

How to Implement GASB Statement No. 34

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Journal of Accountancy, November 2001

EXECUTIVE SUMMARY

■ **GOVERNMENTS PREPARING TO IMPLEMENT GASB** Statement no. 34 should study its requirements and those of related statements issued before and after it, especially Statement no. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement no. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and Statement no. 38, *Certain Financial Statement Note Disclosures*.

■ **RESOURCES ARE OF PARAMOUNT IMPORTANCE** in implementing the new financial reporting model Statement no. 34 introduced. Governments should assess their in-house skills and head count and determine whether they need assistance from consultants and other external parties, including their auditors, to properly implement the statement on time.

■ **GOVERNMENTS SHOULD IDENTIFY THE INFORMATION** that is necessary to convert fund-based statements to government-wide statements and determine whether it is currently available in government reporting systems. To do this, governments need additional data on fixed assets, capital and noncapital long-term debt, and internal balances and activities.

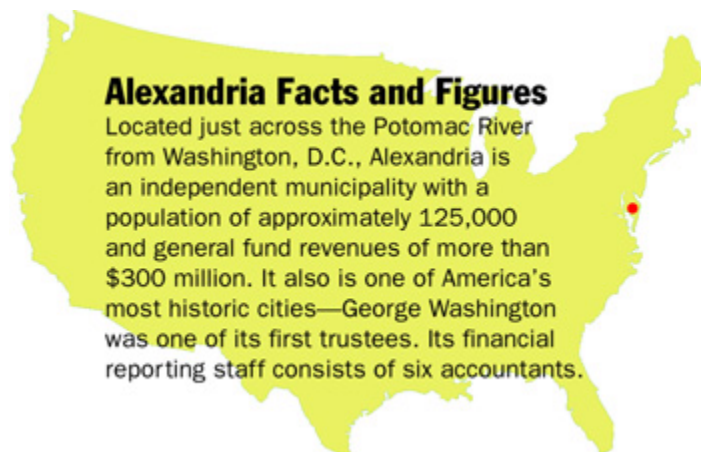
■ **GOVERNMENTS MUST REPORT REVENUES ON AN** accrual basis in government-wide statements in accordance with Statement no. 33. In addition, program revenues need to be properly identified and classified. Auditors may find that some governments underestimate the relevance of Statement no. 33, thereby hindering a proper implementation of Statement no. 34.

■ **DATA ON INFRASTRUCTURE ASSETS** are a required part of the new financial reporting model, and governments must decide when to begin recording them retroactively. Under Statement no. 34, governments can delay their decision up to four years following implementation. They also must decide how far back to report. The

Minimum requirement is to report major infrastructure assets acquired in fiscal years ending after June 30, 1980.

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Outside the District of Columbia, changes don't come much bigger than this: New financial reporting requirements from the Governmental Accounting Standards Board (GASB) mean state and local governments must revamp both the form and substance of their financial reports. The new model requires government-wide statements containing information—not previously collected—that will make it easier for financial statement users to measure operational accountability by accounting for activities as business enterprises do. In the statement of activities, for example, governments will have to capitalize—not expense—the purchase of fixed assets. In addition, the financial statements' format will reflect the net cost of government services, such as providing for public safety and education.



For the tens of thousands of governments that have to comply with GASB Statement no. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*—and for the auditors helping them interpret and implement it—this is a major undertaking. (Statement no. 34 was issued in June 1999. See *JofA*, Official Releases, Oct.99, page 112.) When they have implemented the statement, however, these governments' financial reports will provide more data than ever before, much of it in new government-wide formats.

The required implementation date for larger governments is for fiscal years beginning after June 15, 2001 (see [“GASB 34 Implementation Schedule”](#)). The city of Alexandria, Virginia, however, decided to implement two years early. Its financial statements are presented in [exhibit 1](#), “Statement of Net Assets,” and [exhibit 2](#), “Statement of Activities.” This article offers suggestions and advice on how to implement the new statement. It recounts Alexandria’s experience and discusses possible concerns from the viewpoint of the state of Alaska—which expects to implement the standard in 2002—and of an Oklahoma City CPA firm that audits the financial statements of state and local governments and is assisting a number of them in preparing their financial reports under Statement no. 34.

GASB 34 Implementation Schedule

**Total revenues for government and enterprise funds
Implementation required for fiscal years beginning
after**

More than \$100 million
June 15, 2001

\$10 million to \$100 million
June 15, 2002

Less than \$10 million
June 15, 2003

To help governments implement Statement no. 34, GASB issued Statement no. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and Statement no. 38, *Certain Financial Statement Note Disclosures* in June 2001 (see Official Releases, page 127). Governments should review the following related statements as well:

- Statement no. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* (April 2000).
- Statement no. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities* (November 1999).
- Statement no. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (December 1998).

GET A GOOD START

Governments need to quickly identify issues that could hinder a smooth implementation of the requirements. One determination they should make

early is whether they have enough skilled staff or will need outside assistance in preparing their financial statements, says Frank Crawford, CPA, a partner in the Oklahoma City auditing firm of Crawford & Associates.

