



# **THE GASB 34 REPORTING GUIDELINES FOR GOVERNMENT FINANCIAL STATEMENTS**

**A Civic Federation Issue Brief**

**Prepared By  
The Civic Federation  
August 2004**

OVERVIEW .....	3
THE SIGNIFICANCE OF THE NEW REPORTING GUIDELINES.....	3
Current Fund-Based Financial Statements: Useful but Incomplete.....	4
The Change: More Comprehensive Financial Statements.....	4
HIGHLIGHTS OF THE REPORTING MODEL.....	5
Management's Discussion and Analysis .....	6
Basic Financial Statements .....	6
Government-Wide Financial Statements .....	6
Key Features of the Government-Wide Statements.....	7
The Statement of Net Assets.....	7
The Statement of Activities .....	10
Infrastructure Asset Reporting.....	12
Fund-Based Financial Statements: Reporting by Major Fund.....	14
Enhanced Budget to Actual Comparisons .....	15
GLOSSARY OF SELECTED TERMS.....	16
APPENDIX 1: STATE OF ILLINOIS .....	17
State of Illinois FY2003 Statement of Net Assets .....	17
State of Illinois FY2003 Statement of Activities.....	19
APPENDIX 2: COOK COUNTY.....	21
Cook County FY2002 Statement of Net Assets .....	21
Cook County FY2002 Statement of Activities.....	22

## **OVERVIEW**

The Governmental Accounting Standards Board (GASB) issued new guidelines in 1999 that fundamentally change the way state and local governments report their finances. For the first time, governments' audited financial statements contain information about the full cost of providing public services, including infrastructure. The Civic Federation supported the adoption of these guidelines in GASB's *Statement Number 34* and provided commentary on them through representation on the Governmental Accounting Standards Advisory Committee in 1999.<sup>1</sup>

This Issue Brief describes how the new financial statements differ from traditional fund-based statements, explains some of the features of the new statements and provides illustrations from the City of Chicago, Cook County and the State of Illinois.

The new reporting guidelines become effective in three phases:

- Governments with total annual revenues of \$100 million or more in the first fiscal year ending after June 15, 1999, will prepare the new financial statements no later than June 15, 2002;
- Governments with total annual revenues of between \$10 million and \$100 million will begin no later June 15, 2003;
- Governments with total annual revenues below \$10 million will begin no later than June 15, 2004.

Some of the Illinois governments that have complied with the requirements of GASB 34 to date include the State of Illinois, the City of Chicago, Cook County, the Chicago Public Schools, the Chicago Park District and the Metropolitan Water Reclamation District.

The Governmental Accounting Standards Board (GASB) is the private, nonprofit body responsible for establishing accounting and financial reporting standards for the more than 84,000 state and local governments in the United States (not including the federal government). State and local governments are required to follow GASB standards in order to obtain unqualified audit opinions from their auditors.

## **THE SIGNIFICANCE OF THE NEW REPORTING GUIDELINES**

Why should anyone care about governmental financial reporting? Because policymakers and citizens have a right to know the full cost of all services provided by state and local governments, whether costs are being shifted from current to future generations, whether government's financial condition has improved or deteriorated, and how much is being spent on infrastructure costs. In short, policymakers and citizens are entitled to a comprehensive accounting of public funds that will help them make informed decisions about government expenditures and appropriate levels of taxation. That information is not readily available in traditional fund-based financial statements, because they are too disaggregated to provide an

---

<sup>1</sup> Roland Calia, Civic Federation Research Director, served on the Governmental Accounting Standards Advisory Committee representing the Governmental Research Association.

overall picture of the government's finances. Traditional statements have a narrow short-term focus and are incomplete because they lack information about capital assets. These problems are addressed with the implementation of GASB's new reporting guidelines.

### **Current Fund-Based Financial Statements: Useful but Incomplete**

Governmental financial statements currently are organized by funds. Fund-based reporting ensures comparability of information over time, offers a level of detail important to many users, and helps hold governments accountable for using resources in accord with legal and budgetary requirements. For these reasons, governments are still required to prepare fund-based statements under the new reporting guidelines. However, fund-based financial statements are unsuitable for assessing the government as a whole. A government may have anywhere from 2 to 200 or more funds. Thus, even the most experienced users can have difficulty trying to synthesize the information or comprehend how a government's over-all financial position has changed from the previous year.

Understanding the "big picture" in fund-based financial statements is also difficult because fund accounting for general governmental activities, such as police protection, focuses on short-term resources such as cash and investments and short-term liabilities rather than long-term resources and liabilities.

To track these services, governments employ *modified accrual accounting*, which reports only the revenues received and the cost paid for services provided in the current year or soon thereafter. However, governments use *full accrual accounting* (the method utilized in the private sector) for *business-type activities* (such as airports) that charge a fee for services. They also use full accrual accounting to report fiduciary activities (such as a pension fund) in which governments act as agents for outside parties. While the modified accrual accounting method permits government officials to demonstrate how well they are managing public funds in the short-term, it does not allow users to understand a government's total financial condition in the long-term.

Traditional government financial statements do not provide any information about the costs of constructing and maintaining infrastructure assets, such as bridges, roads, buildings, and sewers. This is true despite the fact that state and local governments invest as much as \$150 billion annually in the construction, improvement and rehabilitation of capital assets, including infrastructure assets. This figure represents more than 10% of every dollar spent by those governments. Private sector firms and nonprofit organizations, in contrast, include capital assets and the cost of using them over time in their financial statements.

### **The Change: More Comprehensive Financial Statements**

The new reporting rules address many of the shortcomings of traditional financial reporting. They require annual financial statements to be more accessible and contain comprehensive information that can be used to assess a government's long-term, total financial condition.

Under the new rules, governments continue to provide information for major funds. However, they now also provide *government-wide statements* that are prepared using full accrual accounting.

The government-wide statements look at government from an economic perspective, which views government as a single economic unit, not just a collection of separate funds. They use a single basis of accounting - full accrual - so that all revenues and all expenses in a fiscal year are reported. That includes all measurable assets and liabilities, both short-term and long-term, financial and capital, whether they support governmental activities or fee-for-service activities.

For the first time, financial statements report information about all capital assets, including infrastructure assets like roads and bridges.

The government-wide statements give users the information they need to answer the following questions:

- What is the full cost of the services provided by government?
- Does the government have sufficient resources to meet future obligations?
- Does the government have a surplus or deficit?
- Is the government's overall debt increasing, placing a burden on future taxpayers?
- How much does the government spend to maintain roads and bridges?
- Are a government's recreational facilities self-supporting or do they require funding from general taxes?
- Is a government paying for police patrols with money collected from utility customers?

In sum, the new reporting guidelines provide better information to help policymakers and the public better determine their taxing and spending priorities.

## **HIGHLIGHTS OF THE REPORTING MODEL**

The following sections describe some of the most significant changes in the new financial reporting rules. Under the new reporting guidelines, governments preparing their financial statements in accordance with Generally Accepted Accounting Principles (GAAP) must present:

- *Basic Financial Statements*, which include Government-Wide Financial Statements, Fund Financial Statements and Notes to the Financial Statements.
- *Required Supplementary Information (RSI)*, which consists of the Management's Discussion and Analysis preceding the Basic Financial Statements and additional information following the Notes. RSI also includes comparative information from a government's originally adopted budget, final modified budget and actual results.<sup>2</sup>

---

<sup>2</sup> Dean Michael Mead. *An Analyst's Guide to Government Financial Statements*. (Norwalk: Governmental Accounting Standards Board, 2001), pp. 1-2.

## Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is intended to be a “plain English” presentation of a government's overall financial condition. It introduces the basic financial statements.

The purpose of the MD&A is to help users readily determine whether a government's finances have improved or deteriorated since the previous year. It discusses the *reasons* for significant changes from the previous year, rather than just listing the amounts or percentages of change.

Some of the important information included in the MD&A is listed below:

- An introduction to the financial statements and how they relate to each other.
- A comparison of current year finances to the prior year based on government-wide financial information about assets, liabilities, revenues and expenditures.
- An explanation of any significant variations between original and final budget amounts.
- A description of capital asset and long- term debt activity during the year, including a discussion of commitments made for capital expenditures.
- A discussion of any known facts, decisions or conditions that can be expected to have an impact on the government’s future financial position, such as changes in tax or employment bases.

