

Senate Bill (S.B.) 941

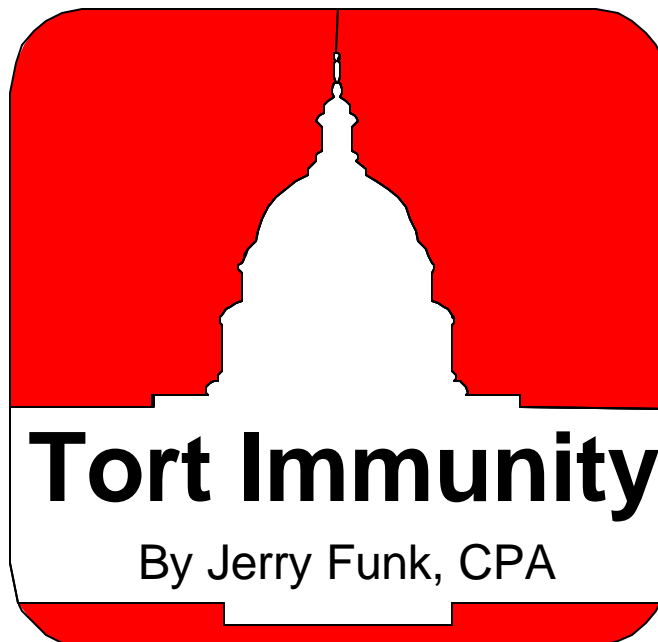
Recently, Senate Bill 941 was passed by the Illinois General Assembly to amend the Local Governmental and Governmental Employees Tort Immunity Act. Although the use of tort funds has been under some scrutiny the past few years, this amendment will likely increase scrutiny on the use of tort funds.

In the bill, the General Assembly states that "it has become apparent that some units of local government are using tort immunity tax revenue to fund expenses more properly paid from general operating funds." As a result of these abuses, they will **require new disclosure in the annual audit of tort immunity expenditures** for any local public entity that maintains a self-insurance reserve or levies and extends a property tax for tort immunity purposes. "The required annual report of these expenditures shall also list all expenditures from the reserve or from property taxes

levied or extended for tort immunity purposes. Total claim payments and total reserves must be listed in aggregate amounts.

or annual report any expenditures made from the property tax levy or self-insurance reserve **within the scope of the audit or annual report.**" The Illinois State Board of Education (ISBE) in its analysis of the bill is indicating that the disclosure may also need to include an indication as to the legality of these expenses charged to the tort levy or to tort reserves.

The bill also changed the wording on insurance, which, according to preliminary legal examination by the ISBE's legal department indicates that property damage insurance can now be paid from the tort levy. **The bill is effective immediately** and will



All other expenditures must be identified individually. A local public entity that maintains a self-insurance reserve or that levies and extends a property tax for tort immunity purposes must include in its audit

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GASB - PART 3 - by Jill Janssen, CPA

As promised, this article will be the third of a series of articles that addresses key components of GASB 34, ***Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments***. This article will focus on the requirements for management's discussion and analysis (MD&A), which is a narrative report prepared in an easily readable format by the government's financial manager. It is intended to be an introduction to the basic financial statements and should provide an analytical overview of the government's financial activities for the year. The overview should be based on management's knowledge of the transactions, events, and conditions reflected in the financial report and should be based on information that management has as of the date of the auditor's report.

GASB Statement no. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* will dramatically change financial reporting for state and local governments. This article focuses on the new government-wide financial statements (GWFS), which will probably be one of the most challenging elements of GASB 34 to implement.

GWFS are a completely different way of communicating information to users of such statements. The shift will be away from reports focused on individual funds to reports that reflect the government as a single economic unit. In order to accomplish this, the GWFS will consist of a statement of net assets and a statement of activities for the government as a whole. (These statements will be discussed in further detail below.) Not only is information arranged into a new format in the GWFS, it is also reported differently. For example, no individual funds or fund types will be displayed, fiduciary activities will be excluded, governmental activities, business activities, and component units will be presented in separate columns, all capital assets, including infrastructure assets, and depreciation expense will be reported, and most interfund balances and transactions will be eliminated.

The measurement focus and basis of accounting to be used in the

GWFS may appear to follow more of a business model than a governmental model. The new focus is on capital maintenance and the flow of economic resources, not just available expendable resources. The accrual basis of accounting will be used for all assets and liabilities. Accrual accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the period incurred if measurable. As mentioned above, fixed assets will be reported, as well as depreciation expense. The general fixed asset and general long-term debt account groups will no longer be presented.

The newly required statement of net assets will have up to four columns, one each for: governmental activities, business type activities, a total of the two, and a total of discretely presented component units. Instead of the traditional format of assets equals liabilities plus net assets the format will be assets minus liabilities equals net assets. The net assets portion of the statement will have three categories: invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. The restricted net assets category should include detail of restrictions, such as capital projects, debt

service, or other purposes.