Those beginning to plan for implementation will be glad to hear the statement's provisions won't have much impact on accounting software systems. "The effect is minimal," Crawford says. "Governments still will maintain their fund accounting and do adjustments at yearend to convert to the external financial reporting requirements of Statement no. 34."

But there are other areas to be concerned about. Kim Garner, CPA, director of the division of finance in Alaska's department of administration, says her top concern is staffing. "We don't have people to dedicate to this," she says, "and staff turnover is a constant worry. So, we've been training with a consultant who reviewed our previous financial statements and designed an implementation plan that focused on those statement provisions that pertain to us." For example, Alaska doesn't have any general obligation debt, so the consultant made sure Garner and her staff didn't waste time on that aspect of the statement or any other areas that didn't concern them.

KEY IMPLEMENTATION TASKS

While retaining much of the earlier fund-based reporting model, Statement no. 34 adds a new set of government-wide statements that provide a comprehensive overview of government finances, measured on an accrual basis. Creating such statements is a big challenge for governments, but they can meet it by breaking implementation tasks into smaller components. This is especially true for government activity: Existing funds information must be converted to the government-wide format, using the accrual basis of accounting. A government can do this by setting up a spreadsheet that presents all the data elements pertaining to such funds, calculating and displaying their sum in a totals column, and then inserting additional data on capital assets, long-term debt and other items that make it possible to convert the spreadsheet data to the accrual basis. (Paragraphs 62, 67 and 104 of the statement provide additional information on this topic.)

Another important task for governments is capturing cost information about their roads, bridges, sidewalks and other infrastructure assets. They must begin reporting infrastructure when they implement Statement no. 34 but have up to four years to capture cost information on previously acquired infrastructure assets. If records are unavailable, governments need only estimate the cost of major infrastructure assets acquired since 1980. To determine what information is available, they could meet with the

public works department. But lack of information should not prevent a government from proceeding with implementation. (Paragraphs 18 to 29 of Statement no. 34 discuss the treatment of infrastructure assets.)

INFORMATION NEEDS

Implementors must determine what adjustments are needed to convert existing fund-based information to the accrual basis in government-wide statements. These adjustments mostly relate to capital assets, long-term debt, internal balances and activities and certain revenue items. (For details, see [“GASB 34 Implementation Checklist.”](#))

GASB 34 Implementation Checklist

For the most part, producing the new government-wide statements will be a spreadsheet exercise in which information permitting modification to the accrual basis will be added to the fund-based financial statement. Below is a summary of key information needed to perform this conversion. In implementing GASB Statement no. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, governments must determine whether the necessary information is available from current systems or will have to be developed.

Capital assets. Most governments have information on general fixed assets. But the following data, which are related to capital assets, also are required.

- Accumulated depreciation.
- Current-year depreciation expense by functional area.
- Current-year capital acquisitions by functional area.
- Book value of capital assets disposed of during the year.

Long-term debt. Although general long-term debt information is readily available to most governments, the following data also are necessary for financial reporting purposes.

- Current-year capital debt payment by functional area.
- Current-year capital debt issuance.
- Current-year change in noncapital debt (for example, compensated absences) by functional area.
- Accrued interest on long-term debt.
- Current-year change in accrued interest.

Internal balances and activities. Certain eliminations are needed to reduce the grossing up of assets and liabilities and to remove the doubling-up effect of internal service fund activity. The following is a list of additional information needs related to internal balances and activities.

- Internal balances within funds that make up government activities.
- Internal balances within funds that make up business activities.
- The amount of purchases from the internal service fund for the year by functional area.

Certain revenue items. Guidance on revenue recognition for nonexchange transactions is contained in GASB Statement no. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The major difference between fund statements and government-wide statements relates to taxes and grants that have not met the “available” criteria. Governments will have to track such revenues under the modified accrual and accrual methods.

Capital assets. To make the conversion, it’s essential to determine early whether a government’s capital asset system can provide the necessary information and, if not, what additional steps are required to capture it. Fortunately for Alexandria, its existing asset management system had provided the information needed for the conversion. Also, the city had raised its capitalization threshold to \$5,000 from \$1,000, which substantially reduced the number of items to be tracked. As part of the implementation process, therefore, it’s worthwhile for governments to review their capitalization policy.

Long-term debt. Activity related to long-term debt also plays a major role in the conversion process. Most information about the nature of debt is readily available in current financial statements. However, governments may have to develop new information about accrued interest and the change in noncapital liabilities (such as compensated absences and claims and judgments) related to their operations by functional area, as was the case for Alexandria.

Because Alexandria had previously adopted a policy to set aside fund balances to cover a portion of the compensated absence liabilities, the impact of these liabilities on unrestricted net assets was minimal. But for many governments, this will not be true. Therefore, all governments should review their policy.

