



September 14, 2017

City of Newton  
Melissa Brooks, Treasurer  
108 N. Van Buren  
PO Box 165  
Newton, Illinois 62448

RE: Fiscal Year Ended 4/30/17 General Fund Results

Dear Melissa:

I am sending you this letter as a follow-up to my discussion with the Finance Committee on September 11, 2017 while delivering the audit report. During that meeting, there were questions asked about the results of the General Fund for the Fiscal Year and how it was a significant decline from the prior year's results.

As you are aware, the measurement of operations for a governmental entity are focused on the flow of financial resources; which is a measurement of resources that were available during the fiscal year and how those funds were used during the fiscal year. Governmental funds develop reserves over time to accumulate resources to carry out larger projects from time to time, as such, from time to time, these reserves will be utilized to accomplish projects of the government which results in a net draw-down of the reserves which is reported on the financial statements as a negative change in fund balance. In essence, the annual results of a governmental fund are focused only on what happened during that particular fiscal year and this may vary tremendously from year to year based upon what the government is trying to accomplish in any particular fiscal year. This is a different focus than a business, or an enterprise fund of a governmental unit that operates like a business; because the measurement focus for these entities is purely a measurement of the results of operations from an economic focus (not the flow of available resources), which are typically consistent from year to year.

What happened in Fiscal Year 2017 at the City is a perfect example of how much a governmental fund can fluctuate. Over the years, the general fund had accumulated funds that were restricted for economic development. This accumulation was the result of restricted revenue sources exceeding restricted expenditures over the years. During Fiscal Year 2017, the City obtained permission to utilize a substantial portion of these restricted funds for projects at the waste water treatment facility.

Since the expenditure of funds were utilized in an enterprise fund, we had to report a transfer of funds from the general fund to the waste water in the amount of \$253,221. Since this is a “use” of general fund available resources, it is shown as a reduction when determining the Net Change in Fund Balance. In contrast, when the funds were reported as being expended in the waste water fund, it was reported as an acquisition of an asset and not as a reduction of equity because the measurement focus is similar to a business and is concerned with economic results over time.

Had the transfer to waste water not been reported in the general fund for fiscal year 2017, the Net Change in Fund Balance would have been \$(16,439), which is very close to a break even in a fund with a substantial amount of financial resources flowing through it. To put this in perspective, and to demonstrate the variation of the Net Change in Fund Balances from year to year, the Net Change in Fund Balance for the Fiscal Years Ending April 30, 2016, 2015, and 2014 were \$(40,397), \$82,642, and \$108,147, respectively.

I hope that this letter further explains our discussion the other night at the finance committee meeting. If you should have further questions, please do not hesitate to call.

Sincerely,



Brian S. Bradbury, CPA  
Kemper CPA Group LLP  
Certified Public Accountants and Consultants