## Basic Financial Statements

The basic financial statements consist of *government-wide financial statements* and *fund-based financial statements* as well as the *notes* to the financial statements. The following section describes key features of the new government-wide financial statements and an important change in the way the fund-based statements classify and report major and nonmajor funds.

### *Government-Wide Financial Statements*

The government-wide financial statements provide a comprehensive overview of a state or local government's finances in one place for the first time. They include information about the full cost of providing services to citizens each year. This is possible because the statements are prepared using the *full accrual basis of accounting*, the same approach used by the private sector, and because all of the government's activities are reported together rather than spread among a variety of different funds.

*Full accrual accounting* recognizes revenues and expenses when they occur. All government activities are reported, including not just current assets and liabilities, but also infrastructure assets and long-term liabilities. The information generated in financial statements using full accrual accounting helps users more readily assess:

- Whether a government's financial position has improved or deteriorated as a result of the year's operations,

- Whether the cost of services currently delivered is being paid today, or shifted to future years or generations,
- The extent to which programs or activities were supported by taxes or user fees, and
- How much a government has invested in infrastructure assets such as roads and bridges.

The new statements also help users by identifying "special and extraordinary" events that make a government's financial position look better than it really is, such as one-shot revenue infusions, transfers, shifts of payments or receipts from one fiscal year to the next, and borrowing to fund operations.

### *Key Features of the Government-Wide Statements*

The government-wide financial statements distinguish between the governmental and business-type activities of the primary government. They do not include fiduciary activities, in which the government acts as a trustee for outside parties, such as employee retirement systems, because the resources belonging to those activities are not available to be used by the government to provide services.

Governmental system activities include most of the services usually associated with government, such as public works, sanitation, or police protection. Business-type activities are those operations for which fees are charged, including water and sewer systems. Together, governmental and business-type activities make up the "primary government."

The financial statements also distinguish between the activities of the primary government and its component units by reporting each in separate columns. Component units are legally separate entities for which the elected leaders of the primary government are financially responsible, e.g., a forest preserve district or a landfill.

The government-wide statements consist of a statement of net assets and a statement of activities. Each is briefly described and illustrated below.

### *The Statement of Net Assets*

The Statement of Net Assets permits users to quickly determine whether a government's financial situation has improved or declined by focusing attention on the net assets remaining at year-end. Net assets are the difference between a government's assets (what it owns) and its liabilities (what it owes). This statement is similar to the *Balance Sheet* or *Statement of Financial Position* that private sector organizations produce. Therefore, the Statement contains three sections: Assets, Liabilities and Net Assets. Comparing assets with liabilities informs judgments about the government's capacity to pay its debts when they come due.

In the Statement of Net Assets, assets are reported in order of liquidity, or how quickly an asset can be converted to cash. Current assets, which will be used or converted to cash within a one-year period, are listed first. In addition to cash on hand, they include investments and receivables. The reporting of noncurrent assets, which will be liquidated at some time beyond

the current year, follows.<sup>3</sup> Types of noncurrent assets commonly reported include restricted assets and capital assets. Restricted assets are assets that a government is externally or legally forbidden to use for operating purposes.<sup>4</sup> For example, if a financial statement reports “restricted assets – landfill closure,” those assets may only be used for the purpose of closing the landfill and expenses related to maintaining it after the closure.<sup>5</sup> Capital assets are shown in the Statement of Net Assets at their historical cost less depreciation accumulated over time.

Liabilities are reported in order of maturity, which is when those obligations must be paid. Current liabilities, such as accounts payable, voucher warrants payable and short-term debt must be paid within one year. They are listed first in the Liabilities section of the Statement. Long-term liabilities, which are to be repaid after a one-year period, are listed next.

Net assets are displayed in three categories:

- 1) Invested in capital assets, net of related debt. This figure is calculated by deducting outstanding debts for capital assets from the net figure for capital assets shown in the Assets portion of the Statement;<sup>6</sup>
- 2) Restricted net assets, which means their use is limited to a particular purpose. The Statement of Net Assets includes a listing of major categories of restrictions.
- 3) Unrestricted net assets, which can be used for any purpose.

The exhibit that follows is the City of Chicago’s Statement of Net Assets for FY2002, which is the City’s first financial statement prepared according to GASB 34 rules. For that fiscal year, the City reported a total of \$19.4 billion in assets and \$15.4 billion in liabilities with \$4 billion in net assets remaining after liabilities were deducted from assets. The Statement also shows that:

- Capital assets, net of depreciation, account for \$12.3 billion or 63% of the City’s assets.
- 88% of Chicago’s liabilities, or \$13.5 billion, were long-term liabilities due in more than one year; and
- \$1.7 billion of net assets were restricted for particular purposes while \$3.1 billion was reported as being invested in specific capital assets.

The City’s Comprehensive Annual Financial Report (CAFR) reports an unrestricted net assets deficit of \$851 million. This does not mean that Chicago has insufficient financial resources to pay its obligations over time, but rather indicates that long-term commitments are greater than current resources. Certain long-term commitments are not included in annual budgets such as the full amounts necessary to finance future liabilities from property and casualty claims and the Police and Fire pension funds’ net obligations. These obligations total over \$1.6 billion. The City will include those amounts in subsequent budgets as the amounts come due.<sup>7</sup>

---

<sup>3</sup> Mead, p. 13

<sup>4</sup> Mead, p. F-12.

<sup>5</sup> Ibid, p. 52.

<sup>6</sup> Ibid, p. 18.

<sup>7</sup> *City of Chicago FY2002 Comprehensive Annual Financial Report*, p. 20. See also Mead, p. 18.

**CITY OF CHICAGO  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDING DECEMBER 31, 2002  
(Amounts are in Thousands of Dollars)**

	<b>Governmental Activities</b>	<b>Primary Government Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 838,303	\$ 152,297	\$ 990,600
Investments	\$ 833,533	\$ 3,199	\$ 836,732
Cash & Investments with Escrow Agent	\$ 297,811	\$ -	\$ 297,811
Receivables (net of allowances)			
Property Tax	\$ 839,098	\$ -	\$ 839,098
Accounts	\$ 508,843	\$ 127,683	\$ 636,526
Internal Balances	\$ 32,140	\$ (32,140)	\$ -
Inventories	\$ 22,827	\$ 17,997	\$ 40,824
Restricted Assets:			
Cash & Cash Equivalents	\$ -	\$ 1,167,655	\$ 1,167,655
Investments	\$ -	\$ 1,251,723	\$ 1,251,723
Other Assets	\$ 685,480	\$ 357,099	\$ 1,042,579
Capital Assets (Note 2):			
Land, Improvements, Art & Construction in Progress	\$ 1,384,977	\$ 1,053,574	\$ 2,438,551
Other Capital Assets, Net of Depreciation	\$ 4,446,226	\$ 5,447,524	\$ 9,893,750
<b>Total Capital Assets</b>	<b>\$ 5,831,203</b>	<b>\$ 6,501,098</b>	<b>\$ 12,332,301</b>
<b>Total Assets</b>	<b>\$ 9,889,238</b>	<b>\$ 9,546,611</b>	<b>\$ 19,435,849</b>
<b>LIABILITIES</b>			
Voucher Warrants Payable	\$ 417,186	\$ 251,280	\$ 668,466
Short-term Debt	\$ 13,312	\$ -	\$ 13,312
Accrued Interest	\$ 79,072	\$ 145,497	\$ 224,569
Accrued & Other Liabilities	\$ 241,726	\$ 111,733	\$ 353,459
Deferred Revenue	\$ 203,739	\$ 38,233	\$ 241,972
Long-Term Liabilities:			
Due Within One Year	\$ 280,225	\$ 73,675	\$ 353,900
Due in More than One Year	\$ 7,064,982	\$ 6,488,699	\$ 13,553,681
<b>Total Liabilities</b>	<b>\$ 8,300,242</b>	<b>\$ 7,109,117</b>	<b>\$ 15,409,359</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 1,418,685	\$ 1,744,719	\$ 3,163,404
Restricted for:			
Capital Projects	\$ 32,543	\$ 208,253	\$ 240,796
Debt Service	\$ 802,126	\$ 28,569	\$ 830,695
Federal, State & Local Grants	\$ 23,590	\$ -	\$ 23,590
Other Purposes	\$ 139,428	\$ 479,882	\$ 619,310
Unrestricted (Deficit)	\$ (827,376)	\$ (23,929)	\$ (851,305)
<b>Total Net Assets</b>	<b>\$ 1,588,996</b>	<b>\$ 2,437,494</b>	<b>\$ 4,026,490</b>

## *The Statement of Activities*

The Statement of Activities presents information about the cost of government programs and how the government financed those costs.

