt Certificates
    - Others
  - General Obligation Alternate Revenue Source
    - Backed by GO if alternate revenue source is insufficient

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- Used to record governmental fund long term liabilities (continued)
  - Revenue Bonds
    - Limited obligation debt
      - Payable solely from limited revenue streams
    - TIF
    - Business Districts
    - Sales tax revenue bonds
  - Lease payable
  - Accrued Interest

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16

GENERAL LONG TERM DEBT ACCOUNT GROUP

- Used to record governmental fund long term liabilities (continued)
  - Long-term operating liabilities
    - Claims and judgments
      - Self-insured liabilities
    - Compensated absences
    - Landfill closure costs
    - Net Pension Liability
    - Net OPEB Obligation

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- GLTDAG should not include
  - Interfund payables
  - RANS and TANS
  - Other forms of short term debt

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18

GENERAL LONG TERM DEBT ACCOUNT GROUP

- Obligations are generally recorded at face
  - Issuance costs
    - Includes underwriters discount
    - Period cost
    - GASB Statement No. 65
  - Market related discounts (premiums)
    - Amortize to interest expense

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- Deep discount debt
  - Capital appreciation bonds
    - 75% rule
    - Proceeds received
    - Accrete interest annually
      - Impact on NICA

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GENERAL LONG TERM DEBT ACCOUNT GROUP

- Interest payable is not accrued in a governmental fund at year end. Instead accrued interest is recorded in the general long-term debt conversion fund

Interest expense	10	
Interest payable		10

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21

GENERAL LONG TERM DEBT ACCOUNT GROUP

- Current versus long term
  - Display on statement of net position
  - Disclosure in notes
- Change in operating liabilities
  - Track by function for conversion purposes

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ADVANCE REFUNDINGS

- Current refunding
  - 90 Days before call date
- Advance refunding
  - Legal defeasance
  - In-substance defeasance
- Former FASB S76 criteria
  - Irrevocable escrow
  - NPV of future payments
  - Invested only in US Government securities (SLGS)
  - Certain to meet debt service

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ADVANCE REFUNDINGS

- Meet requirements
  - Remove escrowed assets and refunded debt from financial statements
  - Sample journal entry (page 5-8)
    - Paid from proceeds of new debt
      - Other financing use
    - Paid from existing resources
      - Expenditure

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GLTDAG	DR	CR
Refunding bonds issued (is)	XXX	
Payment to escrow agent (is)		XXX
Discount on bonds issued (is)		XXX
Premium on bonds issued (is)	XXX	
Bonds Payable (bs)	XXX	
Refunding Bonds payable (bs)		XXX
Unamortized gain (loss) on refunding (bs)	XXX	XXX
Unamortized Discount (bs)	XXX	
Unamortized Premium (bs)		XXX
Debt service fund		
Other financing use - payment to refunded bond escrow agent	XXX	
Expenditures – issuance costs	XXX	
Other financing source – Refunding bonds issued		XXX
		XXX
OFS (U) Bond premium (discount)	XXX	XXX

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ADVANCE REFUNDINGS

- Application of GASB S-23
  - Accounting gain or loss at entity-wide
    - Calculating
      - Reacquisition price less the net carrying amount of the old debt
    - Reporting
      - Accrual basis financial statements
      - Amortize over shorter of refunded or refunding bonds life

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ADVANCE REFUNDINGS

- Application of GASB S-23
  - Disclosures
    - Cash flow Difference
    - Economic gain (loss)
      - Present value of the cash flow differences

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CONDUIT DEBT

- GASB Interpretation No 2
  - Different than no commitment (GASB S-6)
  - Debt in governments name
  - Limited obligation revenue bonds, not obligated in any manner for repayment
  - IDRBs and IRBs
  - Note disclosure required

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29

GASB STATEMENT NO. 48

- Government *receives proceeds* in exchange for the rights to future cash flows from:
  - Receivables
    - Delinquent property taxes
    - Delinquent parking fines
    - Mortgages
    - Student loans
  - Future revenues
    - User fees
    - **Pledge for debt service**

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30

GASB STATEMENT NO. 48

- Does not apply to a pledge of "full faith and credit" (e.g., general obligation (GO) debt)
- Does apply to GO alternate revenue source bonds and revenue bonds that contain pledges of future revenue streams for the repayment of the debt

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GASB STATEMENT NO. 48

- Disclosures
  - As long as the bonds are outstanding
    - Specific revenue pledged and amount of total pledge (debt service to maturity)
    - Purposes of the debt secured by the pledged revenue
    - Terms of the pledge (period covered)
    - Amount of pledged revenue stream to the total of that revenue stream
    - Coverage (revenue pledged for period vs principal, interest paid for period)

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GASB S-86 *Certain Debt Extinguishment Issues*

- GASB issued Statement 86 to establish guidance for certain issues related to debt extinguishments, primarily in-substance defeasance of debt
- Effective date is periods beginning after June 15, 2017.

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33

GASB S-86 In-Substance Defeasance Using Only Existing Resources

- Debt is considered defeased in substance if only existing resources are used to fund an irrevocable trust that is restricted to owning only essentially risk-free monetary assets
- Recognize the difference between the net carrying amount of the debt and the reacquisition price as a gain or loss in the period of defeasance (*unlike* advance refundings, which defer and amortize the difference)

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34

GASB S-86 In-Substance Defeasance Using Only Existing Resources (continued)

- Notes to the financial statements:
  - Describe the transaction in the period it occurs (like refundings)
  - Disclose remaining outstanding balance in each period the defeased debt remains outstanding (may combine with refunded amount)

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GASB S-86 Note Disclosure on Substitution Risk

- Applies to *all* in-substance defeasances
- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government should disclose in the notes to the financial statements:
  - In the period of the defeasance: the fact that substitution is not prohibited
  - In subsequent periods: the amount of debt

35

GASB S-88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

- GASB issued S-88 to improve the information that is disclosed in the notes related to debt and to clarify which liabilities to include when disclosing debt information
- The existing standards have provided guidance for general obligation debt issued by governments, but lacked guidance on other types of debt issued or incurred by governments.
- Effective date is periods beginning after June 15, 2018

36

GASB S-88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

- Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale
- Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount (principal) that is fixed at the date the contractual obligation is established

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GASB S-88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

- Amount of unused lines of credit
- Assets pledged as collateral for debt
- Terms specified in debt agreements related to significant
  - Events of default with finance-related consequences
  - Termination events with finance-related consequences
  - Subjective acceleration clauses

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39

GASB S-88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

- In notes to financial statements, a government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt.

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Tax Increment Financing (TIF) Debt

- Bonds and/or promissory notes issued in the name of the government/TIF
- Payable solely by incremental taxes in TIF District
  - No other revenue stream is securing the debt
- Does the issuing government record a liability upon issuance of the bonds/promissory notes
  - Yes, the government created the TIF and the revenue stream
  - Record the liability, note disclose the limited nature of the obligation
  - Not a contingent liability

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40

DEBT SERVICE FUND AND THE GENERAL
LONG-TERM DEBT ACCOUNT GROUP
(LONG-TERM DEBT PAYABLE
FROM GOVERNMENTAL ACTIVITIES)

Debt Service Fund and the General Long-Term Debt Account Group (Long-term debt payable by governmental activities)

A. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest for liabilities reported in governmental activities.

   1. Debt service funds should be used to account for and report resources if legally mandated.

   2. Financial resources that are being accumulated for principal and interest maturing in future years should be reported in debt service funds.

B. Although debt service funds may be useful in many circumstances, they are only required by generally accepted accounting principles (GAAP) if they are legally required or if the government is accumulating resources for principal and interest payments maturing in future years (GASB S-54, paragraph 34).

   1. For this purpose, an accumulation of resources at the end of the fiscal year for debt service payments due early in the following year does <u>not</u> constitute an accumulation requiring the establishment of a debt service fund.

   2. Debt service funds are required, however, if sinking funds contain resources sufficient to pay more than one year's principal and interest (e.g., debt service reserve).

C. There is no GAAP requirement that all payments of obligations reported in the general long-term debt account group (GLTDAG) be reported in a debt service fund.

   1. Governments should strive to simplify their financial reporting when consistent with legal requirements and management needs.

   2. When governments budget capital lease or other long-term debt payments in the general fund, it is better to report the expenditure in the general fund as well, rather than to report a transfer to a debt service fund.

   3. Transferring funds to a debt service annually in the amount of principal and interest payments matured and payable does not require the use of a debt service fund. Instead, the debt service payment should be accounted in the fund making the transfer (usually the general fund).

D. The number of funds principle supports using the least number of individual debt service funds possible.

   1. Bond indenture provisions often require the establishment of a number of different "funds" for each separate bond issue.

2. The goal of such bond indenture provisions typically is to ensure appropriate accounting, and need not affect an entity's financial reporting.

3. Accordingly, there typically is no reason to establish a separate debt service fund for each bond issue for financial reporting purposes, provided that an entity's accounting system is able to gather and maintain the data needed by bondholders. Often accounts and subaccounts are used for this purpose rather than funds.

E. Debt service funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

1. Revenues in debt service funds are recognized when they are both measurable and available.

a. Property taxes are the most common source of revenues for debt service funds. Receivables/revenues should be recorded based on the guidance contained in Chapter 4.

b. Home rule (and in certain instances, non-home rule) governments sometimes issue bonds to finance projects for other governments and other entities (developers), regardless of whether or not they are a component unit of the government.

1) An intergovernmental agreement (contract) with the other party requires payments to be made to the issuing government in amounts to repay the principal and interest on the outstanding bonds.

2) A receivable, for the principal amount (net present value) of the agreement, should be recorded by the issuing government in the debt service fund, offset by unavailable revenue, a deferred inflow of resources if it does not meet the government's definition of available for this revenue stream.

3) Revenue would be recorded as payments are received and the receivable and unavailable revenue would be reduced annually by the amount of principal repaid, unless received in advance of when due.

4) Failure to record this receivable would have a significant negative impact on unrestricted net assets of the issuing government at the entity-wide level.

2. The general rule is that expenditures for debt service principal and interest payments are only recognized <u>when</u> <u>due</u>. At the entity-wide level, interest is expensed when incurred in accordance with the economic resources measurement focus/accrual basis of accounting.

a. When due means when matured and payable by the paying agent, not when cash is transferred to the paying agent (especially if this crosses a fiscal year end).

b. Typically governments transfer resources to debt service funds immediately prior to payment. The "when due" rule was designed to avoid reporting a debt service fund deficit in such instances.

c. For example, assume that a government has a debt service payment due one month following the close of the fiscal year. Further assume that a transfer will be made from the general fund to the debt service fund 15 days after the close of the fiscal year to provide the resources needed to make the debt service payment. If full accrual accounting were used, the debt service fund would report a deficit for five months of accrued interest on the debt at fiscal year end. Using the "when due" rule, however, no such deficit is reported.

