

Village of Donnellson, Illinois
NOTES TO FINANCIAL STATEMENTS

NOTE A | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The Village is a municipal corporation governed by a seven-member board, consisting of six trustees and the President. The Village provides the following services: general government, public safety (police), street, water, and sewer.

The Village's reporting entity includes the Village's governing board and all related organizations for which the Village exercises significant influence. The Village has developed a criterion to determine whether outside agencies with activities that benefit the citizens of the Village should be included within its financial reporting entity. The criterion is but is not limited to whether the Village exercises influence. This includes analyzing a financial benefit or burden, whether the entity appoints a voting majority, whether the entity can significantly impose its will, and analyzing the entity's fiscal independence, or lack thereof.

The Village has determined that no other outside agency meets the above criteria, and therefore, no other agency has been included as a component unit in the Village's financial statements. In addition, the Village is not aware of any entity which would exercise such influence that would result in the Village being considered a component unit.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the Village's activities. Governmental activities generally are financed through taxes and intergovernmental revenues, and they are reported separately from business-type activities, which rely on fees and charges for support to a significant extent.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted for meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Basis of Accounting, and Financial Statement Presentation

The financial statements for the Village of Donnellson, Illinois have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). This basis of accounting recognizes assets, liabilities, net position/fund balance, revenues, and expenditures when they result from cash transactions. Modifications to the cash basis of accounting include reporting capital assets, deposits payable and bonds payable.

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As a result of the use of the modified cash basis of accounting, certain assets (such as accounts receivable), certain revenues (such as revenue for billed or provided services not yet collected), certain liabilities (such as accounts payable), and certain expenses (such as expenses for goods or services received but not yet paid) are not recorded in these financial statements.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General operating expenditures and improvements costs that are not paid through other funds are paid from the General Fund.

The Motor Fuel Tax Fund is a special revenue fund and accounts for the taxes and grants received and amounts paid related to motor fuel tax expenses. These revenues are legally restricted to expenditures for specific purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Village reports the following major proprietary funds:

The Water Fund is used to account for the provision of water services to the residents of the Village. Activities of the funds include administration, operation and maintenance of the water system, and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the fund.

The Sewer Fund is used to account for the provision of sewer services to the residents of the Village. Activities of the funds include administration, operation and maintenance of the sewer system, and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the fund.

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

The Village's cash and cash equivalents are considered to be cash on hand, checking and savings accounts, certificates of deposits, and short-term investments with original maturities of three months or less.

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Capital Assets

Capital assets, which include property, plant, and equipment are reported in the government-wide and proprietary fund financial statements. Capital assets are defined by the government, as assets with initial, individual cost of more than \$5,000 for equipment, more than \$20,000 for buildings improvements, and more than \$100,000 for infrastructure and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to April 30, 2004. Infrastructure assets acquired since May 1, 2004, are recorded at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Cost includes labor, material and similar items, and indirect charges for such items as transportation and supervision.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---------------------------|-------------|
| Infrastructure | 40 years |
| Building and improvements | 25-50 years |
| Furniture and fixtures | 5-15 years |
| Machinery and equipment | 5-15 years |

Long-Term Debt

Long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted. The Village first uses restricted resources to finance qualifying activities.

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Fund Balance

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Village reports the following fund balance classifications.

Restricted Fund Balance - The restricted fund balance classification includes amounts that are restricted to specific purposes. Fund balances are reported as restricted when constraints placed on the use of resources are either:

Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or

Imposed by law through constitutional provisions or enabling legislation.

The Village reports restricted fund balances for the Motor Fuel Tax Fund.

Committed Fund Balance - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision-making authority. The Village's highest level of authority is the majority vote of the Village's board in the form of a Village ordinance.

Assigned Fund Balance - The assigned fund balance classification includes amounts that are constrained by the Village's intent to be used for specific purposes but are neither restricted nor committed. Any assignment of fund balances is determined by the majority vote of the Village's board.

Unassigned Fund Balance - The unassigned fund balance classification includes amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, a negative unassigned fund balance may be reported.