The format of the Statement of Activities focuses on the *net cost* of each function. Thus, the expenses of individual programs, such as public safety or health and sanitation, are compared directly to the revenues generated by those programs, including user charges and categorical grants. Users are able to clearly see the extent to which each governmental function places a burden on the government's constituents by requiring general revenues to finance its operations.

The statement also helps the user assess the government's bottom line: were revenues sufficient to cover expenses? Is the government living off accumulated resources from past years, or is it burdening future taxpayers to pay for today's services?

The Statement of Activities (and the fund statements as well) report special and extraordinary items separately from other revenues and expenditures. Special items are significant but unusual transactions within a government's control, such as the proceeds from the sale of parkland. Extraordinary items are beyond a government's control, such as cleaning up the cost of a natural disaster. Because these items are shown separately, readers can directly compare the government's conventional, recurring revenues and expenses to determine if the government is making ends meet.

The following questions can be answered by referring to the City of Chicago's FY2002 Statement of Activities on the succeeding page.

### How Much of Chicago's Expenses Were Paid For With User Fees and Grants?

- Chicago had \$4.6 billion in expenses for governmental activities in FY2002. Program revenues generated by user fees and grants from those programs paid for \$1.5 billion or 33% of that amount. Because program expenses exceed program revenues, the remaining \$3.1 billion is a net expense that must be financed with general revenues or other resources.
- Revenues from business-type activities, such as airports, generated \$20.9 million more than the total expenses for those activities.
- When both governmental and business-type activities are combined, \$2.7 billion of total expenses of \$5.8 billion were paid for with user fee and grant revenues generated by those programs.

### What Was the Change in Net Assets During the Fiscal Year?

- General revenues and other resources are totaled in the lower half of the Statement of Activities and that sum is added to the net expense total. The sum that results is the aggregate change in net assets for the year.
- In the City of Chicago's Statement of Activities, the total amount of \$2.9 billion in general revenues and transfers is added to the total primary government's net expense of nearly \$3.1 billion. Adding the two amounts shows that City expenses in FY2002 exceeded revenues by \$173 million and thus net assets were reduced by that amount at the end of the fiscal year.
- Governmental Activities expenses exceeded revenues by \$214 million, while the Business-Type activities produced a surplus of \$41 million.

**CITY OF CHICAGO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING DECEMBER 31, 2002**

<i>Functions/Programs</i>	<b>PROGRAM REVENUES</b>				<b>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</b>		
	<i>Expenses</i>	<i>Licenses, Permits, Fines &amp; Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	<i>Primary Government</i>		
					<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
<i>Primary Government</i>							
Governmental Activities							
General Government	\$ 1,587,322,000	\$ 337,809,000	\$ 529,840,000	\$ 6,503,000	\$ (713,170,000)	\$ -	\$ (713,170,000)
Public Safety	\$ 1,623,340,000	\$ 91,392,000	\$ 42,448,000	\$ -	\$ (1,489,500,000)	\$ -	\$ (1,489,500,000)
Employee Pensions	\$ 328,518,000	\$ -	\$ -	\$ -	\$ (328,518,000)	\$ -	\$ (328,518,000)
Streets and Sanitation	\$ 318,982,000	\$ 26,937,000	\$ -	\$ -	\$ (292,045,000)	\$ -	\$ (292,045,000)
Transportation	\$ 240,572,000	\$ 14,216,000	\$ -	\$ 345,686,000	\$ 119,330,000	\$ -	\$ 119,330,000
Health	\$ 178,741,000	\$ 3,135,000	\$ 109,637,000	\$ -	\$ (65,969,000)	\$ -	\$ (65,969,000)
Cultural & Recreational	\$ 102,516,000	\$ 18,977,000	\$ 13,128,000	\$ -	\$ (70,411,000)	\$ -	\$ (70,411,000)
Other	\$ 10,332,000	\$ -	\$ 15,843,000	\$ -	\$ 5,511,000	\$ -	\$ 5,511,000
Interest on Long-Term Debt	\$ 280,347,000	\$ -	\$ -	\$ -	\$ (280,347,000)	\$ -	\$ (280,347,000)
Total Governmental Activities	<u>\$ 4,670,670,000</u>	<u>\$ 492,466,000</u>	<u>\$ 710,896,000</u>	<u>\$ 352,189,000</u>	<u>\$ (3,115,119,000)</u>	<u>\$ -</u>	<u>\$ (3,115,119,000)</u>
Business-Type Activities							
Water	\$ 305,246,000	\$ 315,458,000	\$ -	\$ -	\$ -	\$ 10,212,000	\$ 10,212,000
Sewer	\$ 146,286,000	\$ 141,330,000	\$ -	\$ 488,000	\$ -	\$ (4,468,000)	\$ (4,468,000)
Midway Airport	\$ 117,117,000	\$ 89,858,000	\$ -	\$ 38,522,000	\$ -	\$ 11,263,000	\$ 11,263,000
Chicago O'Hare International Airport	\$ 611,484,000	\$ 451,046,000	\$ -	\$ 154,286,000	\$ -	\$ (6,152,000)	\$ (6,152,000)
Chicago Skyway	\$ 34,790,000	\$ 43,232,000	\$ -	\$ 1,626,000	\$ -	\$ 10,068,000	\$ 10,068,000
Total Business-Type Activities	<u>\$ 1,214,923,000</u>	<u>\$ 1,040,924,000</u>	<u>\$ -</u>	<u>\$ 194,922,000</u>	<u>\$ -</u>	<u>\$ 20,923,000</u>	<u>\$ 20,923,000</u>
<b>Total Primary Government</b>	<u><b>\$ 5,885,593,000</b></u>	<u><b>\$ 1,533,390,000</b></u>	<u><b>\$ 710,896,000</b></u>	<u><b>\$ 547,111,000</b></u>	<u><b>\$ (3,115,119,000)</b></u>	<u><b>\$ 20,923,000</b></u>	<u><b>\$ (3,094,196,000)</b></u>
<i>Component Units</i>							
Landfill	\$ 3,382,157	\$ 3,857,858	\$ -	\$ 11,397	\$ -	\$ -	\$ -
Public School System	\$ 31,186,498	\$ 705,765	\$ 3,937,083	\$ -	\$ -	\$ -	\$ -
<b>Total Component Units</b>	<u><b>\$ 34,568,655</b></u>	<u><b>\$ 4,563,623</b></u>	<u><b>\$ 3,937,083</b></u>	<u><b>\$ 11,397</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
<b>General Revenues</b>							
<b>Taxes:</b>							
Property Tax					\$ 692,867,000	\$ -	\$ 692,867,000
Utility Tax					\$ 488,419,000	\$ -	\$ 488,419,000
Sales Tax					\$ 190,462,000	\$ -	\$ 190,462,000
Transportation Tax					\$ 322,811,000	\$ -	\$ 322,811,000
Transaction Tax					\$ 232,168,000	\$ -	\$ 232,168,000
Special Area Tax					\$ 150,077,000	\$ -	\$ 150,077,000
Other Tax					\$ 162,951,000	\$ -	\$ 162,951,000
Unrestricted Grants & Contributions					\$ 506,452,000	\$ -	\$ 506,452,000
Unrestricted Investment Earnings					\$ 52,377,000	\$ 42,094,000	\$ 94,471,000
Miscellaneous					\$ 74,187,000	\$ 6,132,000	\$ 80,319,000
Transfers					\$ 27,662,000	\$ (27,662,000)	\$ -
Total General Revenues and Transfers					<u>\$ 2,900,433,000</u>	<u>\$ 20,564,000</u>	<u>\$ 2,920,997,000</u>
Change in net assets					\$ (214,676,000)	\$ 41,487,000	\$ (173,189,000)
Net Assets - Beginning					\$ 1,803,672,000	\$ 2,396,007,000	\$ 4,199,679,000
Net Assets - Ending					<u>\$ 1,588,996,000</u>	<u>\$ 2,437,494,000</u>	<u>\$ 4,026,490,000</u>

## *Infrastructure Asset Reporting*

One of the most significant features of government-wide financial statements is the first-time inclusion of information about all capital assets. “Capital assets” include all general governmental infrastructure assets, such as roads, bridges and sewer systems. Traditional annual financial statements provide no information about this enormous category of assets.

