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# *GFOA of Greater St. Louis* *January 9, 2013* Accounting & Auditing Update

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## Today's Topics

- ▶ GASB Statements
- ▶ Clarified Audit Standards
- ▶ FDIC Update
- ▶ IRS Update

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# GASB Statement No. 60

## *Accounting and Financial Reporting for Service Concession Arrangements*

- ▶ This statement surprisingly has nothing to do with “park concessions or concession stands”.
- ▶ “Service concessions” generally relate to public-private partnership agreements.

The effective date is for periods beginning after December 15, 2011.

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# GASB Statement No. 60 (cont.)

Public-private partnerships are generally:

- Service arrangements
- Management arrangements

The statement provides further guidance but an example of such a service concession arrangement (SCA) includes:

- ▶ a transfer of the operation of a capital asset such as a hospital or golf course to a private company in return for the right to collect fees from users of the capital asset.

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## GASB Statement No. 60 (cont.)

- ▶ **SCA criteria –all of which must be present:**
- ▶ Transfer conveys rights and obligations –related to capital assets–to third party operator to provide services to the public in exchange for significant consideration
- ▶ Operator collects and is compensated from fees to third parties
- ▶ Transferor is entitled to significant residual interest in service utility of capital asset at end of arrangement
- ▶ Transferor determines or has ability to modify or approve:
  - **Services to be provided**
  - **To whom services will be provided**
  - **Prices or rates to be charged**

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## GASB Statement No. 61

### *The Financial Reporting Entity: Omnibus*

- Although “Omnibus” is in the name, the primary issue related to this is the change in the definition of the financial reporting entity.
- The effective date is for periods beginning after June 15, 2012.

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## GASB Statement No. 61 (cont.)

### *The Financial Reporting Entity: Omnibus*

- Governments will need to re-determine the presentation of component units and if they should be blended, and consider changes to the presentation of joint ventures.
- More difficult to include component units. Statement modifies requirements by stating that fiscal dependency alone does not warrant inclusion; but rather, a financial benefit or burden relationship must also be present between the potential component unit and the primary government. Other requirements also apply.

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## GASB Statement No. 62

### *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

- This statement incorporates the FASB and AICPA pre-November 30, 1989 pronouncements with the GASB pronouncements.
- The effective date is for periods beginning after December 15, 2011.

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# GASB Statement No. 64

*Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

The effective date is for periods beginning after June 15, 2011.

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## GASB Statement No. 64 (cont.)

This statement:

- clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider.
- sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

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# GASB Statement No. 63

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

- “Deferred outflows” and “deferred inflows” are catchy new terms for things that are not quite assets and liabilities, respectively.
- The effective date is for periods beginning after December 15, 2011.

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# GASB Statement No. 63 (cont.)

- The simple old accounting equation was  $A-L=E$ , now for governments it is  $A+DO-L-DI=NP$ .
- “Net position” is the term for what was previously called “net assets”.
- Examples of deferred outflows and inflows are prepaid expenses and deferred revenue, respectively.
- Other deferred items are such items as certain derivatives, service concession arrangements, pension amounts, special assessments, etc.

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# GASB Statement No. 65

## *Items Previously Reported as Assets and Liabilities*

The effective date is for periods beginning after December 15, 2012.

This goes along with Statement No. 63 in determining reclassifications of deferred outflows and inflows from what were previously reported as assets or liabilities.

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# GASB Statement No. 65 (cont.)

Other common deferred inflows and outflows are resources from imposed non-exchange transactions such as property taxes and deferred charges on debt refinancing.

One of the better examples of the changes required is that certain underwriter fees associated with the issuance of long-term debt will now be classified as current period outflows of resources (expenses).

See exhibit

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# GASB Statement No. 66

*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*

The effective date is for periods beginning after December 15, 2012.

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## GASB Statement No. 66 (cont.)

Perhaps the most significant change under this statement is that it removes the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type.

As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported.

Thus, risk financing activities may perhaps be reported in special revenue funds.

Other provisions are also included in this statement.

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## **GASB Statement No. 67**

*Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*

Statements 67 & 68 are causing plenty of controversy.

Statement No. 67 applies to pension plans and trusts.

The effective date for Statement No. 67 is for periods beginning after June 15, 2013.

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## **GASB Statement No. 68**

*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*

This statement applies to financial reporting by employers.

The big picture issue is that the net pension liability should be reported on the statement of position.

