GASB Statement No. 35 Implementation-
A Change in Reporting

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Executive Summary/Synopsis

Illinois Community Colleges must follow certain regulatory requirements for accounting and reporting transactions of the organization to the general public or state or federal entities which provide them funding. The Governmental Accounting Standards Board (GASB) has been that standard setting board which community colleges and their auditors look to for professional guidance when it comes to accounting and reporting. The Illinois Community College Board is the state agency that provides professional guidance to as it relates to state level reporting requirements Illinois Community Colleges.

The Illinois Community College Board has consciously strived to establish state level reporting requirements to allow colleges local decision making authority for their internal accounting practices and external reporting documents while at the same time obtaining data that is consistent and comparable on a statewide basis. This ultimately means the tough decisions made by the colleges will either minimize differences or create a wider gap between internal and external accounting and reporting to the state.

The recommendations that follow are made to maintain this same philosophy of state level reporting while still giving the college the choice regarding its specific accounting and reporting practices. Depending upon the choices, the college could end up maintaining accounting and reporting systems that are different and must be reconciled for accuracy and completeness. Consistent, timely, and accurate financial data collected at the state level is essential to responding to inquiries regarding community colleges and demonstrating accountability for the tuition collected from students, local property taxes assessed against property owners, and state appropriations provided by the General Assembly.

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What Caused This Reporting Change

The Governmental Accounting Standards Board (GASB) is the standard setting body for state and local government entities including public colleges and universities. For years there has been discussion concerning the lack of comparability between private and public higher education entities' audited financial statements. Private educational institutions have historically presented their audited financial statements according to standards established by the Financial Accounting Standards Board (FASB). In June 1999, the GASB adopted statement no.34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, which essentially requires governmental entities to change the way it reports its performance in audited financial statements. The GASB did not specifically mention institutions of higher education in GASB Statement No. 34. Therefore, in November 1999 the Governmental Accounting Standards Board issued GASB Statement No.35 which effectively established accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34.

What Types of Changes

Following are some critical dates, presentation issues, financial statements and other information that will affect external audited financial statements for all districts in their fiscal year 2003 audits (except for City Colleges of Chicago which must comply in fiscal year 2002):

- Implementation Required
  - Revenue over 100 million fiscal year ending 2002
  - Revenue over 10 million fiscal year ending 2003
- Business Type Activities (BTA) model recommended by NACUBO
- Capitalization of Assets and depreciation accounting
  - Not expenditures as used today
- Required Basic Financial Statements
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Management Discussion and Analysis
  - Of over 14 listed items
- Expanded Footnotes
  - Fixed assets
  - Accumulated depreciation
  - Long term debt
- Revised Footnotes For:
  - Revised Financial Statements
- Revised Accounting For:
  - Property Tax Revenue
  - Assets
  - Depreciation
  - Summer School
  - Interfund Charges
- No Requirement for Budget – Actual Comparison

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How To Proceed

In an effort to provide leadership and assistance to the community college system in Illinois, the Illinois Community College Board's Finance Advisory Committee formed a GASB 34/35 task force to work on GASB 34/35 implementation issues. The committee was formed and has been working on this issue since August 2000. The committee consists of four chief financial officers, two controllers, two CPA's from public accounting firms who work on audits of community colleges, and ICCB staff. The committee has drafted a set of recommendations for implementation of these reporting requirements and the recommendations have been shared with CFO's at regional CFO meetings. The Finance Advisory Committee reviewed and approved the final recommendations of the committee at its May 16, 2001 meeting. These final recommendations evolved directed from the recommendations of this committee and final acceptance of the Finance Advisory Committee and the Illinois Community College Board.

ICCB Recommendations For Implementation

Recommendations:
Accounting Recommendations (Internal Financial Records) and requirements for ICCB state level reporting:

1. All accounting by funds and account groups should remain unchanged in order to meet statutory restrictions (i.e., assets should be expensed in the appropriate funds.)

2. Budgeting for individual funds should be based on recommendation #1.

ICCB State Level Reporting Requirements and Recommended External Financial Reporting:

- #1 and #2 above

3. Property taxes should be recorded in each fund according to GASB 33 example 4, 50% in the fiscal year the levy is passed and 50% in the following fiscal year. Property taxes receivable and deferred revenue should be recorded when passed by the Board.

4. Corporate personal property replacement property tax (CPPRT) should be recorded in each fund according to GASB 33 example 5, in the year in which the income tax is measurable and available. Since corporate personal property replacement tax is paid on a monthly basis, July and August payments would be measurable and available during the preceding fiscal year.

5. Depreciation should be recorded in the fixed asset group.

6. Assets should be capitalized using the following guidelines:
   Minimum unit value $2,500 to $5,000
   Remodeling that extends the life of the building $50,000 to $100,000. This recognizes that technology under $5,000 per unit price (as selected by the local district) is an expense item not a capital item. Items should be written off when retired.

7. Assets are defined as those items with a useful life of more than one year.

8. Depreciation should be recorded using the following guidelines:
   Building 40-60 years
   Land Improvements 10-20 years
   Equipment 5-10 years

Technology related software and hardware 3-5 years
Vehicles 3-5 years

9. Acceptable Methods of Depreciation

Straight Line	As determined to be appropriate by the district based upon the asset type.
Double declining balance	As determined to be appropriate by the district based upon the asset type.
Sum of the years digits	As determined to be appropriate by the district based upon the asset type.

10. Summer school revenue and expense should be reported in the subsequent fiscal year.

11. UFRS and Unit Cost should be reported based upon the above standards.

Reporting Recommendations (audited financial statements):

12. Recommend BTA model but ICCB will require BTA as supplemental information for any other model. The BTA model includes:

- Required Basic Financial Statements
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Management Discussion and Analysis
  - Of over 14 listed items
- Expanded Footnotes
  - Fixed assets
  - Accumulated depreciation
  - Long term debt

13. GASB 35 reporting should be done through the consolidation financial reporting method.

14. The following elimination and adjustment entries shall be made in the consolidated report:
   a) Elimination of Internal Service charges and equivalent expenditures
   b) All items capitalized should be removed from expenses
   c) The allocation of summer revenue and expense between fiscal years based upon accrual accounting and the appropriate adjustment of deferred expense and deferred revenue
   d) "Funds to be provided" should be eliminated from the long term debt group
   e) Interfund due to and due from should be netted
   f) Scholarships and Pell grants provided for tuition and fees should offset tuition income as an allowance (such grants that are paid to students for costs other than tuition and fees should be recorded as an expense)

GASB 34/35 Task Force Members

Co-Chairs	Representing	Position
David Hilquist	Oakton Community College	Vice President Business and Finance
Ed Smith	Illinois Community College Board	Director for System Finances

Task Force Members

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Bruce Bennett	Illinois Community College Board	Assistant Director for System Finances
Rob Hilgenbrink	Southwestern Illinois College	Vice President Administrative Services
Delores Javier	City Colleges of Chicago	Manager, Treasury Accounting Systems
Pete Krupczak	College of Lake County	Vice President Administrative Affairs
Roberta Lindenthaler	William Rainey Harper College	Controller, Accounting Services/Academic Affairs
Jeff Markert	KPMG CPA Firm	Independent CPA
Gail Morrison	Danville Area Community College	Controller
Randy Ragan	McGladrey and Pullen CPA Firm	Independent CPA
Don Wilske	Illinois Community College Board	Chief Financial Officer