There are two different ways that governments can provide information about their capital assets: 1) historical cost depreciation or 2) condition assessment.

The historical cost depreciation method requires governments to calculate the historical or original cost of the existing major infrastructure assets that were constructed, purchased or renovated since the first fiscal year ending after June 30, 1980. This figure is reported on the Statement of Activities. At a minimum, the government can assess the historical cost of their infrastructure over a 25-year period and then allocate those costs over the useful lives of the assets by reporting annual depreciation expenses in the Statement of Activities.

The second method of presenting capital asset information involves evaluating and reporting on the condition of those assets. Governments that can provide documentation that they are maintaining and preserving their infrastructure at an established condition level may report their maintenance and preservation expenses in lieu of depreciation. If governments choose the condition assessment option, they are required to disclose the following information:

- The assessed physical condition of infrastructure assets. Assessments must be performed at least every 3 years. The results of at least the three most recent condition assessments must be disclosed.
- Descriptions of the criteria the government uses to measure and report asset conditions and the intended condition level.
- A comparison between the annual dollar amount estimated to be required to maintain and preserve the assets at the condition level established by the government and the actual expenses for at least 5 years.
- Explanations of factors affecting trends in the disclosed information.

Governments opting to report maintenance and preservation information make those disclosures in the *required supplementary information* (RSI) section of the annual financial report.

In its financial statements, Chicago defines capital assets as “assets, or a network of assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.”<sup>8</sup> These assets are recorded at historical cost or the estimated historical cost of when they are either purchased or constructed. Infrastructure is depreciated using a straight-line formula, which spreads depreciation evenly over the life of an asset. The City uses the following estimates to calculate the useful life of capital assets.

---

<sup>8</sup> City of Chicago FY2002 Comprehensive Annual Financial Report, Note 1(d)(6), p. 51.

<b>CITY OF CHICAGO DEPRECIATION SCHEDULE</b>	
<b>Capital Asset</b>	<b>Estimated Useful Life</b>
Utility Plant	25-100 years
Utility Structures and Improvements	50-100 years
Buildings and Improvements	5-40 years
Airport runways, aprons, tunnels, taxiways, etc.	5-40 years
Bridge Infrastructure	10-50 years
Lighting Infrastructure	25 years
Street Infrastructure	10-25 years
Transit Infrastructure	10-40 years
Equipment (vehicle, office, computer)	4-33 years

**Source:** FY2002 City of Chicago CAFR, p. 51.

The next exhibit shows the City of Chicago’s disclosure of information about its capital assets in its FY2002 Comprehensive Annual Financial Report. In that year, the City reported that the value of its land, buildings, machinery, infrastructure and other improvements totaled \$12.3 billion at the end of 2002. This represented an increase of \$854 million between January 1 and December 31, 2002. Over \$2.4 billion was reported in non-depreciable assets for both Governmental and Business-Type Activities. These include land, construction in progress and works of art.<sup>9</sup> All capital assets were depreciated during FY2002 in the amount of \$4.3 billion.

Approximately \$1.6 billion in “Additions” are shown in the exhibit. These represent the purchase or construction of new assets or improvements to existing assets.<sup>10</sup> Disposals and transfers reflect the removal of costs and depreciation associated with assets sold or eliminated.

---

<sup>9</sup> Land is always recorded in financial statements at cost.

<sup>10</sup> Mead, p. 58.

**CITY OF CHICAGO**  
**DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS (Note 6)**  
**FOR THE YEAR ENDING DECEMBER 31, 2002**  
(Dollars in Thousands)

	<u>Balance</u> <u>January 1, 2002</u>	<u>Additions</u>	<u>Disposals</u> <u>and</u> <u>Transfers</u>	<u>Balance</u> <u>December 31, 2002</u>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated				
Land	\$ 1,166,906	\$ 28,624	\$ -	\$ 1,195,530
Works of art, historical collections	\$ 7,640	\$ 739	\$ -	\$ 8,379
Construction in Progress	\$ 268,047	\$ 492,590	\$ (579,569)	\$ 181,068
Total Capital Assets, not being depreciated	<u>\$ 1,442,593</u>	<u>\$ 521,953</u>	<u>\$ (579,569)</u>	<u>\$ 1,384,977</u>
Capital assets, being depreciated:				
Buildings & Other Improvements	\$ 1,123,304	\$ 70,029	\$ -	\$ 1,193,333
Machinery and Equipment	\$ 671,056	\$ 73,942	\$ (8,804)	\$ 736,194
Infrastructure	\$ 4,075,703	\$ 555,621	\$ -	\$ 4,631,324
Total Capital assets, being depreciated	<u>\$ 5,870,063</u>	<u>\$ 699,592</u>	<u>\$ (8,804)</u>	<u>\$ 6,560,851</u>
Less accumulated depreciation for:				
Buildings & Other Improvements	\$ 290,070	\$ 30,985	\$ -	\$ 321,055
Machinery and Equipment	\$ 359,076	\$ 74,449	\$ (8,290)	\$ 425,235
Infrastructure	\$ 1,199,993	\$ 168,342	\$ -	\$ 1,368,335
Total accumulated depreciation	<u>\$ 1,849,139</u>	<u>\$ 273,776</u>	<u>\$ (8,290)</u>	<u>\$ 2,114,625</u>
Total capital assets being depreciated, net	<u>\$ 4,020,924</u>	<u>\$ 425,816</u>	<u>\$ (514)</u>	<u>\$ 4,446,226</u>
<b>Total Governmental Activities</b>	<b><u>\$ 5,463,517</u></b>	<b><u>\$ 947,769</u></b>	<b><u>\$ (580,083)</u></b>	<b><u>\$ 5,831,203</u></b>
<b>Business-Type Activities</b>				
Capital Assets, not being depreciated				
Land	\$ 183,309	\$ 33,856	\$ -	\$ 217,165
Construction in Progress	\$ 676,267	\$ 462,316	\$ (302,175)	\$ 836,408
Total Capital Assets, not being depreciated	<u>\$ 859,576</u>	<u>\$ 496,172</u>	<u>\$ (302,175)</u>	<u>\$ 1,053,573</u>
Capital assets, being depreciated:				
Buildings & Other Improvements	\$ 6,862,174	\$ 348,683	\$ 41,002	\$ 7,251,859
Machinery and Equipment	\$ 329,371	\$ 26,990	\$ 46,251	\$ 402,612
Total Capital assets, being depreciated	<u>\$ 7,191,545</u>	<u>\$ 375,673</u>	<u>\$ 87,253</u>	<u>\$ 7,654,471</u>
Less accumulated depreciation for:				
Buildings & Other Improvements	\$ 1,868,364	\$ 146,533	\$ (884)	\$ 2,014,013
Machinery and Equipment	\$ 168,246	\$ 25,083	\$ (396)	\$ 192,933
Total accumulated depreciation	<u>\$ 2,036,610</u>	<u>\$ 171,616</u>	<u>\$ (1,280)</u>	<u>\$ 2,206,946</u>
Total capital assets being depreciated, net	<u>\$ 5,154,935</u>	<u>\$ 204,057</u>	<u>\$ 88,533</u>	<u>\$ 5,447,525</u>
<b>Total Business-Type Activities</b>	<b><u>\$ 6,014,511</u></b>	<b><u>\$ 700,229</u></b>	<b><u>\$ (213,642)</u></b>	<b><u>\$ 6,501,098</u></b>
<b>Capital Assets at December 31, 2002</b>	<b><u>\$ 11,478,028</u></b>	<b><u>\$ 1,647,998</u></b>	<b><u>\$ (793,725)</u></b>	<b><u>\$ 12,332,301</u></b>

*Fund-Based Financial Statements: Reporting by Major Fund*

Fund-based information, which provides an important short-term measure of the revenues and expenditures of funds as well as individual fund performance, continues to be presented in the basic financial statements. However, the fund-based information is now presented by "major" fund, including the general fund.