The effective date for Statement No. 68 is for periods beginning after June 15, 2014.

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## GASB Statement No. 68 (cont.)

- ▶ The standard is intended to provide more comparable statements of governments for the defined benefit pensions plans. GASB No. 68 requires among other things:
  1. Employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Previously, a liability was only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year.

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## GASB Statement No. 68 (cont.)

The standard is intended to provide more comparable statements of governments for the defined benefit pensions plans. GASB No. 68 requires among other things (cont.):

2. If the projected plan assets and future contributions are not sufficient to meet the projected future benefits, a blended discount rate will be used incorporating the long-term expected rate of return on investments until such time as resources are exhausted and then based on the municipal tax-exempt, high quality 20-year bond rating. This change from the previous practice of using the long-term expected rate of return will generally decrease the discount rate and increase the total pension liability.

– See exhibit

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## Clarified Audit Standards

Auditors generally have to deal with these new standards.  
Issues affecting local governments:

1. Effective beginning for 12/31/12 year-ends.
2. Fewer letters to attorneys (lower your legal bills).  
Attorney letters are required only if auditor assesses a material risk with respect to litigation or claims or if the audit procedures indicate that material litigation or claims may exist. Auditors may send to the primary attorney, not all attorneys.

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## Clarified Audit Standards

Auditors generally have to deal with these new standards.  
Issues affecting local governments (cont.):

3. No more “qualified” opinions (now you may receive a “modified” opinion though.)
4. Strange new opinion. Standard audit report, see exhibit.

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## Certain FDIC Coverage Expires

- ▶ The unlimited FDIC coverage for noninterest-bearing accounts expired December 31, 2012.
- ▶ Political subdivisions are generally required to be insured or collateralized in accordance with state statutes.
- ▶ Check with your financial institution regarding the status of your accounts and if any changes are needed.
- ▶ See link from FDIC below regarding deposit insurance coverage.

<http://www.fdic.gov/deposit/deposits/changes.html>

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## IRS UPDATE

- ▶ **New 1099-K to be received. These may not reconcile to your records.** The gross amount of payment card and third-party network transactions will be reported.
- ▶ In rolling out the new 1099-K form, the IRS is attempting to improve voluntary tax compliance by business taxpayers.
- ▶ See exhibit

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## IRS UPDATE

### ▶ IRS Quick Reference Guide For Public Employers

- [www.irs.gov/pub/irs-tege/public\\_employers\\_outreach\\_guide.pdf](http://www.irs.gov/pub/irs-tege/public_employers_outreach_guide.pdf)

- ▶ All payments of compensation to an employee should be reported on Forms W-2; never use Form 1099-MISC to report payments for services by an employee.
- ▶ Clothing provided by the employer:
  - The value of work clothing provided by the employer is not taxable to the employee if:
    - 1) The employee must wear the clothing as a condition of employment, and
    - 2) The clothes are not suitable for everyday wear.

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## IRS UPDATE

### ▶ Clothing Provided by the Employer (cont.)

- It is not enough that the employee wear distinctive clothing; the employer must specifically require the clothing as a working condition. Nor is the test met because the employee does not, in fact, wear the work clothes away from work. The clothing must not be suitable for taking the place of regular clothing.
- The value and upkeep of work clothes provided to firefighters, health care workers, law enforcement officers or letter carriers is nontaxable to the employee. Similarly, the value of safety shoes or boots, safety glasses, hard hats and work gloves provided and maintained by the employer are not taxable.

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## IRS UPDATE

### W-2, health premiums reporting:

Reported for individual payments for those with more than 250 W-2's in box 12 code DD. See exhibit.

The aggregate reportable cost generally includes both the portion of the cost paid by the employer and the portion paid by the employee, regardless of whether the employee paid through pretax or after-tax contributions. Salary reduction contributions to a health FSA are also excluded, but to the extent the amount of a health FSA exceeds the employee's salary reduction contributions for the year, it is included in the aggregate reportable cost.

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## IRS UPDATE

### W-2, health premiums reporting (cont.)

- ▶ Applicable employer-sponsored coverage means coverage under any group health plan that an employer makes available to the employee and that is excludible from the employee's gross income, but it excludes long-term-care coverage, any coverage under a separate dental or vision policy, or certain other coverage such as accident or disability income insurance, supplemental liability insurance, etc.

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## IRS UPDATE

**Form 8809 – W-2 or 1099 extension form (just in case) – see exhibit**

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## Questions?

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