Spending Policy

Unless specifically identified, expenditures act to reduce the restricted balances first, then committed balances, next assigned balances, and finally act to reduce unassigned balances. Expenditures for a specifically identified purpose will act to reduce the specific classification of fund balance that is identified.

Interfund Transactions/Transfers

There are various types of interfund transactions and transfers that are reported as interfund items between the funds. Interfund services provided and used are recorded as revenue, expenditures, or expenses as if the transactions occurred outside the government. Interfund transactions, which constitute reimbursements of a fund for expenditures or expenses initially made from that fund, which are properly applicable to another fund, are recorded as a reduction of expenditures in the fund that is reimbursed.

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Estimates

In preparing financial statements in conformity with the modified cash basis of accounting, management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE B | DEPOSITS

The Village's deposits are in checking, savings accounts, and certificates of deposit and are carried at cost. The Village's funds may be invested in instruments permitted by the Illinois Public Funds Investment Act (30 ILCS 230/5). The Village's current investment practice is only to invest in local financial institution accounts and the Illinois Public Treasurer's Investment Pool.

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g., bank) to a transaction, a government will not be able to recover the value of its deposits or collateral securities that are in the possession of another party. The Village does not have a custodial credit risk policy for deposits.

The Village had no bank balances that exceeded FDIC coverage and collateral at April 30, 2020.

NOTE C | PROPERTY TAXES

The Village's property tax is levied and attached as an enforceable lien on the property as of January 1 of each year on property values assessed as of the same date. Taxes levied in one year become due and payable in two installments on or about June 1st, and September 1st, during the following fiscal year. The 2018 tax levy is recorded as revenue in the year ended April 30, 2020. The county bills and collects property taxes then remits to the Village its respective share of the collections.

NOTE D | RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions and natural disasters for which the Village carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements, if any, have not exceeded coverage in the past.

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NOTE F | LONG-TERM DEBT

Business-Type Activities

Long-term debt activity for the year ended April 30, 2020 was as follows:

| | Balance May 1, 2019 | Additions | Payments | Balance April 30, 2020 | Due within one year |
|---|------------------------|-----------|-----------|---------------------------|------------------------|
| Sewerage System Revenue Bonds Series 2002 4.50% | | | | | |
| Original amount of \$460,000 | \$ 350,000 | \$ - | \$ 10,000 | \$ 340,000 | \$ 10,000 |

Annual debt service to maturity, include principal and interest, for long-term debt as of April 30, 2020, was as follows:

| | Principal | Interest |
|-----------|------------------|------------------|
| 2021 | \$ 10,000 | \$ 15,300 |
| 2022 | 10,000 | 14,850 |
| 2023 | 10,000 | 14,400 |
| 2024 | 10,000 | 13,950 |
| 2025 | 10,000 | 13,500 |
| 2026-2030 | 75,000 | 58,500 |
| 2031-2035 | 85,000 | 41,400 |
| 2036-2040 | 105,000 | 20,250 |
| 2041 | 25,000 | 1,125 |
| | <u>\$340,000</u> | <u>\$193,275</u> |

NOTE G | LEGAL DEBT MARGIN

| | |
|--|-------------------|
| Assessed Valuation, 2019 Levy | <u>\$ 842,796</u> |
| Debt Limit, 8.625% of Assessed Valuation | \$ 72,691 |
| Total Debt | |
| Revenue Bonds | 340,000 |
| Less: Revenue bonds exempt from above limitations | <u>340,000</u> |
| Total debt subject to limitations | <u>-</u> |
| Available Debt Margin | <u>\$ 72,691</u> |

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NOTE H | OPERATING TRANSFERS

Interfund transfers for the fiscal year ended April 30, 2020 are as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|--------------|--------------------|---------------------|
| General Fund | \$ 2,202 | \$ (3,594) |
| MFT Fund | 3,594 | - |
| Water Fund | - | (588) |
| Sewer Fund | - | (1,614) |
| | <u>\$ 5,796</u> | <u>\$ (5,796)</u> |