Traditionally, fund information is reported in the aggregate by fund type. For example, individual governmental funds are classified into one of the four following fund types: general, special revenue, debt service or capital projects. Assets and liabilities are reported in the

financial statements in the aggregate for each fund type. This aggregation obscures the activities of individual funds, making it difficult for a user to assess a government's accountability for a major program, or a particular dedicated revenue. Now, users are able to track developments in an individual water and sewer fund or a road construction fund.

Under the new rules, fund statements show separate columns for the general fund and other "major" governmental and enterprise funds. Major funds are defined to be those funds whose revenues, expenditures, assets or liabilities are at least 10% of the total for that fund category or type and at least 5% of the aggregate for all governmental and enterprise funds. Any other fund may be reported as a major fund if the government determines that the fund is particularly important to users. The remaining funds are classified as "nonmajor" funds and are aggregated in a separate column. However, governments that publish a CAFR display the nonmajor funds individually in the "combining" statements that follow the basic financial statements.

<b>CITY OF CHICAGO MAJOR FUNDS</b>
<b>Governmental Funds:</b>
General (Corporate) Fund
Federal, State and Local Grants Fund
Bond, Note, Redemption and Interest Fund
Community Development and Improvement Projects Fund
<b>Proprietary Funds (for Business-Type Activities):</b>
Water Fund
Sewer Fund
Chicago O'Hare International Airport Fund
Midway Airport Fund

#### *Enhanced Budget to Actual Comparisons*

Governments continue to provide information in their annual reports comparing final budget to accrual results for the general fund and for each major special revenue fund that has a legally adopted budget. However, for the first time, information also is provided about a government's originally adopted budget.

Most governments revise their budgets over the course of a year. Including information about the original, final and actual budgets should help users to readily assess a government's ability to estimate and manage its general resources, as well as judge the government's budgetary compliance. The budgetary comparison schedule is disclosed in the required supplementary information (RSI) section of the financial statements.

Another new feature on the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances is a "summary reconciliation." These reconciliations are presented in the financial statements to help users understand the relationship between how the fund-based and government-wide financial statements relate to one another.

## **GLOSSARY OF SELECTED TERMS**

**Accrual Accounting.** An accounting system that records revenues in the year in which they are earned (whether or not they have been received) and expenses in the year the resources are used.

**Asset.** Anything of value an organization owns.

**Business-Type Activities.** Government activities financed primarily by user fees and charges that operate and are financed like a private sector enterprise.

**Capital Assets.** Buildings or equipment with useful lives of more than year.

**Fiduciary Activities.** Activities in which a government acts as a trustee or agent for another entity, such as a pension fund.

**GASB Statement Number 34.** GASB issues authoritative statements of accounting standards that are recognized under Rules of Conduct of the American Institute of Certified Public Accountants as the source of Generally Accepted Accounting Principles (GAAP). Statement Number 34 presents new reporting requirements for the audited financial statements prepared by state and local governments.

**Generally Accepted Accounting Principles (GAAP).** The rules and conventions for preparing financial statements as established by GASB. In the audit function, auditors give opinions regarding whether or not financial statements contain errors and if they conform to GAAP

**Governmental Accounting Standards Board.** The private, nonprofit body responsible for establishing accounting and financial reporting standards for state and local governments in the United States

**Government-Wide Statements.** Financial statements that encompass all of a government's activities that are prepared using the full accrual basis of accounting.

**Liability.** Anything of value an organization owes.

**Management's Discussion and Analysis (MD&A).** A "plain English" presentation of a government's overall financial condition that introduces the basic financial statements.

**Modified Accrual Accounting.** An accounting system which reports only the revenues received and the cost paid for services provided in the current year or soon thereafter.

**Net Asset.** Assets less Liabilities.

**Required Supplementary Information (RSI).** Information that must accompany the Basic Financial Statements if a government's financial statements are to be considered in accordance with generally accepted accounting principles.

**Statement of Activities.** A financial statement that provides information about the net expenses of government and changes in net assets.

**Statement of Net Assets.** A balance sheet that presents information about assets, liabilities and net assets.

## APPENDIX 1: STATE OF ILLINOIS

### *State of Illinois FY2003 Statement of Net Assets*

The next two exhibits show the following information:

1. A summary comparison of the State of Illinois's Statements of Net Assets for FY2002 and FY2003 and
  2. The full Statement of Net Assets for the State of Illinois for FY2003.
- In FY2003, the State of Illinois reported a total of \$41.6 billion in assets and \$52.4 billion in liabilities with a \$10.8 billion deficit in net assets remaining after liabilities were deducted from assets.
  - In the prior year, FY2002, the State reported \$31 billion in assets and \$36.9 billion in liabilities with a \$5.9 billion deficit in net assets.
  - Between FY2002 and FY2003, the State's net assets declined by 45% or \$4.9 billion.

The full Statement also shows that:

- 75% of the State's liabilities, or \$4.5 billion, were long-term liabilities due in more than one year; and
- The State's component units reported a total of approximately \$12.5 billion in assets and \$5.9 billion in liabilities with \$6.5 billion in net assets remaining after liabilities were deducted from assets.

#### STATE OF ILLINOIS NET ASSETS AS OF JUNE 30

(In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
<b>Assets:</b>						
Current and other non-current assets	\$ 18,897	\$ 8,908	\$ 6,147	\$ 6,214	\$ 25,044	\$ 15,122
Capital assets	\$ 16,587	\$ 15,943	\$ 4	\$ 4	\$ 16,591	\$ 15,947
<b>Total assets</b>	<b>\$ 35,484</b>	<b>\$ 24,851</b>	<b>\$ 6,151</b>	<b>\$ 6,218</b>	<b>\$ 41,635</b>	<b>\$ 31,069</b>
<b>Liabilities:</b>						
Other Liabilities	\$ 9,715	\$ 7,659	\$ 248	\$ 213	\$ 9,963	\$ 7,872
Long-term Liabilities	\$ 38,693	\$ 26,049	\$ 3,786	\$ 3,064	\$ 42,479	\$ 29,113
<b>Total Liabilities</b>	<b>\$ 48,408</b>	<b>\$ 33,708</b>	<b>\$ 4,034</b>	<b>\$ 3,277</b>	<b>\$ 52,442</b>	<b>\$ 36,985</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$ 11,588	\$ 11,138	\$ 4	\$ 4	\$ 11,592	\$ 11,142
Restricted	\$ 1,855	\$ 1,597	\$ 1,976	\$ 2,891	\$ 3,831	\$ 4,488
Unrestricted	\$ (26,367)	\$ (21,592)	\$ 137	\$ 46	\$ (26,230)	\$ (21,546)
<b>Total net assets</b>	<b>\$ (12,924)</b>	<b>\$ (8,857)</b>	<b>\$ 2,117</b>	<b>\$ 2,941</b>	<b>\$ (10,807)</b>	<b>\$ (5,916)</b>

