

GASB 34 Implementation

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The EKGFOA steering committee on GASB 34 met with the WMGFOA steering committee to discuss alternatives to allow Cities and Counties to identify GASB 34 issues across the Kansas City area.

The members of the committee stated they would like to see a list of issues municipalities should be addressing. Mr. Lew Herman a representative from Cochran, Head & Co. was present and said that their firm had put together a list of issues and would be willing to provide this list to EKGFOA members. Attached you will find this list, we hope this listing will be of benefit to your organization.

If you have questions, please feel free to contact any of the steering committee members:

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Major Funds

Under GASB 34, the City will be required to show major and non-major funds on the Fund Financial Statements. Each major fund will be shown in a separate column. Non-major funds will be aggregated into one column for the Fund Financial Statements (Combining schedules may be shown as part of the Required Supplementary Information). In order for a fund to be classified as a major fund, it must meet two criteria: (1) The assets, liabilities, revenues, and expenditures/expenses of the individual governmental or enterprise fund must be at least 10% to the corresponding total for all funds within that fund type; and (2) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund must be at least 5% of the corresponding total for all governmental and enterprise funds combined. Fiduciary and Internal Services Funds are excluded from the major fund calculation. The General Fund is always considered to be a major fund. Attached is a preliminary major fund determination performed based on December 31, 1999 numbers. The City also has the option of showing other funds that do not meet the above criteria as major funds if they consider it to be important to the users of the financial statements. Interfund transfers among the non-major funds may be eliminated when accumulated for the single column.

The City must show budgetary schedules for the General fund and all major funds. These schedules must be shown as either part of the Basic Financial Statements or Required Supplementary Information. It is optional as to whether or not to show budgetary statements for funds considered to be non-major. However,

Items to Be Resolved by the City:

Does the City wish to report any funds not meeting the above criteria as major funds?

Does the City want to show combining schedules for non-major funds?

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Does the City wish to show the budgetary schedules for the General Fund and the major funds as part of the Basic Financial Statements or Required Supplementary Information?

Does the City plan to show budgetary schedules for the non-major funds?

Does the City want to eliminate interfund activity when combining non-major funds into a single column.

Things to Consider:

Non-major funds will be shown in aggregate on the Fund Financial Statements. The City may choose to show combining schedules as part of the Required Supplementary Information if it so wishes.

If the City opts to show budgetary statements for the non-major funds, it would probably make more sense to show the General fund and the major fund budgetary statements as part of Required Supplementary Information because that would be where the other funds' budgetary statements would be. However, no matter which option is chosen, the General fund and major fund (including those "non-major" funds determined to be shown as major at the discretion of the City) budgetary statements must be together because they are required schedules.

Component Units

Fiduciary component units should be shown on the Fiduciary Fund statements of the report. The blended component unit of the Public Building Commission is part of the major fund determination process of the governmental funds. There are three options on how to report discretely presented component units:

1. Present each major component unit (non-fiduciary) in a separate column in the Statement of Net Assets and Activities. Non-major component units will be aggregated into a single column.
2. Include combining statement of major component units in the Basic statements after the fund financial statements. All nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required but may be presented as supplementary information.
3. Present condensed financial statement in the notes to the financial statements.

Items to Be Resolved by City:

How does the City want to report its discretely presented component units?

Things to Consider:

With 3 discretely presented component units, it would probably be cumbersome to report these funds in the notes of the financial statements.

Internal Service Funds

The City will be required to eliminate internal service fund activity in order to remove the doubling-up effect of this activity. The objective to these eliminations is to adjust internal charges to cause a break-even result. The interest income and interest expense amounts recorded in the Internal Service funds should be shown as interest income and

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interest expense on the Statement of Activities rather than re-allocated among the programs.

From reading the descriptions of the various funds, it appears that all of the City's Internal Service funds serve both governmental and enterprise funds.

Items to Be Resolved by the City:

Are there any Internal Service Funds that provide services to only enterprise funds?

Does the City wish to show combining schedules for the Internal Service Funds in the Supplementary Information?

In order to successfully close the Internal Service Funds, we need to know the percentages attributable to each program/function. For example, what percentage of each Internal Service Fund is attributable to general government, public safety, public works, etc.

Budgetary Statements

For the budgetary statements, the City is required to show the original budget, budget amendments, and the actual activity presented on the budgetary basis. A variance column is optional

Items to be Resolved by the City:

We need the original budget (including amendments made before the beginning of the fiscal year, if any) separate from the amended budget in order to disclose the required information.

Does the City wish to continue showing a variance column for comparison of actual to amended budget?

From review of the workpapers, the 1999 budget was not amended. Is this correct?

Statement of Activities

For the Statement of Activities, expenses for each of the City's functions/programs are offset by revenue generated directly from those functions. The Net Revenues (Expenses) are then offset by general government revenues and expenses. The functions associated with the City should be split between governmental and business-type activities. The business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. If the City has enterprise funds that also provide governmental services, it may reclassify those activities as governmental and vice versa. The City may also consolidate similar functions accounted for in different funds. For example, the activities accounted for under the Special Parks and Recreation fund may be very similar to the activities of the Recreation enterprise fund. The City may consolidate these into a single function on the Statement of Net Assets and Statement of Activities.