3. When resources are accumulated in a debt service fund for payments due early in the next year, the government has the option of recognizing the related expenditures for principal and interest payments when the resources are accumulated rather than when they are due.

a. This option is designed to avoid reporting a surplus in the debt service fund for transfers made immediately before the end of the fiscal year for payments due early in the subsequent year.

b. For example, assume that a government has a debt service payment due 1 day following fiscal year end (e.g., May 1 for an April 30th year end). Further assume that a transfer is made from the general fund 2 days prior to the close of the fiscal year in anticipation of this payment. If the early recognition option is not used, the debt service fund will report a surplus equal to the principal and interest payment. If the early recognition option is used, however, the resources accumulated for principal and interest would be offset by the related liabilities, eliminating the potential problem of a temporary surplus. The appropriate journal entries for this option would be as follows:

	DR	CR
Debt service fund		
Cash with paying agent	XXX	
Cash		XXX
Expenditure - debt service principal	XXX	
Expenditure - debt service interest	XXX	
Bonds payable		XXX
Interest payable		XXX
GLTDAG		
Bonds payable	XXX	
Principal paid		XXX

c. This option should only be taken when it can be applied consistently. Consistency requires that 1) accumulations in the debt service fund be made prior to the close of the fiscal year each year and 2) the option be used every year.

d. Cash paid to the paying agent before year end for payments due shortly after year end would be reclassified from cash to cash with paying agent.

1. The liability for principal and interest must still be reported in the government's financial statements as the government is still primarily obligated for the debt service until the paying agent pays the bond holders.

3. Fund balance in a debt service fund needs to be segregated into the components required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

a. Funds remaining at the end of the fiscal year from a restricted revenue stream (e.g., debt service property tax levy) would be reported as restricted fund balance.

b. Funds committed to paying debt service by formal action of the highest level of decision making authority are reported as committed fund balance.

c. Funds from other sources such as interest earnings on invested funds if not restricted by the bond ordinance are assumed to be assigned for debt service.

d. Transfers in from other funds are generally only "assigned" for debt service unless transferred to comply with or meet a specific debt covenant.

e. The spending flow assumption adopted by the government will impact the classification of the ending balances.

F. The general long term debt account group (GLTDAG) is no longer required to be reported as part of the basic financial statements of governments.

1. However, information regarding the general long term debt transactions of the governmental funds must be captured for converting the governmental fund financial statements to the governmental activities at the entity-wide financial statements and for disclosure in the notes to the financial statements.

2. Therefore, a general long term debt account group should be recorded in the general ledger of all governments, where long-term obligations related to governmental funds exist.

G. The GLTDAG may include the following liabilities which can be classified as good debt or bad debt. Good debt is debt that produces a capital asset for the government. Bad debt is debt that produces a capital asset for another government or entity (e.g. TIF debt) or debt that produces no capital asset (e.g., claims and judgments,):

1. General obligation indebtedness (e.g., bonds, installment contracts, certificates of participation, debt certificates) that will not be financed by proprietary or fiduciary funds.

2. Revenue bonds (including limited tax revenue bonds, tax increment financing bonds/notes and alternate revenue source bonds) that will not be financed by proprietary or fiduciary funds.

3. The portion of claims, judgments, landfill closure and post closure costs and compensated absences attributable to governmental funds that is <u>not</u> matured and payable as defined by GASB Interpretation No. 6 (see Sessions 3 and 4).

4. Capital leases to be financed by governmental funds.

5. Net Pension Obligations of the general government (Net Pension Liability once GASB Statement No 68 is implemented);

6. Bond anticipation notes (BANS) meeting the following criteria:

   a. As of balance sheet date, the government intends to replace them by long-term debt (i.e., more than 12 months later than balance sheet date).

   b. The government has demonstrated the ability to refinance the BANS, typically by issuing replacement debt before the issuance of the financial statements.

H. The GLTDAG ordinarily should <u>not</u> include the following as liabilities:

1. The unfunded actuarial accrued liability for pension benefits,

2. Interfund payables,

3. Revenue anticipation notes (RANS) and tax anticipation notes (TANs), and grant anticipation notes (GANS).

I. Normally, obligations are reported in the GLTDAG at their face value, with no adjustment for discounts or premiums, using the following entry which is intended to make the GLTDAG interactive for conversion to the entity-wide statements.

<u>GLTDAG</u>		
Bonds issued (income statement)	X	
Bonds payable		XXX

J. However, GASB Statement No. 34 requires that market related discounts (premiums) be capitalized and amortized over the life of the debt issue at the entity-wide level (albeit on a prospective basis). NOTE GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*, requires issuance costs to be expensed in the period incurred and no longer capitalized and amortized (FYE December 31, 2013 and thereafter).

1. Recording the bonds at face value in the GLTDAG, with additional entries for the issuance costs and discounts (premiums) would provide the information for conversion to the entity-wide financial statements.

GLTDAG	DR	CR
Bonds issued (is)	XXX	
Discount on bonds issued (is)		XXX
Premium on bonds issued (is)	XXX	
Issuance costs (is)		XXX
Bonds payable (bs)		XXX
Unamortized Issuance Costs (bs)	XXX	
Unamortized Discount (bs)	XXX	
Unamortized Premium (bs)		XXX

2. The annual amortization of the premium/discount and issuance costs would be recorded as an expense (interest) in the GLTDAG as it is reported at the governmental activities entity-wide level only, not at the governmental fund level.

3. At the end of the fiscal year, accrued interest for conversion to the entity-wide statements could be recorded as follows:

GLTDAG	DR	CR
Interest expense	XXX	
Interest payable		XXX

   By consolidating interest paid on the governmental fund fund financial statements with interest expense adjustment from the GLTDAG, interest paid is converted to interest expense for reporting on the statement of activities.

K. Once exception to the rule is recording deep discount debt (e.g., capital appreciation bonds) upon issuance.

   1. Deep discount debt is defined as debt where the issuer receives less than 75% of par (face) value upon issuance.

   2. Capital appreciation bonds (CABs) do not pay interest semi-annually or annually. Instead, the interest "accretes" annually to the principal balance and is paid upon maturity.

   3. CABs should originally be reported in the GLTDAG at the amount of proceeds received.

   4. The annual accretion of interest would be recorded as an expense and payable annually in the GLTDAG, not in a governmental fund.

L. Obligations not qualifying for inclusion in the GLTDAG (e.g., RANS, TANS, and BANs not meeting the criteria outlined above) must be reported as direct fund liabilities.

M. Once an obligation is reported in the GLTDAG, it generally remains there until due; the current portion of GLTDAG obligations is normally <u>not</u> reclassified as fund debt. An exception occurs, however, when the early expenditure recognition option is used.

1. At the entity-wide level, debt must be classified between current (due within one year) and long-term on the statement of net position.

2. Additional accounts in the general ledger for the GLTDAG could capture this information.

N. Governments sometimes choose to refund GLTDAG indebtedness before it is due, often to take advantage of more favorable interest rates. When such a refunding occurs prior to the call date on the existing indebtedness, the transaction is known as an <u>advance refunding</u>. A refunding occurring at or near the call date (issuance of new debt up to 90 days before the call date) days is known as a <u>current</u> refunding. If certain conditions are met, the advance refunding may cause the original debt issue to be "defeased" (i.e., the liability and related assets are removed from the financial statements), even though the government may still remain the primary obligor on the indebtedness. Two types of defeasances are defined in GASB S-7.

1. A legal defeasance occurs when debt is legally satisfied based on certain provisions in the debt instrument.

   a. This type of defeasance of debt usually requires the government to deposit the full cash refunding value of the old debt (i.e., principal and interest) into escrow.

   b. Therefore, the government ceases to be the primary obligor for the debt. Legal defeasances are often used to negate restrictions contained in bond covenants.

2. An in-substance defeasance occurs when the requirements of Statement of Financial Accounting Standards (SFAS) No. 76, *Extinguishment of Debt* are met.

   a. This includes depositing funds into an irreversible escrow held by an independent third party.

   b. The amount deposited into escrow is the net present value of the future principal and interest payments.

c. These funds can only be invested in U.S. Government securities or securities backed by the U.S. Government. Moreover, the maturities of the investments in escrow must be certain and sufficient to meet all principal and interest payments on the refunded debt.

d. The government remains the primary obligor on the refunded bonds until retired. However, the assets in escrow and refunded bonds can still be removed from the financial statements.

3. In-substance defeasances are often used to obtain the benefits of lower interest rates or to restructure debt service payments.

4. The appropriate journal entries for an advance refunding resulting in the defeasance of debt are as follows:

GLTDAG	DR	CR
Refunding bonds issued (is)	XXX	
Payment to escrow agent (is)		XXX
Discount on bonds issued (is)		XXX
Premium on bonds issued (is)	XXX	
Bonds Payable (bs)	XXX	
Refunding Bonds payable (bs)		XXX
Unamortized gain (loss) on refunding (bs)	XXX	XXX
Unamortized Discount (bs)	XXX	
Unamortized Premium (bs)		XXX

Debt service fund	DR	CR
Other financing use - payment to refunded bond escrow agent	XXX	
Expenditures – issuance costs	XXX	
Other financing source – Refunding bonds issued		XXX
		XXX
OFS (U) Bond premium (discount)	XXX	XXX

5. Only resources placed in escrow from the proceeds of refunding bonds may be classified as an "other financing use - payment to refunded bond escrow agent. Payments to the escrow agent from other sources (e.g., sinking funds, cash on hand) are reported as expenditures.

6. GASB S-34 requires the application of GASB S-23 to refunding transactions in governmental activities at the entity-wide level.

   a) S-23 requires the calculation of an accounting gain (loss) on the refunding transaction.

      1) The accounting gain or loss is the difference between the reacquisition price and the net carrying amount of the old debt.

      2) The reacquisition price is the amount placed in escrow in an advance refunding or the amount of principal called (plus any call premium) in a current refunding.

3) Net carrying amount of the old debt is the par value of the refunded bonds adjusted for any unamortized premium or discount.

b) The gain or loss on refunding is capitalized on the statement of net position and reported as a deferred outflow of resources and amortized into interest expense over the shorter of the remaining useful life of the refunded bonds or the refunding bonds.

c) The gain or loss should be recorded in the GLTDAG to ease the conversion of the governmental funds to the entity-wide presentation.

O. GASB Interpretation 2, *Disclosure of Conduit Debt Obligations*, provides additional guidance for defining no commitment debt.

1. GASB I-2 defines conduit debt as “Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.”

2. GASB I-2 requires the following disclosures to be provided:

   a. A general description of the conduit debt transactions.

   b. The aggregate amount of all conduit debt obligations outstanding, if determinable.

   c. A clear indication that the issuer's only obligation for the debt is the resources provided by related leases or loans.

3. Certain conduit debt obligations are currently reported as liabilities on issuers balance sheets with related assets also recognized. This Interpretation does not alter that accounting treatment or the treatment of future conduit transactions that are substantially the same as those already reported; nor does it suggest that disclosure is an appropriate substitute for accounting recognition if the substance of the conduit debt transaction is the acquisition of an asset and the incurrence of a liability.

