ILLINOIS COMMUNITY COLLEGE
CHIEF FINANCIAL OFFICERS
SPRING 2012 CONFERENCE
GASB UPDATE

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GASB UPDATE

• GASB Statements to be Implemented
  – Statement No. 62 through Statement No. 66
    • Statement Nos. 54 – 61 covered last year

• GASB Due Process Documents
  – Exposure drafts
  – Discussion memorandums
  – Invitations to comment (ITC)
GASB STATEMENT NO. 62
Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

• Issued December 2010, effective for fiscal years ending December 31, 2012 and thereafter
  – Incorporates pronouncements issued before November 30, 1989 by the following that do not contradict with GASB Pronouncements
    • FASB Statements and Interpretations (SFAS 106)
    • Accounting Principle Board opinions (APB)
    • AICPA Accounting Research Bulletins
  – Supersedes GASB S-20
GASB STATEMENT NO. 62
Codification of Accounting and Financial Reporting Guidance
Contained in Pre-November 30, 1989 FASB and AICPA
Pronouncements

• Capitalized interest
  – Proprietary funds
• Revenue recognition when right of return exists
  – Proprietary funds
• Defines classifications for a classified statement of position (balance sheet)
• Over 500 paragraphs
• Due to issuance of FASB Codification
GASB STATEMENT NO. 63
Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

• Issued June 2011, effective for fiscal years ending December 31, 2012 and thereafter
• GASB Concepts Statement No. 4, Elements of Financial Statements
  – Assets -resources with present service capacity that the government presently controls (BS)
  – Liabilities -present obligations to sacrifice resources that the government has little or no discretion to avoid (BS)
  – Outflow of resources is a consumption of net assets by the government that is applicable to the reporting period (IS)
  – Inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period (IS)
GASB STATEMENT NO. 63
Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

• **A deferred outflow of resources** is a consumption of net assets by the government that is applicable to a future reporting period (BS)

• **A deferred inflow of resources** is an acquisition of net assets by the government that is applicable to a future reporting period (BS)

• **Net position** is the residual of all other elements presented in a statement of financial position (BS/IS)
GASB STATEMENT NO. 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

• Reporting
  – Deferred outflows
    • After assets
      – No subtotal of assets and deferred outflows required (?)
  – Deferred Inflows
    • After liabilities
      – No subtotal of liabilities and deferred inflows required (?)
  – Net Position
    • A+DO-L-DI=NP
    • Replaces Net Assets/Fund Balances
GASB STATEMENT NO. 63
Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

- What to report in the categories?
- Addressed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
GASB STATEMENT NO. 64
DERIVATIVE INSTRUMENTS: APPLICATION OF HEDGE ACCOUNTING TERMINATION PROVISIONS

• GASB S-53, Accounting and Financial Reporting for Derivative Instruments
  – Issued in June 2011
  – Effective for fiscal years ending June 30, 2012 and thereafter
  – Continuation of effective hedge after replacement of a swap counterparty
  – Specifies criteria to be met to continue to apply hedge accounting
GASB STATEMENT NO. 65
ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

• Issued in March 2012
  – Effective for fiscal years ending December 31, 2013 and thereafter
  – GASB Concepts Statement No. 4 limits use of terms “deferred outflows” and “deferred inflows” of financial resources to those instances specifically identified in GASB pronouncements
GASB STATEMENT NO. 65
ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

• Specific guidance
  – Accounting gain or loss on refunding of debt
    • Deferred inflow or deferred outflow
    • Amortize into interest expense
  – Nonexchange transactions – Accrual basis
    • Most deferred revenue from nonexchange transactions becomes a deferred inflow of resources
      – Imposed nonexchange transactions (e.g., property taxes)
      – Government-mandated nonexchange transactions and voluntary nonexchange transactions (e.g., grants)
  – Debt issuance costs – expense in period incurred
GASB STATEMENT NO. 65

ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

• Specific guidance
  – Regulated operations
  – Governmental funds – modified accrual basis
    • All deferred revenue in governmental funds becomes deferred inflow of resources
  – Major fund calculation
    • Combine assets with deferred outflows
    • Combine liabilities with deferred inflows
  – Use of the term “deferred” only allowed in this context
  – Future pronouncements will expand use of terms (e.g., pension project)
**GASB STATEMENT NO. 66**