Internal balances and activities. Often internal service funds provide goods and services on a cost reimbursement basis, primarily to the general government. If this is the case, such funds should be reported as part of government activities in the financial statements. Otherwise, they should be reported as part of “business-type” activities. Governments should eliminate interfund receivables and payables and items for the “doubling-up” effect of internal service fund activities. In essence, any income or losses that are related to an internal service funds activity represent an adjustment to the expenses recorded by the functions (for example, general government, which contains several departments) that purchased the goods or services.

Alexandria had only one internal service fund, and its activity was concentrated in just a few departments, so it wasn’t hard to determine functional costs to allocate to the fund’s income, but governments with several internal service funds may find it more difficult.

Certain revenue items. GASB Statement no. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, provides guidance on revenue recognition—on both the accrual and modified accrual bases—for most taxes, grants and private donations. When governments make a conversion, they must adjust the revenue for nonexchange transactions from the modified accrual basis to the accrual basis. The statement is effective for financial statements for periods beginning after June 15, 2000, but governments must adopt it earlier if they implement Statement no. 34 before then.

Implementing Statement no. 33 was somewhat challenging for Alexandria. Because the city collects one calendar year’s property taxes in two different fiscal years, the conclusions it reached on how to record them were the subject of many late-night discussions with its auditors. Together, they reviewed taxpayers’ rights to refunds and city policies related to collection

procedures. If regulations do not adequately specify how taxes are to be used, implementation could have some unintended revenue recognition consequences. Governments should review the impact of the statement with their auditors as early as possible.

Auditors see very clearly what happens, Crawford explains, when governments underestimate the importance of Statement no. 33 in relation to their implementation of Statement no. 34. The 40 to 50 government entities that implemented Statement no. 34 for June 30, 2000, he says, had to implement Statement no. 33 as well. But, many of those governments are now saying they “underestimated the impact of Statement no. 33.” For example, governments misunderstood the manner in which the statement requires them to recognize receivables, revenues and deferred revenue related to property and sales taxes, grants and other contributions.

Another task government accountants and the CPA firms assisting them face in the conversion is identifying program revenue, which reduces the net cost of the functions of governments to be financed from general revenue. In order to properly report program revenue in the statement of activities, governments must identify it by functional area, which can be a time-consuming task. This process does not affect the amount of revenue reported, but allows measurement of the net cost of government functions.

OTHER ISSUES

Statement no. 34 contains several areas that allow for alternatives in displaying information, so governments should consider the options available and determine which display method is most appropriate for their users.

Alexandria’s approach to early implementation of the statement was to keep the reporting format as simple as possible in the initial implementation and, based on users’ reactions, consider alternative formats in the future.

The government-wide statements will contain new information about finances. An important final step in implementing Statement no. 34 is explaining these data to financial statement users. Government officials, the governing board and other parties interested in a government’s finances all need to understand the new reporting model. Governments therefore should develop adequate plans for meeting this educational need.

Alexandria began informing its city leaders, budget staff, technology staff and citizens about Statement no. 34 long before implementing it. As a result, questions were minimal when the implementation took place.

Nevertheless, the city expects financial report users will need ongoing help to find information that may have been elsewhere under the old reporting model.

A HISTORIC CHANGE

This implementation effort will be the most challenging that many governments face. At times they may find the process overwhelming. But governments that proceed carefully, identifying required information and determining how to obtain or calculate it, will find that implementing Statement no. 34 is a manageable task with great rewards.

For the government of Alexandria, the implementation of GASB Statement no. 34 was not as difficult as they had feared. Their overall advice is to get started as soon as possible and to keep implementation goals simple. They also recommend reading Statement no. 33 more than once. One of the most useful things they did was to set up a spreadsheet early and address each of the major adjustments to the accrual basis individually. Their worst problem was dealing with issues related to GASB Statement no. 33 late in the process and underestimating the time needed to meet the required note disclosures. In future years, however, this problem should not recur.

“Government-wide statements are something no one’s ever seen before,” Garnero says. “This definitely will help people understand their government’s finances better.” ■

Two Statements Modify GASB 34

- Statement no. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, which clarifies certain provisions of Statement no. 34 and amends others. It addresses
 - Topics that should be covered in management’s discussion and analysis (MD&A).
 - How to report a change from the depreciation method to the modified approach for infrastructure assets.
 - Classification of fines and forfeitures.
 - Criteria for determining whether a government or enterprise fund must be reported as a “major” fund.
 - The level of detail required for business activities in the statement of activities.
 - Eliminating the requirement to capitalize construction-period interest for government activities.

Governments should implement Statement no. 37 simultaneously with Statement no. 34. For those that implemented Statement no. 34 prior to issuance of this amendment, the new requirements become effective for reporting periods beginning after June 15, 2000.

■ Statement no. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements and reaffirms that most such requirements continue to be relevant.

Governments should implement Statement no. 38 simultaneously with Statement no. 34. For those governments that implemented Statement no. 34 prior to issuance of this amendment, the new requirements become effective for reporting periods beginning after June 15, 2000.