INTERMEDIATE GOVERNMENTAL ACCOUNTING

CAPITAL PROJECTS FUNDS
AND
GENERAL CAPITAL ASSETS
ACCOUNT GROUP

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CAPITAL PROJECTS FUNDS

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays and acquisition or construction of capital assets, except those financed by proprietary funds.
- Required to be used when legally mandated (bond ordinance)
- Number of funds (Arbitrage implications)
- MFBA
  - Revenues
    - Bond proceeds
    - Capital grants – (Typically if qualifying expenditures met, or receivable if funds not received)
    - Committed or Restricted Revenue Sources
  - Expenditures
    - Retainage payable
    - Construction in progress recorded in GCAAG

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CAPITAL PROJECTS FUNDS

- Budgeting implications
  - Project-length budgets (multiple years)
  - Annual budgets (If CAFR issued, supplementary budgetary comparison should be included.)
  - Capital budget (annual vs. 1st year of CIP budget)

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CAPITAL PROJECTS FUNDS ONGOING REVENUE SOURCES

- Account for on-going revenue sources restricted, committed or assigned for capital projects.
- Pay-as-you-go financing of capital projects (especially important for non home rule governments) that require voter-approved bonding authority
- Used to avoid significant distortions in operating or General Fund expenditures and outlays in order to provide better YOY comparison

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CAPITAL PROJECTS FUNDS
NORTH AURORA CAPITAL PROJECTS FUND

Typical Revenues

$1,000,000 0.50% Non-home rule sales tax (Restricted)

$ 700,000 3% Utility/Telecommunications Tax (Committed)

$ 200,000 Traffic/Capital Impact Fees and Grants

$1,900,000 Annually

Typical Expenditures

Road Improvements, Village Facility Improvements, Right-of-Way Improvements, etc.

$1,500,000 to $2,500,000 Annually

Other Capital Funds Established (Police Station)

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CAPITAL PROJECTS FUNDS

Other Examples?

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CAPITAL PROJECTS FUNDS OTHER FINANCING SOURCES: ISSUANCE OF LONG-TERM DEBT

- If debt issued at par, record face amount of debt as OFS.
- If debt issued at premium, record face amount plus premium as OFS (separately).
- If debt issued at discount, record as follows:

	DR	CR
Cash	4,540	
Expenditures – Issuance Costs	150	
Other Financing Use – Bond Discount (OID)	10	
Other Financing Source – Issuance of Bonds		4,700

- Record on the issue date
  - Proceeds not received, receivable at year end

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CAPITAL PROJECTS FUNDS OTHER FINANCING SOURCES: ISSUANCE OF LONG-TERM DEBT

- Exceptions to the rule:
  - CABs (capital appreciation bond) (record amount of proceeds received)
  - Special assessment (service area) bonds
    - Government obligated in some manner – same as other debt (OFS)
    - Government not obligated in some manner, record revenue – contribution from property owners (not an OFS)

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LIABILITIES:
RETAINAGE PAYABLE

- An amount that is due to a vendor for work completed under a contract which is withheld to compel the vendor's satisfactory completion of work.

	DR	CR
3/1/2017		
Expenditures	40	
Cash		40
4/30/2017		
Expenditures	10	
Retainage Payable		10

- Retainage Payable Included in Capital Asset Additions

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GENERAL CAPITAL ASSET
ACCOUNT GROUP

- Account for capital asset activity of governmental funds for reporting at the entity-wide level
  - Proprietary and fiduciary activity should remain in those funds
- Interactive under GASB S-34
- Classification of capital assets
- Depreciable
  - Infrastructure (Immovable, Long-life, Roads, Curb, Sidewalks, Bridges, Street Lights, Storm Sewers)
  - Buildings
  - Vehicles/Equipment

  Non-Depreciable
  - Land and right of way separate from roads
  - Construction In Progress

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GENERAL CAPITAL ASSET ACCOUNT GROUP

- Reporting capital assets (Additions)
  - Used in operations and have a useful life in excess of one year.
  - Purchased or constructed
    - Historical cost
      - Costs to include (ancillary charges)
      - No capitalized interest
    - Estimate historical cost
      - Methodology for estimating
  - Donated capital assets (Capital Contributions)
    - Acquisition value when donated, subdivisions
    - How to value, appraisal, engineer's estimate
    - Tracking of acquisitions during the year (Resolutions Accepting Public Improvements, etc.)

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GENERAL CAPITAL ASSET ACCOUNT GROUP

- Reporting capital assets (Additions)
  - Capitalization threshold
    - Purpose – sound financial reporting, don't set too low
    - Different thresholds different classes of assets
    - Generally on an individual basis
    - 80/20, 90/10 rule
  - Change in capitalization threshold
    - Change in an accounting policy
      - Prior period adjustment
- Not required to capitalize when:
  - Older infrastructure (1980)
  - Collections of art and historical treasures.
  - Immaterial items.

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GENERAL CAPITAL ASSET ACCOUNT GROUP

- Depreciation
  - Fund level – never
  - Entity-wide – always – by function
  - Straight-line most common approach
  - Useful life to match expectancy of asset's life
- Depreciation not required when:
  - Capital asset has an indefinite useful life (Land, ROW, historical treasures)
  - Infrastructure accounted for using the modified approach.
  - Construction in progress

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CAPITAL ASSET NOTE DISCLOSURES

- Each asset class
  - Beginning balances.
  - Capital acquisitions.
  - Sales and dispositions.
  - Ending balances.
- Depreciable and nondepreciable assets reported separately.
- Accumulated depreciation reported separately by asset class.
- Governmental activities and business activities reported separately.
- Depreciation expense for each function or program.

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14

General Ledger

Chart of Accounts List

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Account Number	Description	Account Type	ALFRE	Budget
95-000-1900	Land	Capital Assets	A	0.00
95-000-1901	Equipment	Capital Assets	A	0.00
95-000-1904	Buildings	Capital Assets	A	0.00
95-000-1905	Right Of Ways	Capital Assets	A	0.00
95-000-1906	Infrastructure	Capital Assets	A	0.00
95-000-1921	Sewer Lines	Capital Assets	A	0.00
95-000-1950	Construction In Progress	Capital Assets	A	0.00
95-000-1955	Public Impv Const in Progress	Capital Assets	A	0.00
95-000-1961	Accml Depreciation-Equip	Current Liabilities	L	0.00
95-000-1964	Accml Deprec - Buildings	Current Liabilities	L	0.00
95-000-1966	Accml Deprec -Infrastructure	Current Liabilities	L	0.00
95-000-1981	Accml Deprec - Sewer Lines	Current Liabilities	L	0.00
95-000-2910	Fund Balance	Fund Balance	F	0.00
95-385-3820	Capital Contributions	Revenues	R	0.00
95-385-3821	Purchases - Gen'l Government	Revenues	R	0.00
95-385-3822	Purchases - Public Safety	Revenues	R	0.00
95-385-3823	Purchases - Public Works	Revenues	R	0.00
95-385-3824	Purchases - Sanitation	Revenues	R	0.00
95-385-3875	Sale of Assets	Revenues	R	0.00
95-490-4851	Deprec Exp - Gen'l Gov't	Expenditures	E	0.00
95-490-4852	Deprec Exp - Public Safety	Expenditures	E	0.00
95-490-4853	Deprec Exp - Public Works	Expenditures	E	0.00
95-490-4854	Deprec Exp - Sanitation	Expenditures	E	0.00

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15

	Beginning Balances	Increases	Decreases	Ending Balances
GOVERNMENTAL ACTIVITIES				
Capital Assets not Being Depreciated				
Land	$ 5,078,947	$ -	$ -	$ 5,078,947
Land Right of Way	22,200,790	-	-	22,200,790
Construction in Progress	-	949,501	-	949,501
Total Capital Assets not Being Depreciated	27,279,737	949,501	-	28,229,238
Capital Assets Being Depreciated				
Buildings	18,042,153	-	-	18,042,153
Vehicles and Equipment	3,383,637	316,990	-	3,700,627
Infrastructure	56,927,889	2,516,177	227,640	59,216,426
Sewer Lines	24,359,250	329,144	-	24,688,394
Total Capital Assets Being Depreciated	102,712,929	3,162,311	227,640	105,647,600
Less Accumulated Depreciation for				
Buildings and Improvements	3,629,879	457,503	-	4,087,382
Vehicles and Equipment	1,787,202	290,609	-	2,077,811
Infrastructure	20,383,978	2,066,935	227,640	22,223,273
Sewer Lines	7,906,211	557,861	-	8,464,072
Total Accumulated Depreciation	33,707,270	3,372,908	227,640	36,852,538
Total Capital Assets Being Depreciated, Net	69,005,659	(210,597)	-	68,795,062
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 96,285,396	$ 738,904	$ -	$ 97,024,300

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16

BUSINESS-TYPE ACTIVITIES				
Capital Assets not Being Depreciated				
Land	$ 476,703	$ -	$ -	$ 476,703
Construction in Progress	-	-	-	-
Total Capital Assets not Being Depreciated	476,703	-	-	476,703
Capital Assets Being Depreciated				
Equipment	53,100	-	-	53,100
Vehicles	19,100	-	-	19,100
Water Treatment Facilities	6,852,559	-	-	6,852,559
Water Towers and Wells	4,788,956	220,297	133,812	4,875,441
Water Lines	23,299,938	306,502	18,238	23,588,202
Total Capital Assets Being Depreciated	35,013,653	526,799	152,050	35,388,402
Less Accumulated Depreciation for				
Equipment	45,480	4,811	-	50,291
Vehicles	19,100	-	-	19,100
Water Treatment Facilities	1,274,242	171,314	-	1,445,556
Water Tower and Wells	2,136,502	123,036	40,953	2,218,585
Water Lines	8,450,692	537,219	18,238	8,969,673
Total Accumulated Depreciation	11,926,016	836,380	59,191	12,703,205
Total Capital Assets Being Depreciated, Net	23,087,637	(309,581)	92,859	22,685,197
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 23,564,340	$ (309,581)	$ 92,859	$ 23,161,900

17

VILLAGE OF NORTH AURORA, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to the governmental activities functions/programs as follows:

GOVERNMENTAL ACTIVITIES	
General Government	$ 243,703
Public Safety	579,683
Public Works	2,194,552
Sanitation	354,970
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 3,372,908

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GENERAL CAPITAL ASSET ACCOUNT GROUP

- For conversion to entity-wide
  - Accumulated depreciation by class (BOY)
  - Purchases by function
  - Depreciation expense by function
  - Gain (losses) on sales/disposals (non cash component)

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19

CAPITAL ASSET AND GCAAG EXAMPLE

Capital Projects Fund

	DR	CR
Expenditure	200	
Cash		175
Retainage Payable		25

GCAAG

	DR	CR
Capital Asset (by class or CIP)	200	
Expenditure (by function, i.e. Public Safety)		200

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CAPITAL ASSET AND GCAAG EXAMPLE

GCAAG

	DR	CR
Depreciation Exp. – General Government	10	
Depreciation Exp. – Public Safety	15	
Depreciation Exp. – Streets and Transportation	15	
Depreciation Exp. – Culture & Recreation	10	
Acc. Dep. – Buildings & Impr.		15
Acc. Dep. – Machinery & Equip.		5
Acc. Dep. – Vehicles		5
Acc. Dep. – Infrastructure		25

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CAPITAL ASSET SALE/DISPOSAL

Governmental Fund

	DR	CR
Cash	50	
Proceeds from sale (disposal) of capital asset		50

Or if traded in

	DR	CR
Expenditure – Capital Outlay	25	
Proceeds from sale (disposal) of capital asset		25

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CAPITAL ASSET SALE/DISPOSAL

GCAAG

	DR	CR
Accumulated Depreciation	80	
Loss on Disposal	10	
Depreciation Expense (if partial year taken)	10	
Capital Asset		100
Gain on Disposal		XX

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23

CAPITAL ASSET IMPAIRMENTS

- An impairment is a significant, unexpected decline in the service utility of an asset.
- To qualify, the decline in service must be:
  - Significant in relation to the asset's current service utility, and
  - Unexpected, and
  - Permanent
- An impairment reduces the carrying value of the asset.
  - Can directly increase accumulated depreciation or
  - Proportionally reduce the reported value of the asset and accumulated depreciation.