**STATE OF ILLINOIS**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEAR ENDING JUNE 30, 2003**  
(In Millions of Dollars)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 14,226,627	\$ 409,422	\$ 14,636,049	\$ 362,009
Cash and cash equivalents	\$ 177,806	\$ 46,152	\$ 223,958	\$ 635,288
Investments	\$ 134,378	\$ 548,820	\$ 683,198	\$ 1,209,179
Receivables, net:			\$ -	\$ -
Taxes	\$ 1,228,462	\$ 288,208	\$ 1,516,670	\$ -
Intergovernmental	\$ 2,086,055	\$ 92,127	\$ 2,178,182	\$ 4,229
Other	\$ 226,080	\$ 124,211	\$ 350,291	\$ 371,291
Unrestricted internal balances	\$ (25,876)	\$ 39,755	\$ 13,879	\$ -
Due from fiduciary funds	\$ 227	\$ 610	\$ 837	\$ -
Due from component units	\$ 28,393	\$ 193	\$ 28,586	\$ 17,230
Due from primary government			\$ -	\$ 98,156
Inventories	\$ 82,913	\$ 3,400	\$ 86,313	\$ 41,723
Prepaid expenses	\$ 18,687	\$ 229	\$ 18,916	\$ 37,726
Unamortized bond issuance costs	\$ 59,343	\$ 630	\$ 59,973	\$ 40,078
Loans and notes receivable, net	\$ 44,497	\$ 983,551	\$ 1,028,048	\$ 1,805,117
Restricted assets:			\$ -	\$ -
Cash equity with State Treasurer	\$ 302,852	\$ -	\$ 302,852	\$ -
Cash and cash equivalents	\$ 4,937	\$ 173,455	\$ 178,392	\$ 205,037
Investments	\$ 2,670	\$ 597,408	\$ 600,078	\$ 1,651,133
Taxes receivable	\$ 51	\$ -	\$ 51	\$ -
Intergovernmental receivables	\$ 217,611	\$ -	\$ 217,611	\$ -
Other receivables	\$ 739	\$ 50,369	\$ 51,108	\$ 12,224
Internal balances	\$ (14,988)	\$ 1,109	\$ (13,879)	\$ -
Inventories	\$ -	\$ -	\$ -	\$ 48
Loans and notes receivable, net	\$ 80,351	\$ 2,787,653	\$ 2,868,004	\$ 10,341
Other assets	\$ 66	\$ -	\$ 66	\$ 1,032
Other assets	\$ 15,392	\$ 300	\$ 15,692	\$ 94,656
Capital assets not being depreciated	\$ 2,532,341	\$ 190	\$ 2,532,531	\$ 1,034,640
Capital assets being depreciated, net	\$ 14,054,335	\$ 3,526	\$ 14,057,861	\$ 4,863,076
<b>Total assets</b>	<b>\$ 35,483,949</b>	<b>\$ 6,151,318</b>	<b>\$ 41,635,267</b>	<b>\$ 12,494,213</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 5,306,260	\$ 173,366	\$ 5,479,626	\$ 502,714
Intergovernmental payables	\$ 2,397,404	\$ 63,459	\$ 2,460,863	\$ 3,476
Due to fiduciary funds	\$ 53,067	\$ 4	\$ 53,071	\$ -
Due to component units	\$ 96,068	\$ 57	\$ 96,125	\$ 17,230
Due to primary government	\$ -	\$ -	\$ -	\$ 34,924
Deferred revenues	\$ 352,277	\$ 11,521	\$ 363,798	\$ 246,367
General obligation certificates payable	\$ 1,509,420	\$ -	\$ 1,509,420	\$ -
Liabilities payable from restricted assets				\$ 82,257
Other liabilities	\$ -	\$ -	\$ -	\$ 58,900
Long-term obligations:				\$ -
Due within one year	\$ 946,182	\$ 456,884	\$ 1,403,066	\$ 527,022
Due subsequent to one year	\$ 37,746,776	\$ 3,328,777	\$ 41,075,553	\$ 4,506,928
<b>Total liabilities</b>	<b>\$ 48,407,454</b>	<b>\$ 4,034,068</b>	<b>\$ 52,441,522</b>	<b>\$ 5,979,818</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 11,588,045	\$ 3,615	\$ 11,591,660	\$ 3,686,159
Restricted for:			\$ -	\$ -
Capital projects	\$ 767	\$ -	\$ 767	\$ 24,746
Debt service	\$ 1,242,502	\$ 215,950	\$ 1,458,452	\$ 64,044
Municipal lending	\$ -	\$ 1,286,394	\$ 1,286,394	\$ -
Unemployment compensation benefits	\$ -	\$ 431,269	\$ 431,269	\$ -
Permanent Funds:			\$ -	\$ -
Expendable	\$ 334	\$ -	\$ 334	\$ -
Nonexpendable	\$ 2,563	\$ -	\$ 2,563	\$ -
Education	\$ 70,440	\$ -	\$ 70,440	\$ -
Employment and economic development	\$ 120,597	\$ -	\$ 120,597	\$ -
Health and social services	\$ 24,309	\$ -	\$ 24,309	\$ -
Public protection and justice	\$ 14,254	\$ -	\$ 14,254	\$ -
Environment and business regulation	\$ 89,592	\$ -	\$ 89,592	\$ -
Transportation	\$ 49,345	\$ -	\$ 49,345	\$ -
Nonexpendable purposes	\$ -	\$ -	\$ -	\$ 615,898
Other expendable purposes	\$ -	\$ -	\$ -	\$ 684,838
Other purposes	\$ 240,329	\$ 42,480	\$ 282,809	\$ 477,259
Unrestricted net assets	\$ (26,366,582)	\$ 137,542	\$ (26,229,040)	\$ 961,451

## *State of Illinois FY2003 Statement of Activities*

The following questions can be answered by referring to the *State of Illinois FY2003 Statement of Activities*.

### *How Much of the State's Expenses Were Paid For With User Fees and Grants?*

- The State of Illinois reported \$43.1 billion in expenses for governmental activities in FY2003. Program revenues generated by user fees and grants from those programs paid for \$14.7 billion or 33% of that amount. Because program expenses exceed program revenues, the remaining \$28.4 billion is a net expense that was financed with general revenues or other resources.
- Expenses for the State's business-type activities, such as the lottery, were approximately \$4.7 billion in FY2003. Revenues generated by those activities were over \$4.3 billion. This means the \$327 million difference between expenses and revenues was reported as a net expense, which was financed with non-program generated resources.
- When both governmental and business-type activities are combined, approximately \$19.1 billion of total expenses of \$47.8 billion were paid for with user fee and grant revenues generated by those programs. The remaining \$28.7 billion were paid for with general revenues and other resources.

### *What Was the Change in the State's Net Assets During the Fiscal Year?*

- General revenues and other resources are totaled in the lower half of the Statement of Activities and that sum is added to the net expense total. The sum that results is the aggregate change in net assets for the year.
- In the State of Illinois FY2003 Statement of Activities, the total amount of approximately \$23.7 billion in general revenues and transfers was added to the total primary government's net expense of \$28.7 billion. Adding the two amounts shows that State of Illinois expenses in FY2003 exceeded revenues by \$4.9 billion and thus net assets were reduced by that amount at the end of the fiscal year.
- The Governmental Activities reported a deficit in net assets of \$4.1 billion, while the Business-Type activities generated a deficit of \$823 million.
- Total assets at the end of FY2003 were reported as -\$12.9 billion, a \$4.1 billion reduction from the beginning of the year amount of -\$8.8 billion.
- Liabilities exceeded assets for Governmental and Business-Type activities by \$5.8 billion of FY2003. By the end of the year, the deficit had increased to \$10.8 billion.

