

Do We Really Have To Do This?

Governmental units and their auditors have been wondering what the State of Illinois' GASB 34 requirements would be since the issuance of the infamous statement. The State's early indications were that it would not force governmental units to implement this statement. However, recent correspondence from the State Comptroller's office has indicated that they will indeed require units of government in Illinois that need to file audits with their office to implement GASB 34 in accordance with the implementation schedule included in the statement. In an effort to ease some of the burden of implementing this statement for smaller governments, it has been decided that cash basis financial statements will be allowed under the new reporting model. However, fixed assets, including infrastructure reporting, will be required in a cash basis presentation along with the formatting, required statements, disclosures and supplemental information required by GASB 34.

Is Your Government Ready To Do This?

In the past issues of the newsletter, we have covered some of the highlights of the new reporting model. For many governments, and auditors for that matter, the implementation dates appeared to be so far down the road that little concern was expressed over the impact and preparation time necessary to implement this statement. The time frame to get the initial groundwork for implementation completed is rapidly depleting for the Phase II & III governments. Phase I governments are either currently in the fiscal year of implementation or have already completed the implementation year.

**GASB 34
CONTINUES**
by Jerry Funk,
CPA

As more and more of the early implementers and current implementers talk about the challenges they faced, a common theme is mentioned- **start the process early!**

Here is a brief laundry list of some questions your government should be asking itself to judge your preparedness for the implementation of GASB 34:

At about the same time as the Comptroller's correspondence to local

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- Has the oversight responsibility for implementation been placed with a specific individual?

34...35...36...37...38...**GASB39**

by Jerry Funk, CPA

Believe it or not, the GASB statements are now up to 39. A lot of people were hoping they would stop long before 34, but the statements just keep coming. In 1991, the GASB issued Statement 14, The Financial Reporting Entity. The statement defined three types of entities to be included in the financial statements of a governmental unit:

- the primary government
- organizations for which the primary government is financially accountable
- other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The first two items were fairly well explained in GASB 14, however, due to the broad definition of the third category, the GASB felt that further guidance was needed in that area. GASB 39 was issued to address these concerns.

GASB 39 states that entities, including non-governmental units, that are legally separate, tax-exempt organizations affiliated with a primary government that meet all of the following criteria must be included in the primary government's financial statements by discrete presentation, i.e., a separate column on the combined and government wide financial statements.

1. The economic resources of the affiliated organization entirely, or almost entirely, directly benefit the primary government or its constituents.
2. The primary government is entitled to or can otherwise access a majority of the economic resources of the affiliated organization. The statement puts emphasis on the ability to access the resources portion of this requirement and not the fact whether the access occurred in the current year or not. For example, if an organization historically provides most or all of its resources to the primary government, even in years when these resources were not supplied, the primary government is viewed as having access to the resources and the organization should be included as a component unit in the financial statements.
3. The economic resources of the affiliated organization that the primary government is entitled to are significant (material) to the primary government's financial statements.

Affiliated organizations that meet each of these three criteria should be included in the financial statements of the primary government. This statement is effective for financial statement periods beginning after June 15, 2003. If your governmental unit has questions on how to evaluate a potential component unit, please feel free to call one of our offices.

Excerpts taken from PPC Governmental Update

NEW AUDIT REQUIREMENTS FOR CERTAIN UNITS OF LOCAL GOVERNMENT

By Greg Dunham, CPA

In response to questions about the need for independent audits of certain units of local government, the State has passed a new law amending the Governmental Account Audit Act. Under the prior rules, units of local government subject to this act were required to have an audit of their financial statements by an independent public accountant if their annual appropriations exceeded \$200,000. Effective July 1, 2002, this part of the law has been changed so that those entities subject to this Act will be required to have an audit of their financial statements if they have more than \$850,000 of revenue in that year. For Townships, the thresholds are the same, except that audits will be required whenever the term of the Supervisor changes, even if revenues are less than \$850,000.

The State arrived at the \$850,000 by indexing the original \$200,000, which was set in 1967, to present-day dollars. If you want to know more about this law change, or whether it applies to your unit of local government, please feel free to give us a call.

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governments, the Illinois State Board of Education (ISBE) sent a correspondence to all school districts in the state. The letter from the ISBE was probably a little better received than the Comptroller's letter. In the letter, the ISBE stated that they will not be mandating the implementation of GASB 34 for Illinois school districts. Schools will still be required to file the Annual Financial Report (AFR) with the ISBE on either the cash or the accrual method of accounting.

Things become a little more complex if the district's AFR is going to be distributed to anyone other than the ISBE and the district's management for any other purpose. If this is the case, the auditor will have to issue an adverse opinion on the financial statements (AFR) that states they are not fairly presented in accordance with generally accepted accounting principles. This also becomes an issue if the district is used to getting a separate bound report from the auditor in addition to the AFR. If this audit report is not in compliance with GASB 34 in either a cash or accrual basis presentation, the auditor must again issue an adverse opinion on the financial statements.

Is Your Government Ready To Do This? *continued from page 1*

- Does your governmental unit have a record of historical fixed assets?
- Does your governmental unit have a record of historical infrastructure assets?
- Does your accounting system allow for the functional categorization of revenue and expenses?
- Has the implementation date been established for your government?
- Has your governmental unit considered the required items for the Management Discussion and Analysis section and who will be charged with writing it?

These are just some of the issues that need to be considered well before the beginning of the year of implementation.

As a reminder, the implementation dates for GASB 34 are as follows:

	Annual revenues	Effective for years beginning after:
Phase II	\$10-\$100 million	June 15, 2002
Phase III	\$10 million or less	June 15, 2003

The annual revenue figures are based upon the government's total governmental and enterprise revenue in the fiscal year ending after June 15, 1999.

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Payroll processing involves much more than processing checks. The year round preparation of federal, state and local tax returns, deposits and the associated record keeping, not to mention the constantly changing payroll tax laws are all reasons to seek help from a qualified and knowledgeable professional.....

Top 5 Reasons to Outsource Payroll

1. **Flexibility.** As your governmental entity changes, your payroll needs change also. Leave the details to an expert, while you take care of the other needs.
2. **Accuracy.** Even with simple payrolls, mistakes are easily made. Without current and on going training in payroll compliance, your entity could face stiff penalties and unhappy employees.
3. **Taxes.** The IRS has reported that 1 out of 3 employers has been charged for a tax-related payroll error. This can result in billions of dollars in penalties.
4. **Cost.** Consider how much time is spent on managing payroll. At the very least, consider the cost of computer equipment and software as well as the extensive training that is needed to run payroll effectively.
5. **Privacy.** It can be embarrassing and detrimental to morale if the wrong person sees inappropriate payroll information. Confidentiality is easier to maintain when payroll is outsourced.