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24

CAPITAL ASSET IMPAIRMENTS

- Calculation of the impairment (i.e., reduction in carrying value) depends upon whether the asset will remain in use.
- If asset will no longer remain in use, write down to fair value.
- If asset will continue to be used, write down using one of the following methods:
  - Restoration approach (for physical damage).
  - Service units approach
    - Changes in laws, regulations, or other environmental factors.
    - Technological developments.
    - Change in manner or duration of use.
  - Deflated depreciation replacement cost (for change in manner or duration of use).
- Impairment Examples?

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CAPITAL ASSET IMPAIRMENTS
North Aurora Activity Center Restoration Cost

Significant snow and ice led to structural damage to roof. Building determined not safe for occupancy, insurance claim filed.

- Cost to Restore /Cost of Asset = 39.3%
- 39.3% X Carrying Value of Asset=
  - Impairment Loss of $98,616
  - Reduction of ACD and Book Value

14. CAPITAL ASSET IMPAIRMENT

During the year ended May 31, 2014, the Village incurred an impairment loss of $98,616 due to structural damage in the North Aurora Activity Center. The Village received $68,764 in insurance recoveries related to the impairment. A net impairment loss of $29,852 is included with general government program expenses.

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26

INTERMEDIATE GOVERNMENTAL ACCOUNTING

PROPRIETARY FUNDS

1

PROPRIETARY FUNDS

- Two subtypes:
  - Enterprise funds.
  - Internal service funds.
- Accounting and financial reporting are very similar to the private sector.
- Differ by type of customer.
- Same MFBA.
  - Economic resources measurement focus.
  - Accrual basis of accounting.

2

ENTERPRISE FUNDS

- May be used to report an activity for which a fee is charged to external users for goods or services and desire to measure the total cost of providing a service or activity
  - Total costs may or may not be recovered by the fee.
- Must be used only in certain circumstances:
  - Outstanding debt backed by fees.
  - Laws or regs require that fees be set to recover costs.
  - Pricing policy requires that fees be set to recover costs.
  - Stand-alone public-entity risk pool.
  - State unemployment compensation plan.

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ENTERPRISE FUNDS

- May be optionally used:
  - Public sector universities.
  - Organizations that historically used not-for-profit accounting (e.g., museums and libraries) even if they do not otherwise qualify as enterprise funds.

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ENTERPRISE FUNDS BUDGETARY CONSIDERATIONS

- No requirement to report budget-v-actual comparisons even if a budget is legally adopted.
- Optional reporting is permitted in supplementary information subsection of the CAFR.
- Budgets oftentimes adopted using the current financial resource measurement focus.
  - Capital outlay and debt service principal are expenditures.
  - Interest based on payment due
  - No depreciation.
  - Conversion is then needed.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- All assets, including infrastructure, reported.
  - Remember capital assets donated by developers.
- Depreciable assets must be depreciated.
- Outstanding long-term debt principal must be reported as a liability.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Capitalize interest during construction period and amortized prior to GASB S-89
  - If tax-exempt bond proceeds restricted to the acquisition of specified qualifying assets, capitalize "net" interest expense (i.e., interest expense less interest earned on bond proceeds).
  - Otherwise, just capitalize "gross" interest costs.
- Interest now recognized as expense in period prospectively

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Restricted asset accounts and restricted net position.
  - Typically, these relate to bond covenants.
  - Restricted assets and restricted net position may not be the same amount.
  - Some restricted assets may be offset by a liability.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Components of net position:
  - Net investment in capital assets

    Cap. Assets (BV) + Cap-Related Deferred Inflows
    - Related Principal Amt. of Bonds – Related Deferred Outflows
  - Restricted

    Noncap. Assets – Related Liabilities – Related Deferred Outflows
  - Unrestricted

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Capital asset impairments.
  - "A significant, unexpected decline in the service utility of a capital asset."
  - Carrying value is generally reduced by the amount proportionate to the decline in service utility.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Vacation leave.
  - Accrued as earned.
  - Valued at salary rates in effect as of end of reporting period.
- Unused sick leave.
  - If payable at the end of an employee's active service, account for like vacation leave.
  - No liability is recorded for sick leave that is contingent upon illness.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Connection fees.
  - Portion designed to recover cost of hooking up is recorded as operating revenue.
  - Remainder (extra) is recorded as capital contribution or nonoperating revenue.
- Impact/developer fees.
  - Record receivable as soon as enforceable claim arises.
  - Record revenue at same time unless developer must deposit fees in advance.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Criteria for a "rate-regulated" utility.
  - Rates for regulated services are established by or subject to approval by either an independent, third-party regulator or the government board itself, if it is empowered by statute to contract to establish rates that bind customers.
  - The regulated rates are designed to recover the specific enterprise's costs of providing regulated services.
  - It is reasonable to assume that the regulated activity can set and collect charges sufficient to recover its costs.

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ENTERPRISE FUNDS ACCOUNTING CONSIDERATIONS

- Special accounting rules for rate-regulated utilities:
  - Certain charges of the current period may be deferred and amortized over future periods if they are sure to be recovered through future rates.
  - Revenues associated with rates levied in anticipation of future charges may be deferred until the anticipated charge is incurred.
  - If a gain reduces allowable costs and this reduction will be reflected in lower future rates for customers, then the gain itself may be deferred and amortized over the same period.

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INTERNAL SERVICE FUNDS

- May be used to report any activity that provides goods or service to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.
- Must break even over time.
- Ongoing surpluses or deficits in internal service funds would suggest that the rates for charges to customers should be adjusted.
- Chargeback rates for internal service funds are often based upon replacement cost of capital assets or debt service requirements rather than depreciation expense.

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15

INTERNAL SERVICE FUNDS

- Optional uses:
  - To recognize expenditures in governmental funds for certain accrued liabilities earlier than would otherwise be the case.
  - Risk financing activities.

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16

INTERNAL SERVICE FUNDS ACCOUNTING CONSIDERATIONS

- All basic rules are the same as for enterprise funds.
- Most often included with governmental activities in the government-wide statements.
- Bond interest costs incurred during a construction period are normally not capitalized.

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17

PROPRIETARY FUNDS FINANCIAL STATEMENTS

1. Statement of net position.
2. Statement of revenues, expenses, and changes in net position.
3. Statement of cash flows.

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18

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

- Balance sheet or net position format.
- Classified presentation (current v. noncurrent).
- Major fund reporting.
  - Major enterprise funds presented separately.
  - Nonmajor enterprise funds aggregated.
  - Total column for enterprise funds.
  - Internal service funds aggregated.
- Enterprise interfund eliminations (column or notes).
- Reconciliation to business-type activities.

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19

VILLAGE OF NORTH AURORA, ILLINOIS

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

May 31, 2016

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,032,544	$ 975,707
Investments	-	951,916
Cash with Paying Agent	7,678	-
Receivables		
Accounts	358,626	-
Accrued Interest	-	3,304
Intergovernmental	-	-
Prepaid Items	7,610	-
Inventory	-	14,136
Total Current Assets	3,406,458	1,945,063
CAPITAL ASSETS		
Nondepreciable	476,703	15,800
Depreciable (Net of Accumulated Depreciation)	22,685,197	1,236,482
Total Capital Assets	23,161,900	1,252,282
DEFERRED OUTFLOWS OF RESOURCES		
Pension Items - IMRF	87,345	-
Total Deferred Outflows of Resources	87,345	-
Total Assets and Deferred Outflows of Resources	26,655,703	3,197,345

20

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
CURRENT LIABILITIES		
Accounts Payable	343,912	4,529
Retainage Payable	43,426	-
Accrued Payroll	11,241	-
Other Unearned Revenue	7,048	-
Interest Payable	14,654	-
Due to Others	6,784	-
Compensated Absences Payable	6,654	88,688
Kane County Loan Payable	102,560	-
General Obligation Alternate Revenue Source Bonds Payable	415,000	-
Total Current Liabilities	951,279	93,217
LONG-TERM LIABILITIES		
Compensated Absences Payable	19,960	266,065
Net Pension Liability	275,063	-
Other Postemployment Benefits Payable	20,209	-
Kane County Loan Payable	452,614	-
General Obligation Alternate Revenue Source Bonds Payable	-	-
Total Long-Term Liabilities	767,846	266,065
Total Liabilities	1,719,125	359,282
NET POSITION		
Net Investment in Capital Assets	$ 22,191,726	$ 1,252,282
Unrestricted	2,744,852	1,585,781
TOTAL NET POSITION	$ 24,936,578	$ 2,838,063

21

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

- Operating v. nonoperating presentation.
- Major fund reporting.
- Enterprise interfund eliminations (column or notes).
- Reconciliation to business-type activities.
- Revenues reported by major source, net of discounts.
- Cumulative effect of a change in accounting principle should be reported as a restatement of beginning net position.

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22

VILLAGE OF NORTH AURORA, ILLINOIS

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the Year Ended May 31, 2016

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Water Sales	$ 2,276,431	$ -
Water Meters	75,710	-
Water Permits	288,779	-
Meter Reads	18,007	-
Impact Fees	-	-
Building Permits	3,350	-
Charges for Services	-	404,466
Hydrant Meter Rental	775	-
Reimburse Turn On/Turn Off Fees	9,775	-
Total Operating Revenues	2,672,827	404,466
OPERATING EXPENSES		
Operations	1,444,706	82,636
Depreciation	836,380	205,035
Total Operating Expenses	2,281,086	287,671
OPERATING INCOME	391,741	116,795

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23

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	6,626	14,156
Tower Rent	168,970	-
Miscellaneous	24,019	-
Gain (Loss) on Disposal of Capital Assets	54,882	-
Interest Expense	(39,269)	-
Total Non-Operating Revenues (Expenses)	215,228	14,156
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS	606,969	130,951
Contributions	10,597	211,475
CHANGE IN NET POSITION	617,566	342,426
NET POSITION, JUNE 1	24,505,944	2,495,637
Change in Accounting Principle	(186,932)	-
NET POSITION, JUNE 1, RESTATED	24,319,012	2,495,637
NET POSITION, MAY 31	$ 24,936,578	$ 2,838,063

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24

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

- May focus on cash alone or cash and cash equivalents.
- Cash equivalents must:
  - Be readily convertible to known amounts of cash; and
  - Mature within three months of acquisition.

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25

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

- Categories:
  - Cash from operating activities: related to operating revenues and expenses.
  - Cash flows from noncapital financing activities: related to grants, taxes, transfers, and borrowings.
  - Cash flows from capital and related financing activities: related to construction, acquisition, improvement, or disposal of capital assets.
  - Cash flows from investing activities: related to the purchase and sale of investments.

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26

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

- Must reconcile between cash flows from operating activities in the statement of cash flows with operating income in the statement of revenues, expenses, and changes in net position.
- Must provide information on noncash investing, capital, or financing transactions.
- Must be traceable to the statement of net position.

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27

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

- Gross reporting.
- Major fund reporting.