*Technical Corrections, 2012*

- Issued March 2012
  - Conflict between GASB S-10 and S-54
    - GASB S-10 Insurance activities in general fund or special revenue fund
    - GASB S-54 definition of a governmental funds
      - Tort fund meets the definition of a special revenue fund
  - Solution follow GASB S-54
  - Effective for fiscal years ending December 31, 2013 and thereafter
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Issued June 2011, comment deadline October 15, 2011
  – Current pension accounting
    • Accounting liability only if you don’t fund what the actuary recommends
    • IMRF – ARC-reduced ARC = liability
    • Unfunded actuarial accrued liability
      – Disclosed in notes and required supplementary information
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Problem
    • Budget friendly, modified accrual basis
    • Accrual basis, liability when earned by employee
    • Lack of comparability due to choices of actuarial valuations and assumptions
    • Not recognizing spikes, cost of retro benefits or true cost of pensions and any changes
  – Solution
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Proposed solution
    • Net pension liability
      – Difference between obligation for pensions and assets of the pension plan
    • Record as a liability in all accrual basis financial statements
      – Governmental activities
      – Enterprise funds
    • Deferred inflow or outflow of resources
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Measuring the net pension liability
    • Projected benefit payments
      – Assumptions – Actuarial Standards of Practice
        » Future salary increases
        » COLAs
        » Discount rate
          • Funding ARC – investment rate
          • Not funding ARC – blended rate
            • Cost of funds (borrowing)
      – Entry age normal actuarial cost method
        » Level percentage of payroll
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Timing of measurement
    • Actuarial valuation done as of your year end
      – Or 1 year and one day of your fiscal year end (recent compromise)
    • Update AV no older than 24 months from your year end
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Pension expense
    • Separately report
      – Normal cost
      – Immediate recognition of
        » Change in terms of pension benefits
        » Investment earnings
        » For retired employees
          • Changes in assumptions
          • Difference between assumptions and actual
GASB DUE PROCESS DOCUMENTS

• ED – Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
  – Disclosures
    • Greatly expanded
  – Required supplementary information
    • Greatly expanded – 10 years
  – Actuary costs
    • Greatly expanded
GASB DUE PROCESS DOCUMENTS

– Cost sharing plans
  • Each employer reports their “share” of the overall plan’s net pension liability

– Special funding situations
  • TRS, SURS
    – Not so “special” anymore
  • Report each “employers share”
    – Measured by including “special funding”

– Status
  • Final statement expected in June 2012
GASB DUE PROCESS DOCUMENTS

• PV – Recognition of Elements of Financial Statements and Measurement Approaches
  – Issued June 2011, comment deadline September 2011
    • Result will be concepts statement
  – Measurement focus
    • What items to report in financial statements
  – Basis of accounting
    • When we recognize items in a financial statement
GASB DUE PROCESS DOCUMENTS

• PV – Recognition of Elements of Financial Statements and Measurement Approaches
  – Replaces current financial resources measurement focus
    • Near term financial resources measurement focus
  – Fair value reporting?????
  – Status
    • Proposed exposure draft in October 2012
    • Final concepts statement in June 2013
  – Used in developing future pronouncements
GASB DUE PROCESS DOCUMENTS

- PV – *Economic Condition Reporting: Financial Projections*
  - Issued November 2011
  - Comment deadline March 16, 2012
    • Result will be a future statement (after ED)
  - 5 components of information needed to assess fiscal sustainability
GASB DUE PROCESS DOCUMENTS

• PV – Economic Condition Reporting: Financial Projections
  – Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows
  – Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows
  – Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations
GASB DUE PROCESS DOCUMENTS

• PV – *Economic Condition Reporting: Financial Projections*
  – Projections of annual debt service payments (principal and interest)
  – Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies
  – Projections made for a minimum of 5 years
  – Cash basis of accounting
GASB DUE PROCESS DOCUMENTS

- PV – *Economic Condition Reporting: Financial Projections*
  - Major opposition
    - GFOA
    - AICPA
  - Status
    - ED spring/summer 2013
    - Final statement in October 2013
QUESTIONS?

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