**STATE OF ILLINOIS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDING JUNE 30, 2003**  
(Expressed in Thousands)

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	Component Units
<b>Primary Government</b>								
<b>Governmental Activities</b>								
Health and Social Services	\$ 16,071,805	\$ 96,670	\$ 9,329,672	\$ -	\$ (6,645,463)	\$ -	\$ (6,645,463)	
Education	\$ 12,621,510	\$ 2,306	\$ 1,727,578	\$ -	\$ (10,891,626)	\$ -	\$ (10,891,626)	
General Government	\$ 2,450,460	\$ 1,614,665	\$ 38,233	\$ -	\$ (797,562)	\$ -	\$ (797,562)	
Employment & Economic Development	\$ 1,311,068	\$ 24,983	\$ 485,481	\$ 49	\$ (800,555)	\$ -	\$ (800,555)	
Transportation	\$ 3,568,584	\$ 20,685	\$ 159,255	\$ 716,218	\$ (2,672,426)	\$ -	\$ (2,672,426)	
Public Protection & Justice	\$ 2,115,889	\$ 81,633	\$ 128,918	\$ -	\$ (1,905,338)	\$ -	\$ (1,905,338)	
Environment & Business Regulation	\$ 842,393	\$ 232,659	\$ 72,442	\$ 3,492	\$ (533,800)	\$ -	\$ (533,800)	
Intergovernmental	\$ 3,483,426	\$ -	\$ -	\$ -	\$ (3,483,426)	\$ -	\$ (3,483,426)	
Interest & Other Charges	\$ 672,707	\$ -	\$ -	\$ -	\$ (672,707)	\$ -	\$ (672,707)	
<b>Total Governmental Activities</b>	<b>\$ 43,137,842</b>	<b>\$ 2,073,601</b>	<b>\$ 11,941,579</b>	<b>\$ 719,759</b>	<b>\$ (28,402,903)</b>	<b>\$ -</b>	<b>\$ (28,402,903)</b>	
<b>Business-Type Activities</b>								
Unemployment Compensation Trust	\$ 3,054,290	\$ 2,009,704	\$ -	\$ -	\$ -	\$ (1,044,586)	\$ (1,044,586)	
Water Revolving	\$ 15,828	\$ 38,169	\$ 127,110	\$ -	\$ -	\$ 149,451	\$ 149,451	
Designated Account Purchase Program	\$ 112,153	\$ 91,748	\$ 28,497	\$ -	\$ -	\$ 8,092	\$ 8,092	
Insurance Programs	\$ 280,822	\$ 305,126	\$ -	\$ -	\$ -	\$ 24,304	\$ 24,304	
Lottery	\$ 1,054,094	\$ 1,589,846	\$ -	\$ -	\$ -	\$ 535,752	\$ 535,752	
Prepaid Tuition Program	\$ 25,825	\$ 13,615	\$ -	\$ -	\$ -	\$ (12,210)	\$ (12,210)	
Other	\$ 147,856	\$ 159,253	\$ -	\$ -	\$ -	\$ 11,397	\$ 11,397	
<b>Total Business-Type Activities</b>	<b>\$ 4,690,868</b>	<b>\$ 4,207,461</b>	<b>\$ 155,607</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (327,800)</b>	<b>\$ (327,800)</b>	
<b>Total Primary Government</b>	<b>\$ 47,828,710</b>	<b>\$ 6,281,062</b>	<b>\$ 12,097,186</b>	<b>\$ 719,759</b>			<b>\$ (28,730,703)</b>	
<b>Component Units</b>								
Illinois Housing Development Authority	\$ 308,436	\$ 134,936	\$ 177,180	\$ -			\$ 3,680	
Toll Highway Authority	\$ 357,136	\$ 372,046	\$ -	\$ -			\$ 14,910	
Other Authorities	\$ 135,188	\$ 84,225	\$ 4,382	\$ -			\$ (46,581)	
<b>Universities</b>								
Illinois State University	\$ 312,382	\$ 157,001	\$ 25,881	\$ 467			\$ (129,033)	
Northern Illinois University	\$ 378,878	\$ 171,046	\$ 56,162	\$ 1,555			\$ (150,115)	
Southern Illinois University	\$ 735,457	\$ 304,084	\$ 81,993	\$ 12,832			\$ (336,548)	
University of Illinois	\$ 3,325,936	\$ 1,280,912	\$ 860,228	\$ 17,329			\$ (1,167,467)	
Other Universities	\$ 610,354	\$ 228,680	\$ 94,844	\$ 36			\$ (286,794)	
<b>Total Component Units</b>	<b>\$ 6,163,767</b>	<b>\$ 2,732,930</b>	<b>\$ 1,300,670</b>	<b>\$ 32,219</b>			<b>\$ (2,097,948)</b>	
<b>General Revenues and Transfers</b>								
<b>Taxes:</b>								
Income Taxes					\$ 8,390,241	\$ -	\$ 8,390,241	\$ -
Sales Taxes					\$ 8,350,714	\$ -	\$ 8,350,714	\$ -
Motor Fuel Taxes					\$ 1,325,748	\$ -	\$ 1,325,748	\$ -
Public Utility Taxes					\$ 1,616,763	\$ -	\$ 1,616,763	\$ -
Other Taxes					\$ 2,591,336	\$ -	\$ 2,591,336	\$ -
Interest & Investment Income (Loss)					\$ 125,184	\$ 32,870	\$ 158,054	\$ 98,065
Other Revenues					\$ 1,344,446	\$ 114	\$ 1,344,560	\$ 270,740
Payments from State of Illinois					\$ -	\$ -	\$ -	\$ 2,066,885
Additions to Permanent Endowments					\$ -	\$ -	\$ -	\$ 31,783
Transfers					\$ 528,711	\$ (528,711)	\$ -	\$ -
<b>Total General Revenues and Transfers</b>					<b>\$ 24,273,143</b>	<b>\$ (495,727)</b>	<b>\$ 23,777,416</b>	<b>\$ 2,467,473</b>
Change in net assets					\$ (4,129,760)	\$ (823,527)	\$ (4,953,287)	\$ 369,525
Net Assets - Beginning					\$ (8,793,745)	\$ 2,940,919	\$ (5,852,826)	\$ 6,144,870
Net Assets - Ending					<b>\$ (12,923,505)</b>	<b>\$ 2,117,392</b>	<b>\$ (10,806,113)</b>	<b>\$ 6,514,395</b>

## APPENDIX 2: COOK COUNTY

### *Cook County FY2002 Statement of Net Assets*

In FY2002, Cook County reported a total of \$4.6 billion in assets and \$3.4 billion in liabilities with \$1.2 billion in net assets remaining after liabilities were deducted from assets. The Statement also shows that:

- Fixed assets, net of depreciation, account for \$2.2 billion or 47% of the County's total assets.
- 85% of Cook County's liabilities, or \$2.9 billion, were long-term liabilities due in more than one year; and
- \$463.7 million of net assets were restricted for particular purposes while \$799 million was reported as being unrestricted.

#### COOK COUNTY STATEMENT OF NET ASSETS FOR THE YEAR ENDING NOVEMBER 30, 2002

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and Investments	\$ 857,066,640	\$ 265,072,591	\$ 1,122,139,231
Cash and Investments with Trustees	\$ 196,318,795	\$ -	\$ 196,318,795
Tax receivable	\$ 587,933,500	\$ 160,934,821	\$ 748,868,321
Other assets	\$ 2,922,767	\$ 1,357,561	\$ 4,280,328
Due from other governments	\$ 84,131,482	\$ 36,395,998	\$ 120,527,480
Internal balances	\$ (759,000)	\$ 759,000	\$ -
Loans receivable, net	\$ 27,799,335	\$ -	\$ 27,799,335
Fixed assets, net of accumulated depreciation	\$ 1,520,089,089	\$ 694,406,146	\$ 2,214,495,235
Pension asset	\$ 137,252,924	\$ -	\$ 137,252,924
Deferred bond issuance costs	\$ 7,181,294	\$ -	\$ 7,181,294
Patient accounts:			\$ -
Net of allowances for uncollectible accounts - \$656,868,779	\$ -	\$ 94,295,774	\$ 94,295,774
Third-party settlements	\$ -	\$ 11,730,573	\$ 11,730,573
Inventories	\$ -	\$ 11,394,305	\$ 11,394,305
<b>Total assets</b>	<b><u>\$ 3,419,936,826</u></b>	<b><u>\$ 1,276,346,769</u></b>	<b><u>\$ 4,696,283,595</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 96,497,403	\$ 29,776,032	\$ 126,273,435
Accrued salaries payable	\$ 42,198,102	\$ 60,863,347	\$ 103,061,449
Deferred revenue - property tax	\$ 37,321,253	\$ -	\$ 37,321,253
Deferred revenue - other	\$ 17,913,423	\$ -	\$ 17,913,423
Other liabilities	\$ 4,390,001	\$ 89,324,789	\$ 93,714,790
Accrued interest	\$ 5,828,694	\$ -	\$ 5,828,694
Non current liabilities			\$ -
Due within one year	\$ 115,488,505	\$ -	\$ 115,488,505
Due in more than one year	\$ 2,924,906,035	\$ 7,996,823	\$ 2,932,902,858
<b>Total liabilities</b>	<b><u>\$ 3,244,543,416</u></b>	<b><u>\$ 187,960,991</u></b>	<b><u>\$ 3,432,504,407</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of debt	\$ (646,014,864)	\$ 694,406,146	\$ 48,391,282
Restricted for:			
Debt service	\$ 272,784,861	\$ -	\$ 272,784,861
Other restricted funds for specific purposes	\$ 137,252,924	\$ 5,274,739	\$ 142,527,663
Unrestricted	\$ 411,280,489	\$ 388,704,893	\$ 799,985,382
<b>Total net assets</b>	<b><u>\$ 175,303,410</u></b>	<b><u>\$ 1,088,385,778</u></b>	<b><u>\$ 1,263,689,188</u></b>

### *Cook County FY2002 Statement of Activities*

The following questions can be answered by referring to the *Cook County FY2002 Statement of Activities*.