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28

VILLAGE OF NORTH AURORA, ILLINOIS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Year Ended May 31, 2016

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$ 2,752,044	$ -
Receipts from Tower Rental	168,970	-
Receipts from Internal Service Transactions	-	404,466
Payments to Suppliers	(848,502)	(66,982)
Payments to Employees	(444,666)	-
Net Cash from Operating Activities	1,627,846	337,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
None	-	-
Net Cash from Noncapital Financing Activities	-	-

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29

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Insurance Claim Reimbursement	147,741	-
Proceeds from Public Works Escrow	-	211,475
Purchase of Capital Assets	(516,202)	(321,553)
Interest on Long-Term Debt	(47,164)	-
Principal on Long-Term Debt	(494,477)	-
Net Cash from Capital and Related Financing Activities	(910,102)	(110,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	-	(15,000)
Interest Received	6,312	6,824
Net Cash from Investing Activities	6,312	(8,176)
NET INCREASE IN CASH AND CASH EQUIVALENTS	724,056	219,230
CASH AND CASH EQUIVALENTS, JUNE 1	2,316,166	756,477
CASH AND CASH EQUIVALENTS, MAY 31	$ 3,040,222	$ 975,707

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30

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
SCHEDULE OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	$ 3,032,544	$ 975,707
Cash with Paying Agent	7,678	-
TOTAL CASH AND CASH EQUIVALENTS	$ 3,040,222	$ 975,707
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	$ 391,741	$ 116,795
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Depreciation	836,380	205,035
Tower Rent	168,970	-
Miscellaneous	24,019	-
(Increase) Decrease in		
Accounts Receivable	51,965	-
Inventory	-	(210)
Prepaid Items	987	-
Deferred Outflows	(87,345)	-
Increase (Decrease) in		
Accounts Payable	157,853	-
Retainage Payable	(23,311)	-
Accrued Payroll	4,689	-
Other Unearned Revenue	7,048	-
Due to Others	(3,815)	-
Compensated Absences	7,539	15,864
Net Pension Liability - IMRF	73,001	-
Other Postemployment Benefits	18,125	-
NET CASH FROM OPERATING ACTIVITIES	$ 1,627,846	$ 337,484
NONCASH TRANSACTIONS		
Contributions of Capital Assets	$ 10,597	$ -
Change in Fair Value of Investments	-	4,940
TOTAL NONCASH TRANSACTIONS	$ 10,597	$ 4,940

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INTERMEDIATE GOVERNMENTAL ACCOUNTING

ACCOUNTING AND REPORTING FOR PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

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1

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 Single employer Police and Fire pension Plans in Illinois
- State for state-wide plans
- IMRF CAFR
- Does not include non-trusted plans (GASB S-73)

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2

GASB 67/68 PENSION BASICS

- GASB Statement No. 67, *Financial Reporting for Pension Plans*
  - Applies to financial statements issued by individual pension plans or employer reports if no separate plan report is issued
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
  - Applies to financial statements issued by state and local government employers that sponsor pension plans

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3

OPEB

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
  - Applies to separate OPEB reports
  - Effective for fiscal periods beginning after June 15, 2016
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
  - Effective for fiscal periods beginning after June 15, 2017

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4

GASB S-68, GASB S-75

- Liabilities for defined benefit pensions/OPEB
  - Liability to employees for pension and other post employment benefits as they are earned
  - Record net pension/OPEB liability as benefits are earned by the employee

5

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GASB S-68, GASB S-75

- Accrual basis, economic resources measurement focus financial statements (Entity-wide, enterprise funds)
  - Recognize and record a net pension/OPEB liability
    - Actuarial present value of projected benefit payments (Actuarial accrued liability)
      - Total pension/OPEB liability
    - Less plans net position (net assets)
    - Equals net pension/OPEB liability
  - Measured as of employers fiscal year end or 1 year old, consistently
- Expense when earned versus expenditure when funded

6

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PENSION OPEB FUNDS

- GASB S-67 and S-74
  - Defines a pension/OPEB plan
    - Administered through an irrevocable trust
  - Two basic financial statements for pension and OPEB trusts
    - Statement of net position
    - Statement of changes in net position

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PENSION OPEB FUNDS

- Statement of fiduciary net position
  - Accrual basis of accounting
  - Economic resources measurement focus
  - All assets at fair value, except capital assets
    - Fair value as of statement of position date
    - Investments as of trade date

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8

PENSION OPEB FUNDS

- Statement of fiduciary net position
  - No account aggregation allowed on financial statements
    - Investments by type
      - Detail depends on portfolio
      - Trial balance support presentation
        - Not by investment manager
      - Cost and fair value adjustment by type
    - No amortization of premiums/discounts

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9

PENSION OPEB FUNDS

- Statement of fiduciary net position
  - Receivables by type
  - Receivables from employer
    - Only those due to pursuant to legal requirements
      - Unremitted pension tax levy
      - Subject to collectability
    - No property tax receivable in a pension fund
      - Funding source must flow through the primary governments financial statements as the employer contribution

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10

PENSION OPEB FUNDS

- Statement of changes in net position
  - Additions
    - Contributions
      - Employer
      - Employee
      - Other
    - Investment income
      - Interest/dividends earned
      - Net appreciation (depreciation)
        - Total investment income
      - Less investment expenses
        - Net investment income

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11

PENSION OPEB FUNDS

- Statement of changes in net position
  - Deductions
    - Benefits owed
    - Refunds
    - Administrative costs
      - Other than investment expense
  - Change in net position
  - Reconciliation of net position

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12

PENSION OPEB FUNDS

- Notes to the financial statements
  - Significant increase in note disclosures, especially investment disclosures
  - Increase in required supplementary information
    - 10 years is now required on a prospective basis

13

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13

PENSION OPEB FUNDS

- Total pension/OPEB liability
  - Actuarial present value of projected benefit payments
    - Promise to pay in the future
- Less plans net position (net assets)
- Equals the net pension/OPEB liability
- Measured as of plan's fiscal year end
    - The measurement date is a key date that must be determined by the plan and employer and applied consistently
    - GASB encourages governments to use a measurement date that coincides with your fiscal year end
    - Not possible for IMRF unless you have a December 31 year end
    - Apply GASB S-71 and defer employer contributions outside the measurement period

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14

14

PENSION OPEB FUNDS

- Actuarial cost method to measure the net pension liability
  - Entry age actuarial cost method is required
- ILCS requires minimum funding calculation to be performed using projected unit credit actuarial cost method with 90% amortization of the AAL
  - Department of Insurance valuations do not meet the requirements of GASB S67 or S68

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15

15

Recording and Allocating the Liability

- Reporting net pension/OPEB liability
  Accrual based financial statements
  - Police and Fire NPL
    - Governmental activities
  - IMRF NPL and OPEB Liability
    - Governmental activities
    - Business type activities
      - Enterprise funds
    - Component units

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16

16

Recording and Allocating the Liability

- Allocating net pension/OPEB liability
  - Not required by GASB 68 or GASB S75
    - NCGA Statement No. 1
- Method for allocating across accrual based funds of the employer
  - Proportionate share as defined for cost sharing plans using projected long-term employer contribution effort encouraged
    - Allocate NPL, pension expense, deferred inflows/outflows

17

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Recording and Allocating the Liability

- Allocating the liability for DPCU/Library
  - Different auditors for primary government/municipality than for DPCU/Library
    - Primary government/municipality prepare schedules of employer allocations and collective pension amounts (e.g., NPL, pension expense, deferred inflows/outflows)
    - Primary government/municipality auditor opines on schedules
    - DPCU/Library use these to record liability and as audit evidence

18

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18

Recording and Allocating the Liability

IMRF Example - Allocation

- Scenario
  - Employer allocating IMRF NPL, DI/DO of resources and pension expense among governmental activities and water and sewer fund
  - Projected long-term annual contribution effort (based on current actual/future budgets and employer assumptions)
    - Governmental activities - $700
    - Water and sewer fund - $100

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Recording and Allocating the Liability

IMRF Example - Allocation

Activity/Fund	Future Contributions	Percentage of Total Future Contributions
Governmental Activities	$700	87.5%
Water and Sewer Fund	$100	12.5%
TOTAL	$800	100.0%

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Recording and Allocating the Liability

IMRF Example – Current Year Activity

- Scenario
  - Current Year Activity
    - Employer fiscal year end – April 30, 2016
    - Measurement date – December 31, 2015
    - NPL at April 30, 2016 (measurement date December 31, 2015) - $24,000
    - Deferred outflows of resources – contributions made after the measurement date (12/31/14) and the prior fiscal year end (4/30/15) - $300, $350 for the current year end after the measurement date
    - Deferred outflows of resources – projected and actual earnings on investments - $75
    - Deferred inflows of resources – expected and actual experience – $100

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21

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21

Recording and Allocating the Liability

IMRF Example – Current Year Activity

Description	Governmental Activities	Water and Sewer Fund	TOTAL
Allocation Percentage	87.5%	12.5%	100.0%
Net Pension Liability (NPL)	$3,500 (CR)	$500 (CR)	$4,000 (CR)
Deferred Outflows – Contributions	$44 (DR)	$6 (DR)	$50 (DR)
Deferred Outflows – Investment Earnings	$66 (DR)	$9 (DR)	$75 (DR)
Deferred Inflows – Experience	$88 (CR)	$12 (CR)	$100 (CR)
Pension Expense	$3,478 (DR)	$497 (DR)	$3,975 (DR)

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22

Recording and Allocating the Liability

IMRF Example – Current Year Activity

- Pension OPEB expense/liability
  - Governmental activities
    - Record in general long-term debt conversion fund along with deferred inflows (DI)/deferred outflows (DO)
    - Expense (change in liability, amortization of DI/DO) allocated among functions
      - Police and fire only allocate to public safety
    - NPL at April 30, 2016 (measurement date December 31, 2015) - $24,000
  - Enterprise funds, business type activities
    - Record liability directly in the fund
    - Expense to one line or allocated among departments if applicable

Illinois Government Finance Officers Association
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CITY OF AURORA, ILLINOIS
POLICE PENSION FUND
TABLE OF CONTENTS

CITY OF AURORA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

ASSETS	
Cash and Short-Term Investments	$ 10,068,647
Investments, at Fair Value	
Fixed Income Securities	64,976,975
Domestic Equity Securities	73,047,935
International Equity Securities	39,529,315
Real Estate Investment Trusts	21,933,323
Blended Mutual Funds	9,368,346
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)	
Accrued Interest	439,250
Pension Service Credit	149,475
Prepaid Expenses	23,609
Total Assets	219,536,875
LIABILITIES	
Accounts Payable	48,888
Due to the Primary Government	2,700
Total Liabilities	51,588
NET POSITION RESTRICTED FOR PENSION BENEFITS	$ 219,485,287

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2017

ADDITIONS	
Contributions	
Employer Contributions	$ 12,961,109
Employee Contributions	3,410,505
Total Contributions	16,371,614
Investment Income	
Net Appreciation in Fair Value of Investments	24,882,121
Interest and Dividends	3,887,880
Total Investment Income	28,770,001
Less Investment Expense	(498,992)
Net Investment Income	28,271,009
Total Additions	44,642,623
DEDUCTIONS	
Pension Benefits	15,014,938
Administrative Expenses	48,376
Total Deductions	15,063,314
NET INCREASE	29,579,309
NET POSITION RESTRICTED FOR PENSION BENEFITS	
January 1	189,905,978
December 31	$ 219,485,287

See accompanying notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURORA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET PENSION LIABILITY AND RELATED RATIOS