Interfund activity and balances occurring within governmental and business type activities should be eliminated. An additional column is not necessary to display the eliminations, but can be included if desired. Activities and balances occurring between governmental and business type activities should not be eliminated. Balances due to or from fiduciary funds should be treated as receivables from or

GASB, or the Governmental Accounting Standards Board, has been designated as the body to establish accounting principles for the state and local governments.

payables to outside parties and also should not be eliminated.

The other new statement that is a required part of the GWFS is the statement of activities. It will show how each of the principal functions, programs, or other services furnished by the government either contributes to or draws from the general revenues of the government. Net expenses and net revenues should be shown in the same four columns that are used in the statement of net assets. Following the net expenses and revenues of the government's primary functions should be the following: general revenues, contributions to term and permanent endowments, contributions to

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GASB - PART 3, continued

permanent fund principal, special and extraordinary items, and transfers. These items are combined with net expenses and revenues to determine the change in net assets for the period.

A minimum level of detail is required in the statement of activities, which includes reporting governmental activities by function and business type activities by segment. All direct expenses must be reported by function, while indirect expenses may be allocated among functions. If indirect expenses are allocated, two separate columns must be presented, one showing direct and the other showing indirect expenses. Depreciation expense should be charged as a direct expense if it relates to specific functions. Indirect depreciation expense should be shown either on a separate line that states direct depreciation is not included or as part of the general government function. Later articles will further discuss the topic of reporting fixed assets, infrastructure fixed assets, and depreciation.

All revenues are classified as general revenue unless they are program revenues. For example, all taxes are general revenue and should be reported by type, such as property tax, sales tax, or income tax. Program revenues are those that are directly attributable to a program or are from revenues received from parties other than taxpayers or citizens. They reduce the amount of general revenues that are used to finance a particular program. Program revenues should be divided into three categories: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions.

It is evident why the GWFS may be one of the most challenging elements of GASB 34 to implement. As detailed in previous articles, GASB 34 becomes effective in phases, depending on the primary government's total governmental and enterprise fund revenues in the fiscal year ending after June 15, 1999. The first phase is effective for years beginning after June 15, 2001, with the next two phases effective the two years after that. That means there is plenty of time to properly plan for your government to implement the GWFS and the other elements of GASB 34. Proper planning should make the transition as smooth as possible and help preparers of financial statements become familiar with the new format. Please contact us with any questions or comments.

Sales by Fundraising Groups Under Public Act 91-637

By Jerry Funk, CPA

Legislation became effective January 1, 2000 exempting from state sales tax the proceeds from fundraising projects by booster groups or parent teacher organizations that benefit public or private schools. The new law has generated numerous questions by schools and related organizations. Following is a summary of the requirements that need to be met for the tax exemption:



The first requirement is that the fundraising event must be entirely for the benefit of the school. For example, if a group such as the PTA sells donated items and gives a portion of the proceeds back to the donor, the exemption would not apply. However, if the entire proceeds from the sale go to the school, the sales are tax exempt.



The next requirement is that the group or organization conducting the event must be "recognized" by the school. How the recognition is accomplished is not spelled out in the act specifically. The most common interpretation of the recognition requirement is that the school grant approval to the group, in the form of written certification, to sell tangible personal property for the purpose of benefiting the school.



The third requirement is that the group sponsoring the fundraiser must be comprised mainly of volunteers, including parents and teachers of the students.



Finally, the exemption will not apply when the group or organization purchases items which in turn it will sell from a supplier who:

- 1) sells the items to the fundraising group for the purpose of resale and
- 2) profits from the sale to the fund raising organization.

Examples could include greeting cards, wrapping paper, candy bars or other prepared food items. The exemption would apply however, in the case where the organization was making a meal such as a pancake breakfast when the organization

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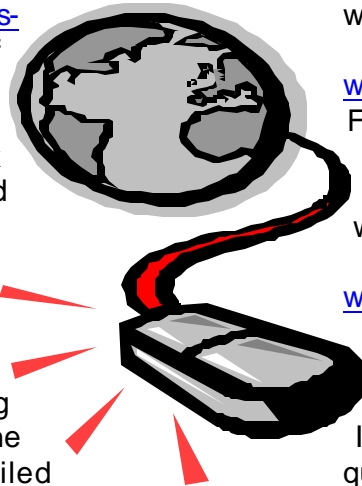
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Sales by Fundraising Groups

Under Public Act 91-637, continued

purchases the ingredients from a local grocery store to use to make the meal. In the case of such an event, the food did not come complete and ready-to-sell.

From the above requirements, it would appear that a fund raising group can only receive the tax exemption when it sells items that it has prepared or items which have been donated to it. The benefit of the new act is that groups qualifying under the act do not have to obtain an "E" number from the Department of revenue and may engage in unlimited selling. Prior to the act, there were only three very limited exemptions provided for not-for-profit entities engaged in sales of tangible personal property to its members or the public to be exempt from sales tax.