#### *How Much of Cook County's Expenses Were Paid For With User Fees and Grants?*

- Cook County reported \$1.8 billion in expenses for governmental activities in FY2002. Program revenues generated by user fees and grants from those programs paid for \$445 million or about 25% of that amount. Because program expenses exceed program revenues, the remaining \$1.3 billion is a net expense that was financed with general revenues or other resources.
- Expenses for the County's business-type activities, which were its health facilities, were approximately \$869 million in FY2002. Revenues generated by those activities were \$454 million. The \$415 million difference between expenses and revenues was reported as a net expense, which was financed with non-program generated resources.
- When both governmental and business-type activities are combined, approximately \$899 million of total expenses of nearly \$2.7 billion were paid for with user fee and grant revenues generated by those programs. The remaining amount of approximately \$1.8 billion was paid for with general revenues and other resources.

#### *What Was the Change in the State's Net Assets During the Fiscal Year?*

- General revenues and other resources are totaled in the lower half of the Statement of Activities and that sum is added to the net expense total. The sum that results is the aggregate change in net assets for the year.
- In the Cook County 2002 Statement of Activities, the total amount of approximately \$1.5 billion in general revenues and transfers was added to the total primary government's net expense of \$1.7 billion. Adding the two amounts shows that County expenses in FY2002 exceeded revenues by \$213 million and thus net assets were reduced by that amount at the end of the fiscal year.
- Total assets at the end of FY2002 were reported as \$1.2 billion, a \$212 million reduction from the beginning of the year amount of \$1.4 billion.
- In FY2002, the Governmental Activities reported a deficit in net assets of \$280 million, while the Business-Type activities generated a surplus of \$66.9 million.

**COOK COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING DECEMBER 31, 2002**

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
Governmental Activities							
Government Management/Support Services	\$ 284,450,021	\$ 74,849,591	\$ 4,701,586	\$ -	\$ (204,898,844)	\$ -	\$ (204,898,844)
Corrections	\$ 453,517,946	\$ 23,726,494	\$ 35,099,042	\$ 2,405,020	\$ (392,287,390)	\$ -	\$ (392,287,390)
Courts	\$ 704,840,955	\$ 93,908,860	\$ 87,176,316	\$ 5,969,636	\$ (517,786,143)	\$ -	\$ (517,786,143)
Control of Environment	\$ 50,292,707	\$ 12,993,794	\$ 25,302,989	\$ 157,113	\$ (11,838,811)	\$ -	\$ (11,838,811)
Assessment & Collection of Taxes	\$ 59,336,498	\$ 39,014,159	\$ -	\$ -	\$ (20,322,339)	\$ -	\$ (20,322,339)
Election	\$ 41,299,876	\$ -	\$ -	\$ -	\$ (41,299,876)	\$ -	\$ (41,299,876)
Economic & Human Development	\$ 34,556,113	\$ -	\$ 37,182,914	\$ -	\$ 2,626,801	\$ -	\$ 2,626,801
Transportation	\$ 59,172,233	\$ -	\$ 2,940,522	\$ -	\$ (56,231,711)	\$ -	\$ (56,231,711)
Interest & Other Charges	\$ 127,089,106	\$ -	\$ -	\$ -	\$ (127,089,106)	\$ -	\$ (127,089,106)
<b>Total Governmental Activities</b>	<b>\$ 1,814,555,455</b>	<b>\$ 244,492,898</b>	<b>\$ 192,403,369</b>	<b>\$ 8,531,769</b>	<b>\$ (1,369,127,419)</b>	<b>\$ -</b>	<b>\$ (1,369,127,419)</b>
Business-Type Activities							
Health Facilities	\$ 869,467,512	\$ 432,382,261	\$ 21,993,166	\$ -	\$ -	\$ (415,092,085)	\$ (415,092,085)
Total Business-Type Activities	\$ 869,467,512	\$ 432,382,261	\$ 21,993,166	\$ -	\$ -	\$ (415,092,085)	\$ (415,092,085)
<b>Total Primary Government</b>	<b>\$ 2,684,022,967</b>	<b>\$ 676,875,159</b>	<b>\$ 214,396,535</b>	<b>\$ 8,531,769</b>	<b>\$ (1,369,127,419)</b>	<b>\$ (415,092,085)</b>	<b>\$ (1,784,219,504)</b>
Component Units							
Chicago Zoological Society	\$ 49,845,000	\$ 31,976,000	\$ -	\$ 5,940,000	\$ -	\$ -	\$ -
Chicago Horticultural Society	\$ 28,963,000	\$ 19,312,000	\$ 86,000	\$ 2,205,000	\$ -	\$ -	\$ -
Emergency Telephone Systems	\$ 1,816,860	\$ 2,435,796	\$ 97,108	\$ -	\$ -	\$ -	\$ -
<b>Total Component Units</b>	<b>\$ 80,624,860</b>	<b>\$ 53,723,796</b>	<b>\$ 183,108</b>	<b>\$ 8,145,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General Revenues							
Taxes:							
Property Taxes					\$ 578,254,840	\$ 155,766,738	\$ 734,021,578
Nonproperty Taxes:							
Personal Property Replacement Tax					\$ 29,807,190	\$ -	\$ 29,807,190
County Sales Tax					\$ 213,758,854	\$ 61,538,872	\$ 275,297,726
County Use Tax					\$ 54,484,115	\$ -	\$ 54,484,115
State Income Tax					\$ 8,326,861	\$ -	\$ 8,326,861
Alcohol Beverage Tax					\$ 25,467,066	\$ -	\$ 25,467,066
Gasoline Tax					\$ 105,706,037	\$ -	\$ 105,706,037
Cigarette Taxes					\$ 33,131,006	\$ 8,214,786	\$ 41,345,792
Amusement Tax					\$ 13,802,069	\$ -	\$ 13,802,069
Parking Tax					\$ 37,770,138	\$ -	\$ 37,770,138
Motor Fuel & Other					\$ 107,106,193	\$ -	\$ 107,106,193
Other Nonproperty					\$ 20,493,696	\$ -	\$ 20,493,696
Total Nonproperty Taxes:					\$ 649,853,225	\$ 69,753,658	\$ 719,606,883
Total Taxes:					\$ 1,228,108,065	\$ 225,520,396	\$ 1,453,628,461
Miscellaneous Revenue					\$ 21,209,964	\$ -	\$ 21,209,964
Investment Income (Loss)					\$ 21,300,210	\$ 2,612,064	\$ 23,912,274
Lawsuit Settlement					\$ 44,578,557	\$ -	\$ 44,578,557
Gain/Loss on Sale of Land					\$ (1,560,020)	\$ -	\$ (1,560,020)
Restricted Gifts, Grants, Bequests					\$ -	\$ 22,257,925	\$ 22,257,925
Transfers					\$ (64,400,920)	\$ 71,139,190	\$ 6,738,270
Contributed Capital					\$ (160,554,564)	\$ 160,554,564	\$ -
<b>Total General Revenues and Transfers</b>					<b>\$ 1,088,681,292</b>	<b>\$ 482,084,139</b>	<b>\$ 1,570,765,431</b>
Change in net assets					\$ (280,446,127)	\$ 66,992,054	\$ (213,454,073)
Net Assets - Beginning					\$ 455,839,537	\$ 1,021,393,724	\$ 1,477,233,261
Net Assets - Ending					\$ 175,393,410	\$ 1,088,385,778	\$ 1,263,779,188