Last Four Fiscal Years

MEASUREMENT DATE DECEMBER 31,	2014*	2015*	2016**	2017***
TOTAL PENSION LIABILITY				
Service Cost	$ 7,426,768	$ 8,690,520	$ 9,025,121	$ 9,303,596
Interest	20,900,924	22,094,899	23,271,224	25,690,744
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(3,884,620)	1,733,291	(4,526,173)	(1,622,956)
Changes of Assumptions	12,703,751	3,625,322	24,285,746	11,050,031
Benefit Payments, Including Refunds of Member Contributions	(11,942,967)	(12,845,770)	(14,034,221)	(15,014,938)
Net Change in Total Pension Liability	25,203,856	23,298,262	38,021,697	29,406,477
Total Pension Liability - Beginning	326,046,895	351,250,751	374,549,013	412,570,710
TOTAL PENSION LIABILITY - ENDING	$ 351,250,751	$ 374,549,013	$ 412,570,710	$ 441,977,187
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	$ 10,092,419	$ 11,571,764	$ 11,672,490	$ 12,961,109
Contributions - Member	2,936,722	3,805,258	3,384,895	3,410,505
Net Investment Income	9,276,149	1,173,247	11,189,486	28,271,009
Benefit Payments, Including Refunds of Member Contributions	(11,942,967)	(12,845,770)	(14,034,221)	(15,014,938)
Administrative Expense	(81,875)	(50,958)	(36,510)	(48,376)
Net Change in Plan Fiduciary Net Position	10,280,448	3,653,541	12,176,140	29,579,309
Plan Fiduciary Net Position - Beginning	163,795,849	174,076,297	177,729,838	189,905,978
PLAN FIDUCIARY NET POSITION - ENDING	$ 174,076,297	$ 177,729,838	$ 189,905,978	$ 219,485,287
EMPLOYER'S NET PENSION LIABILITY	$ 177,174,454	$ 196,819,175	$ 222,664,732	$ 222,491,900
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	49.60%	47.50%	46.00%	49.70%
Covered-Employee Payroll	$ 26,802,659	$ 29,698,289	$ 29,787,822	$ 29,182,237
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	661.00%	662.70%	747.50%	762.40%

* There were no assumption changes in 2014 or 2015.

* There was a change in 2016 with respect to actuarial assumptions from the prior year to reflect revised expectations with respect to mortality rates and discount rates.

** There was a change in 2017 with respect to actuarial assumptions from the prior year to reflect revised expectations with respect to retirement, termination and disability rates and discount rates.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

CITY OF AURORA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Ten Fiscal Years

FISCAL YEAR ENDED DECEMBER 31,	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Actuarially Determined Contribution	$ 7,150,811	$ 7,820,659	$ 9,900,829	$ 10,349,019	$ 8,254,277	$ 8,834,754	$ 10,091,124	$ 11,515,940	$ 11,651,147	$ 12,863,549
Contributions in Relation to the Actuarially Determined Contribution	7,152,523	7,821,000	9,901,400	10,364,821	8,270,619	8,858,531	10,092,419	11,571,764	11,672,490	12,961,109
CONTRIBUTION DEFICIENCY (Excess)	$ (1,712)	$ (341)	$ (571)	$ (15,802)	$ (16,342)	$ (23,777)	$ (1,295)	$ (55,824)	$ (21,343)	$ (97,560)
Covered-Employee Payroll	$ 24,913,911	$ 26,158,149	$ 25,007,815	$ 25,922,346	$ 26,708,019	$ 26,912,214	$ 26,802,659	$ 29,698,289	$ 29,787,822	$ 29,182,237
Contributions as a Percentage of Covered-Employee Payroll	28.71%	29.90%	39.59%	39.98%	30.97%	32.92%	37.65%	38.96%	39.19%	44.41%

Notes to Required Supplmentary Information

Valuation date: Actuarially determined contribution rates are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-age normal through 2011; projected unit credit beginning in 2012
Amortization Method	Level percent of pay, closed; 100% through 2011 and 90% beginning in 2012
Remaining Amortization Period	26 years as of December 31, 2014 (The funding schedule was reset to end in 2040 in 2011.)
Asset Valuation Method	Five-Year Smoothed Market
Inflation	2.50%
Salary Increases	Service-Based
Payroll Growth	4.50% per year
Interest Rate	7.00% through 2012; 6.75% beginning in 2013 including inflation
Retirement Age	See Note 2 in the Notes to Financial Statements
Mortality	RP-2000 Combined Health Mortality Table with a Blue Collar Adjustment

(See indpendent auditor's report.)

CITY OF AURORA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF INVESTMENT RETURNS

Last Four Fiscal Years

FISCAL YEAR ENDED DECEMBER 31,	2014	2015	2016	2017
Annual Money-Weighted Rate of Return, Net of Investment Expense	6.02%	1.35%	6.40%	14.97%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

(See indpendent auditor's report.)

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

ASSETS	
Cash and Short-Term Investments	$ 3,346,637
Investments, at Fair Value	
Fixed Income Securities	15,729,896
Domestic Equity Securities	16,545,532
International Equity Securities	3,215,649
Real Estate Investment Trusts	1,318,287
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)	
Accounts Receivable	72,847
Accrued Interest	88,227
Prepaid Expenses	7,223
Total Assets	40,324,298
LIABILITIES	
Accounts Payable	22,071
Deposits Payable	73,612
Claims Payable	530,615
Due to the Primary Government	2,700
Total Liabilities	628,998
NET POSITION RESTRICTED FOR OPEB	$ 39,695,300

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2017

ADDITIONS	
Contributions	
Employer Contributions	$ 1,366,830
Total Contributions	1,366,830
Investment Income	
Net Appreciation in Fair Value of Investments	5,087,469
Interest and Dividends	612,304
Total Investment Income	5,699,773
Less Investment Expense	(80,849)
Net Investment Income	5,618,924
Total Additions	6,985,754
DEDUCTIONS	
Health Insurance Benefits	6,621,879
Administrative Expenses	21,493
Total Deductions	6,643,372
NET INCREASE	342,382
NET POSITION RESTRICTED FOR OPEB	
January 1	39,352,918
December 31	$ 39,695,300

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET OPEB LIABILITY AND RELATED RATIOS

Last Three Fiscal Years

MEASUREMENT DATE DECEMBER 31,	2015	2016	2017
TOTAL OPEB LIABILITY			
Service Cost	$ 6,878,917	$ 7,193,971	$ 11,871,127
Interest	11,356,166	11,900,898	17,130,792
Changes of Benefit Terms	-	-	(78,588,900)
Differences Between Expected and Actual Experience	-	(609,914)	(1,891,401)
Changes of Assumptions	-	128,236,586	32,871,596
Benefit Payments	(7,477,497)	(5,901,415)	(6,621,879)
Net Change in Total OPEB Liability	10,757,586	140,820,126	(25,228,665)
Total OPEB Liability - Beginning	244,811,055	255,568,641	396,388,767
TOTAL OPEB LIABILITY - ENDING	$ 255,568,641	$ 396,388,767	$ 371,160,102
FIDUCIARY NET POSITION			
Contributions - Employer	$ 8,058,388	$ 8,959,041	$ 1,366,830
Net Investment Income	831,424	1,627,422	5,618,924
Benefit Payments	(7,477,497)	(5,901,415)	(6,621,879)
Administrative Expense	(14,473)	(17,388)	(21,493)
Net Change in Fiduciary Net Position	1,397,842	4,667,660	342,382
Fiduciary Net Position - Beginning	33,287,416	34,685,258	39,352,918
FIDUCIARY NET POSITION - ENDING	$ 34,685,258	$ 39,352,918	$ 39,695,300
EMPLOYER'S NET OPEB LIABILITY	$ 220,883,383	$ 357,035,849	$ 331,464,802
Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.60%	9.90%	10.70%
Covered-Employee Payroll	$ 80,907,445	$ 80,109,392	$ 81,178,233
Employer's Net OPEB Liability as a Percentage of Covered-Employee Payroll	273.00%	445.70%	408.30%

In 2016, changes in assumptions related to the discount rate were made (4.58% to 4.23%) and changes to the healthcare trend rate to reflect recent healthcare trend rate surveys, blended with the long-term rates from the Getzen model published by the Society of Actuaries.

In 2017, changes in assumptions related to the discount rate were made (4.23% to 3.50%) and changes to the investment rate of returns. There was also a change in benefits related to post 65 retirees.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.

(See independent auditor's report.)

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Ten Fiscal Years

FISCAL YEAR ENDED DECEMBER 31,	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Actuarially Determined Contribution	$ 13,052,085	$ 11,951,819	$ 12,361,724	$ 11,773,685	$ 11,182,621	$ 13,251,599	$ 13,904,908	$ 14,044,926	$ 16,088,362	$ 20,843,783
Contributions in Relation to the Actuarially Determined Contribution	6,810,269	6,911,969	4,548,786	4,580,046	5,380,735	6,116,378	7,437,793	8,058,388	8,959,041	1,366,830
CONTRIBUTION DEFECIENCY (Excess)	$ 6,241,816	$ 5,039,850	$ 7,812,938	$ 7,193,639	$ 5,801,886	$ 7,135,221	$ 6,467,115	$ 5,986,538	$ 7,129,321	$ 19,476,953
Covered-Employee Payroll	$ 72,246,059	$ 72,367,412	$ 64,712,359	$ 65,237,549	$ 72,083,003	$ 67,057,641	$ 74,988,337	$ 80,907,445	$ 80,109,392	$ 81,178,233
Contributions as a Percentage of Covered-Employee Payroll	9.43%	9.55%	7.03%	7.02%	7.46%	9.12%	9.92%	9.96%	11.18%	1.68%

Notes to Required Supplementary Information

Valuation date: Actuarially determined contribution rates are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Pay, Open
Remaining Amortization period	30 Years
Asset Valuation Method	Market
Inflation	2.50% (changed from 3.00% in 2016)
Healthcare Cost Trend Rate	8.75% in fiscal 2017, trending to 5.50% in fiscal 2027, and an ultimate trend rate of 4.00% in 2073 (unchanged from 2016)
Investment Rate of Return	5.50% (changed from 7.70% in 2016)
Retirement Age	Various
Mortality	Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected to the valuation date with Scale AA for active and retired participants in the Illinois Municipal Retirement Fund. The RP-2000 Mortality Table with Blue Collar Adjustment, projected to the valuation date, was used for active and retired firefighters and police officers. The RP-2000 Disabled Mortality Table, projected to the valuation date.

(See independent auditor's report.)

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Last Three Fiscal Years

FISCAL YEAR ENDED DECEMBER 31,	**2015**	**2016**	**2017**
Annual Money-Weighted Rate of Return, Net of Investment Expense	2.57%	4.63%	15.40%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.

(See independent auditor's report.)

VILLAGE OF FOX LAKE, ILLINOIS

SCHEDULE OF CHANGES IN THE EMPLOYER'S
TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN

Last Fiscal Year

MEASUREMENT DATE APRIL 30,		**2018**
TOTAL OPEB LIABILITY		
Service cost	$	56,026
Interest		84,754
Differences between expected and actual experience		-
Changes of benefit terms		-
Changes of assumptions		-
Benefit payments		(77,301)
Net change in total pension liability		63,479
Total OPEB liability - beginning		2,173,523
TOTAL OPEB LIABILITY - ENDING	$	2,237,002
Covered-employee payroll	$	1,697,568
Employer's total OPEB liability as a percentage of covered-employee payroll		131.78%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

INTERMEDIATE GOVERNMENTAL ACCOUNTING

CHAPTER 9

EQUITY ACCOUNTING AND REPORTING

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GOVERNMENTAL FUND EQUITY: FUND BALANCE

GASB Statement 54 Changed Fund Balance Classifications to the Following: *(Used to be Reserved, Unreserved, Designated, Undesignated)*

1. Nonspendable.
2. Restricted.
3. Unrestricted.
   a. Committed.
   b. Assigned.
   c. Unassigned.

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GOVERNMENTAL FUND EQUITY: NONSPENDABLE BALANCE

1. Amounts that are not in a spendable form (e.g., inventory and long-term receivables, prepaids).
    1. If amounts converted from long-term receivables are restricted or committed as to being spent then the classification of restricted or committed takes precedence
2. Amounts that are required to be maintained intact (e.g., corpus of an endowment fund).

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GOVERNMENTAL FUND EQUITY: RESTRICTED FUND BALANCE

1. Amounts constrained to specific purposes by external parties, constitutional provision, or legislation.
2. Examples of constraining parties: grantors, bondholders, and higher levels of government (State of Illinois – MFT).
3. Should include resources from restricted sources to be used to liquidate encumbrances.
4. Only include stabilization arrangements if the constraint is externally enforceable and the circumstances that trigger spending are both specific and nonroutine.

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GOVERNMENTAL FUND EQUITY: COMMITTED FUND BALANCE

1. Amounts constrained for a specific purpose by a government using its highest level of decision-making authority.
2. Action to constrain resources must occur prior to year-end, but the amount can be determined in the subsequent period.
3. Should include resources from committed sources to be used to liquidate encumbrances.
4. Only include stabilization arrangements if the circumstances that trigger spending are both specific and nonroutine.

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GOVERNMENTAL FUND EQUITY: ASSIGNED FUND BALANCE

1. For governmental funds other than the general fund, any remaining positive amounts that cannot be classified as nonspendable, restricted, or committed are assigned.
2. For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts.
3. Any encumbrances not to be paid from restricted or committed sources should be included in assigned fund balance.

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GOVERNMENTAL FUND EQUITY: ASSIGNED FUND BALANCE

4. If resources will be used to balance a subsequent year's budget, those resources should be included in assigned fund balance.
5. Stabilization arrangements cannot be included in assigned fund balance.
6. Assigned fund balance cannot be negative.

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GOVERNMENTAL FUND EQUITY: UNASSIGNED FUND BALANCE

1. For governmental funds other than the general fund, the amount expended in excess of resources that are nonspendable, restricted, or assigned (i.e., a residual deficit)
2. For the general fund, amounts not classified as nonspendable, restricted, committed, or assigned.

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GOVERNMENTAL FUND EQUITY: FUND BALANCE FLOW OF FUNDS

Flow of Funds and Assignment (North Aurora Policy)

In order to properly classify fund balance at year end, the Village spends the most restricted dollars before less restricted, in the following order:

Restricted,

Committed,

Assigned,

Unassigned.

Responsibility for the assignment of fund balance is delegated to the Finance Director with the approval of the Village Administrator and communicated through the annual budget or via memorandum to the board of trustees.

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VILLAGE OF NORTH AURORA, ILLINOIS

GOVERNMENTAL FUNDS
BALANCE SHEET

May 31, 2015

	General	Capital Projects	Library Debt Service	Route 31 TIF	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES						
Nonspendable in Form - Prepaid Items	18,743	-	-	-	972	19,715
Restricted for DUI Enforcement	16,535	-	-	-	-	16,535
Restricted for Debt Service	-	-	98,275	-	288,413	386,688
Restricted for Highways and Streets	-	-	-	-	1,437,545	1,437,545
Restricted for Economic Development	-	-	-	1,717,568	373,174	2,090,742
Restricted for Subdivision Improvements	-	-	-	-	117,579	117,579
Unrestricted						
Committed for Roads, Infrastructure and Capital Projects	-	294,517	-	-	-	294,517
Assigned for Tort Purposes	-	-	-	-	235,581	235,581
Assigned for Roads, Infrastructure and Capital Projects	-	2,117,192	-	-	-	2,117,192
Assigned for Buffer Repair/Replacement	-	-	-	-	40,040	40,040
Assigned for Sanitary Sewers	-	-	-	-	1,345,371	1,345,371
Assigned for Tourism	-	-	-	-	50,402	50,402
Unassigned	6,364,785	-	-	-	-	6,364,785
Total Fund Balances	6,400,063	2,411,709	98,275	1,717,568	3,889,077	14,516,692

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GOVERNMENTAL FUND EQUITY: FUND BALANCE NOTE DISCLOSURES

1. For nonspendable fund balance, the amounts not in spendable form vs. the amounts that legally or contractually must be maintained intact.
2. For restricted, committed, and assigned fund balance, the amounts in detail.
3. Description of the authority and actions that lead to committed and assigned fund balance.
4. Government's policy regarding the order of spending fund balance types

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GOVERNMENTAL FUND EQUITY: FUND BALANCE NOTE DISCLOSURES

1. For stabilization arrangements, the authority for establishing, adding to, and spending.
2. Description of minimum fund balance policies.

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GOVERNMENTAL FUND EQUITY:
FUND BALANCE NOTE DISCLOSURES

L. Fund Balance/Net Position

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that are either not spendable in form or legally or contractually required to be maintained intact. Restrictions of fund balance are reported for amounts constrained by legal restrictions from outside parties for use for a specific purpose, or externally imposed by outside entities. None of the restricted fund balance result from enabling legislation adopted by the Village. Committed fund balance is constrained by formal actions of the Village's Board of Trustees, which is considered the Village's highest level of decision-making authority. Formal actions are contained in ordinances approved by the Board of Trustees. Assigned fund balance represents amounts constrained by the Village's intent to use them for a specific purpose. The authority to assign fund balance has been delegated to the Finance Director by the Board of Trustees in the fund balance policy. Any residual fund balance in the General Fund and any deficit fund balances of other governmental funds are reported as unassigned.

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GOVERNMENTAL FUND EQUITY:
FUND BALANCE NOTE DISCLOSURES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance/Net Position (Continued)

The Village's flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted or unrestricted funds are available for spending, the restricted funds are spent first. Additionally, if different levels of unrestricted funds are available for spending the Village considers committed funds to be expended first followed by assigned and then unassigned funds.

The Village has established fund balance reserve policies for the General Fund at 40% to 50% of annually adopted expenditures and transfers of resources out for the purpose of debt repayment. The Village has established minimum fund balance reserve policies in the Motor Fuel Tax Fund of 25% of annual expenditures.

In the government-wide financial statements, restricted net positions are legally restricted by outside parties for a specific purpose. Net investment in capital assets is the book value of the capital assets, net of any debt outstanding that was issued to construct or acquire the capital assets and unspent debt proceeds.

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PROPRIETARY/FIDUCIARY FUND AND GOVERNMENT-WIDE EQUITY: NET POSITION

1. Traditional balance sheet:
   Assets = Liabilities + Equity
2. New balance sheet:
   Assets – Liabilities = Net position
3. Potential Components of Net Position
   a. Net investment in capital assets
   b. Net position - restricted
   c. Net position - unrestricted

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NET INVESTMENT IN CAPITAL ASSETS

Net book value of capital assets

Plus: Capital-related deferred outflows of resources

Less: Capital-related borrowings and deferred inflows of resources

Equals: Net investment in capital assets

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NET POSITION - RESTRICTED

Noncapital assets whose use is restricted

Less: Related liabilities and deferred inflows of resources.

Equals: Net position - restricted

17

NET POSITION - UNRESTRICTED

Net position

Less: Net investment in capital assets

Less: Net position – restricted

Equals: Net position – unrestricted

18

NET POSITION – PROPRIETARY FUNDS

VILLAGE OF NORTH AURORA, ILLINOIS

PROPRIETARY FUNDS
STATEMENT OF NET POSITION (Continued)

May 31, 2016

	Business-Type Activities Waterworks	Governmental Activities Internal Service Funds
NET POSITION		
Net Investment in Capital Assets	$ 22,191,726	$ 1,252,282
Unrestricted	2,744,852	1,585,781
TOTAL NET POSITION	$ 24,936,578	$ 2,838,063

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VILLAGE OF NORTH AURORA, ILLINOIS

STATEMENT OF NET POSITION (Continued)

May 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
NET POSITION			
Net Investment in Capital Assets	$ 87,966,627	$ 22,191,726	$ 110,158,353
Restricted for			
Debt Service	362,820	-	362,820
DUI Enforcement	23,493	-	23,493
Highways and Streets	1,270,143	-	1,270,143
Economic Development	1,519,077	-	1,519,077
Subdivision Improvements	118,144	-	118,144
Unrestricted	1,979,304	2,744,852	4,724,156
TOTAL NET POSITION	$ 93,239,608	$ 24,936,578	$ 118,176,186

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INTERMEDIATE GOVERNMENTAL ACCOUNTING

ACCOUNTING FOR INTERFUND TRANSACTIONS

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TYPES OF INTERFUND ACTIVITY

1. Reciprocal
   a. Interfund loans
   b. Interfund payments for services

2. Nonreciprocal
   a. Interfund transfers
   b. Interfund reimbursements

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND LOANS

1. Requirement for repayment exists.
2. Reported as interfund receivable in the lender fund.
3. Reported as interfund payable in the borrower fund.
4. Not reported as other financing sources or uses in fund financial statements (regardless of how budgeted).
5. If repayment not expected in reasonable period of time, reduce the interfund loan and record interfund transfer.

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND LOANS

6. Short-term interfund loans are classified as due to and due from other funds.
7. Long-term interfund loans are classified as advances to and advances from other funds.
8. Interfund loan accounts must always stay in balance.

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND LOANS

General Fund:		
Due from Water Fund	20	
Cash		20
To record a short-term interfund loan		
Water Fund:		
Cash	20	
Due to General Fund		20
To record a short-term interfund loan		

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND LOANS

General Fund:		
Advance to Water Fund	50	
Cash		50
Unassigned Fund Balance	50	
Fund Balance - Nonspendable		50
To record a long-term interfund loan		
Water Fund:		
Cash	50	
Advance from General Fund		50
To record a long-term interfund loan		

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND SERVICES

1. Sales and purchases of goods and services between funds for a price approximating their exchange value.
2. Involves programmatic activity in the seller fund.
3. Reported as revenues in the seller funds and expenditures or expenses in the purchaser funds.
4. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND SERVICES

General Fund:		
Expenditures	10	
Cash/Due to Central Garage Fund		10
To record services received from the Central Garage Fund		
Central Garage Fund:		
Cash /Due from General Fund	10	
Revenue		10
To record services provided to the General Fund		

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND TRANSFERS

1. Flows of assets without equivalent flows of assets in return and without a requirement for repayment.
2. In governmental funds, transfers out are reported as other financing uses and transfers in are reported as other financing sources.
3. In proprietary funds, donations of capital assets should be offset by nonoperating expenses or capital contributions, as appropriate.
4. Interfund transfers are eliminated at the government-wide level.

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND TRANSFERS

General Fund:		
Transfers Out	25	
Cash/Due to Golf Fund		25
To record operating subsidy given		
Golf Fund:		
Cash /Due from General Fund	25	
Transfers In		25
To record operating subsidy received		

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND TRANSFERS

General Fund:

No entry

Golf Fund:

Capital Asset	25	
Capital Contribution		25
To record the receipt of a donated capital asset.		

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND TRANSFERS

General Fund:

No entry

Golf Fund:

Nonoperating Expense – Loss on Disposal	25	
Capital Asset		25
To record the donation of a capital asset.		

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND TRANSFERS

Parking Fund:

Transfers Out	25	
Capital Asset		25
To record the donation of a capital asset.		

Water Fund:

Capital Asset	25	
Transfer In		25
To record the receipt of a donated capital asset.		

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NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND REIMBURSEMENTS

1. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid them.
2. Should be accounted for as a credit in the expenditure/ expense account initially charged and a debit in the expenditure/expense account that is to ultimately absorb the charge.
3. Budgeting may reflect reimbursements as an expenditure in the fund initially charged and an expenditure/expense in the fund that ultimately absorbs the charge.

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14

NONRECIPROCAL INTERFUND ACTIVITY: INTERFUND REIMBURSEMENTS

4. Can retain all the history in the account originally charged by using contra-expenditure/expense accounts rather than a direct credit to the account originally charged.
5. Interfund reimbursements should not be disguised as interfund transfers.

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND REIMBURSEMENTS

General Fund (Initial Charge):		
Salary Expenditures	75	
Cash		75
To record salary expenditures		

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RECIPROCAL INTERFUND ACTIVITY: INTERFUND REIMBURSEMENTS

General Fund:

Cash/Due from Water Fund	25	
Salary Expenditures		25

To record a reimbursement for salaries of Water Fund employees initially paid by the General Fund

Water Fund:

Salary Expenditures	25	
Cash/Due to General Fund		25

To record a reimbursement to General Fund for salaries of Water Fund employees

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17

NONRECIPROCAL INTERFUND ACTIVITY: TRANSFERS OF CAPITAL ASSETS

1. Transfers of capital assets between funds or activities are reported at book value.
2. Transfers of capital assets between proprietary funds or governmental/business type activities should be reported as transfers in (out).
3. At the enterprise fund level the transfer in is classified as a contributed asset, not as a transfer in.

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18

INTERFUND ACTIVITY INVOLVING COMPONENT UNITS

1. Amounts transferred between funds of the primary government and a “blended” component unit are accounted for as transfers.

or

2. Amounts transferred between funds of the primary government and a “discretely presented” component unit are accounted for as revenues and expenditures/expenses.

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19

FINANCIAL REPORTING OF INTERFUND ACTIVITY

1. Should be summarized and briefly described in the notes.
2. Consider transfers by:
   a. Individual major funds.
   b. Nonmajor governmental funds in aggregate.
   c. Nonmajor enterprise funds in aggregate.
   d. Internal service funds in aggregate.
   e. Each fiduciary fund type.
3. Describe principal purpose and identify transfers that are nonroutine or inconsistent.

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ACCOUNTING FOR INTERFUND ACTIVITY,

Interfund Activity

A. The term "interfund activity" describes financial interactions between funds of the primary government. The term "interfund transactions" describes transactions with parties outside the primary government.

B. There are two general categories of interfund activity.

   1. Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. Each fund gives and receives something of value in exchange.

   2. Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. The giving fund receives no value in return for the value given up.

C. Reciprocal interfund activity includes the following:

   1. Interfund loans—amounts provided between funds with a <u>requirement for repayment</u>.

      a. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.

      b. Interfund loans should not be reported as other financing sources or uses in the fund financial statements (regardless of how they are budgeted).

      c. If repayment of interfund loans is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

      d. Short-term interfund loans, often resulting from interfund service transactions, are classified as due from and due to other funds.

      e. Long-term portions of interfund loans are classified as advances to and advances from, and are offset by reservation of fund balance in governmental funds at the fund financial statement level only.

      f. Deficit pooled cash balances in individual funds should be reclassified to interfund loans for financial reporting purposes.

      g. Interfund loans must always remain in balance.

   2. Interfund services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value (exchange transactions between funds).

a. To be considered interfund services, the services must include programmatic activity. In other words, the fund providing the services must be *in the business* of providing the services concerned.

b. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds (e.g., charges from an internal service fund to other funds).

c. Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

d. The following is a sample journal entry to record interfund services:

	DR	CR
General fund		
Expenditures	XXX	
Cash/due to other funds		XXX
Internal service fund		
Cash/due from other funds	XXX	
Revenue		XXX

D. Nonreciprocal transactions between funds provide a benefit to the recipient fund, with no correlating benefit to the paying fund.

1. Interfund transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.

2. The most common examples are operating subsidies to other funds or funds to start up a new fund.

3. A distinction is no longer made between operating transfers and residual equity transfers. Instead all are labeled as transfers.

4. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided.

5. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

6. In proprietary funds, donations of capital assets should be offset by nonoperating expenses or capital contributions, as appropriate.

7. Interfund transfers are eliminated at the entity-wide level.

8. The proper journal entry for an operating transfer between the general fund and a debt service fund would be as follows:

	DR	CR
General fund		
Transfers out	XXX	
Cash/Due to other funds		XXX
Debt service fund		
Cash/Due from other funds	XXX	
Transfers in		XXX

9. If the governmental activities were to donate a capital asset to a proprietary or fiduciary fund, the journal entry at the fund level would involve the recognition of a capital asset in the proprietary or fiduciary fund as follows:

	DR	CR
General fund		
No entry (Capital assets are not recorded in this fund.)		
Water fund		
Capital asset	XXX	
Capital contribution		XXX

10. If a proprietary or fiduciary fund were to donate a capital asset to governmental activities, the journal entry at the fund level would involve the recognition of the removal of a capital asset from the proprietary or fiduciary fund as follows:

	DR	CR
<u>General fund</u>		
No entry (Capital assets are not recorded in this fund.)		
<u>Water fund</u>		
Nonoperating expense – loss on disposal	XXX	
Capital asset		XXX

11. If a capital asset were to be moved between proprietary or fiduciary funds, the journal entry would recognize the movement as follows:

	DR	CR
<u>Parking fund</u>		
Transfers out	XXX	
Capital asset		XXX
<u>Water fund</u>		
Capital asset	XXX	
Transfers in		XXX

E. The last interfund transaction classification is interfund reimbursements.

1. Interfund reimbursements are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

a. Common examples include overhead allocations from the general fund to other funds or departments (e.g., salaries and wages).

b. These often are budgeted as expenditures in the paying fund and revenue in the receiving fund.

c. However, GASB S-34 is clear that reimbursements should not be displayed in the financial statements. Otherwise the financial statements will display the same cost twice, once in the reimbursed fund and once in the reimbursing fund. In addition, revenues would be overstated at the fund and entity-wide levels.

d. Therefore, the receiving fund should report the reimbursement as a credit to the expenditure account. The following journal entry would be used to record a reimbursement to the general fund by a special revenue fund:

	DR	CR
Special revenue fund		
Expenditures	XXX	
Cash/due to other funds		XXX
General fund		
Cash/due from other funds	XXX	
Expenditures		XXX

1) Some are concerned that this will distort budget versus actual information or lose history on a particular account.

2) This can be avoided through the use of contra-expenditure/expense accounts.

3) Contra expenditure/expense accounts are expenditure/expense accounts that have a credit balance in them.

4) The credit balance in the contra account, when combined with the debit balance in the expenditure/expense account, reflects the true cost of the service/activity to the fund and avoids double counting of costs.

e. Interfund reimbursements should never be disguised as transfers, regardless of how the transaction is budgeted.

1) This inflates the operating transfers in the fund financial statements.

2) This also has the effect of accounting for the same cost twice at the fund financial statement level.

F. GASB Statement No.14, *The Financial Reporting Entity*, as amended by GASB S-34, requires the further segregation of transactions between the primary government and any discretely presented component units.

1. Amounts transferred between funds of the primary government and its "blended" component units should be accounted for as described above.

2. Amounts transferred between the primary government and its "discretely" presented component units should be reclassified separately as revenues and expenses.

G. Interfund transfers should be summarized and briefly described in the notes to the financial statements.

1. Transfers should be addressed in the notes based upon the columns that the government reports in its financial statements. The groups of transfers to be addressed would include:

   a. Individual major funds.
   b. Nonmajor governmental funds in aggregate.
   c. Nonmajor enterprise funds in aggregate.
   d. Internal service funds in aggregate.
   e. Each fiduciary fund type.

2. The notes should describe the principal purpose of the transfer and identify any significant transfers that are nonroutine or inconsistent with the activities of the fund making the transfer.

IGFOA INTERMEDIATE GOVERNMENTAL ACCOUNTING INSTRUCTORS

Bill Hannah is the Finance Director for the Village of North Aurora. Mr. Hannah has worked in the field of government finance and administration for over 20 years. Currently, he is serving as Finance Director/Treasurer for the Village of North Aurora where he has held that position since 2005. Previously, he was employed with the City of Wheaton for 4 years and the Village of Barrington for 7 years in various finance and administrative capacities. Mr. Hannah graduated from Northern Illinois University in De Kalb in 1996 with a Masters in Public Administration. He graduated from Illinois Benedictine College in 1994 with a major in Business Economics. Mr. Hannah has also earned the Certified Public Finance Officer (CPFO) designation from the Government Finance Officers Association of the United States and Canada.

Mr. Hannah is an active member of GFOA and IGFOA and has been a frequent speaker on various topics including governmental accounting, revenues, budgeting, pensions, IT and other related topics. He served as a team leader on IGFOA's Professional Development Committee for several years, was chair of IGFOA's Technical Accounting Review Committee and currently serves on the IGFOA Executive Board.

North Aurora during Mr. Hannah's 10 years as Director has received every year both the GFOA Certificate for Excellence in Financial Reporting and GFOA Distinguished Budget Presentation Award. Mr. Hannah has also served as a budget reviewer for GFOA's Distinguished Budget Presentation Award Panel for 14 years and previously served on the Citizens Finance Advisors Board of the St. Charles School District for 7 years.

Frederick G. Lantz, a Certified Public Accountant, is partner and the Director of Government Services at Sikich, LLP. He is responsible for providing technical services to Sikich's clients in all areas of governmental accounting, auditing, financial reporting, budget development, revenue and expenditure forecasting, and cash and debt management.

Prior to joining Sikich, Fred was an assistant director for the Technical Services Center of the Government Finance Officers Association of the United States and Canada (GFOA), where he was a nationally recognized expert in the state and local government industry. At GFOA, he was responsible for managing the Certificate of Achievement for Excellence in Financial Reporting Program, providing accounting, auditing and financial reporting assistance to state and local government officials and their auditors, and serving as a liaison to the Governmental Accounting Standards Board.

Fred is a member of the Illinois CPA Society, serving on the Governmental Report Review; the Illinois Government Finance Officers Association, serving on the Technical Accounting Review Committee; the Association of School Business Officers, serving as a panel review chair for the Certificate of Excellence Program; the Government Finance Officers Association serving on the Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting Program; the American Institute of Certified Public Accountants, the Illinois Municipal Treasurers Association and the Illinois Municipal League.

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