Expenses that are considered to be indirect expenses may be allocated among the different functions. If indirect expenses are allocated to the various functions, they must

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be shown in a separate column from the direct expenses. A column totaling the 2 is optional.

Depreciation expense for capital assets that are identified to be solely associated with a particular function must be shown as a direct expense of that function. Depreciation for those assets that are not directly attributable to a function (such as City Hall Building for example) can either be allocated in some manner among the programs or shown as a general government expenditure at the bottom of the schedule.

Interest on long-term liabilities should be shown as an indirect expense unless the borrowing is essential to the creation or continuing existence of a program and it would be misleading to leave out the interest.

For the Statement of Activities, grants and contributions must also be separated into 2 different categories: Operating and Capital grants and contributions. For those grants that may be used for either operating functions or capital purposes, the grant application/agreement must be examined to determine the amount attributable to each category. Grants that do not provide for specific identification of the programs and amounts should be reported as general revenue.

Items to Be Resolved by the City:

The City needs to determine which functions it would like to show on the Statement of Activities.

Are there activities within an enterprise fund that should be shown on the statements as governmental or vice versa?

The direct expenditures and revenue associated with each particular function of the City must be identified.

How does the City plan to show indirect expenses: allocated among the various functions or shown as general government expenditures at the bottom of the schedule?

Assets need to be evaluated to determine their use and how depreciation should be reported. For example, depreciation on a police car would likely be shown as a direct expense in the public safety function. However, if an asset is shared by 2 different functions, such as a truck used for public safety and water services both, the depreciation expense should be allocated among the different functions on a pro-rata basis.

How does the City wish to show depreciation expense for those assets not directly attributable to a particular function?

Does the City have any interest expense that would not be considered to be indirect expenses?

Determine which grants are operating and capital grants and the revenues associated with each.

Things to Consider:

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I have attached 2 examples of the Statement of Activities to show how things need to be classified. One example is a government that does not allocate indirect expenses. The other example shows the indirect expense allocations.

The City needs to examine its activities on a functional level rather than the fund level. As indicated above, the City has the option of reclassifying information previously shown in a governmental fund to a business-type function if it so chooses or the City can consolidate similar activities accounted for in different funds. If the City consolidates activity from 2 different funds, such as a governmental and enterprise fund, there must be a reconciliation from the governmental and enterprise fund financial statements to the government-wide statements to explain the reclassification.

If the City opts to show the depreciation expense associated with non-program assets as a separate line under the general government expenditures, it must clearly indicate on the face of the statement that this expense excludes depreciation expense recorded for assets directly attributable to the particular functions.

A good indicator of the use of capital assets is which function provides funding for repairs and maintenances of these items. If more than 1 function funds these expenses, how they are allocated will likely be how the depreciation expense associated with that asset should be allocated.

Fixed Assets/Infrastructure:

In accounting for infrastructure items, the City has 2 options: the modified approach or depreciation. Under the modified approach, the City must utilize an asset management system. The asset management system should have an up-to-date inventory of infrastructure assets, perform condition assessment of infrastructure assets and summarize the results using a measurement scale, and estimate each year the annual amount to maintain and preserve the assets at the condition level established by the government. Under the approach, the City must also document that the infrastructure assets are being preserved at or above a condition level established by the government. Under this method, no depreciation is taken on the infrastructure assets.

Under the depreciation method, depreciation is taken on infrastructure assets yearly. Depreciation for infrastructure items should not be allocated among the different functions as noted previously for capital assets. Instead, the program that provides function for maintenance, etc. should account for the infrastructure's depreciation as a direct expense.

The City is not required to retroactively report infrastructure assets in the first year of implementation. For those cities that are required to implement the new standards by June 15, 2001, infrastructure assets must be retroactively reported in the fiscal year beginning after June 15, 2005. The City must go back to infrastructure purchased/improved in fiscal years ending after June 30, 1980.

On the Statement of Net Assets, net assets is divided into 3 different categories: Investment in Capital Assets, Net of Related Debt, Restricted, and Unrestricted. If there is no debt associated with capital assets, it is shown as Investment in Capital Assets.

Items to Be Resolved by the City:

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Does the City wish to account for infrastructure assets using the modified approach?

If the modified approach is not used, the City needs to identify which particular infrastructure assets are associated with each function in order to show depreciation expense correctly.

Is the City planning to retroactively record infrastructure assets in the first year of implementation?

The outstanding debt associated with the acquisition/construction of capital assets will need to be identified in order to offset the capitalized amount for that category of Net Assets.

Things to Consider:

Under the modified approach, the City will likely have to hire an "expert" in order to perform the condition assessments.

Determination of major general infrastructure assets should be done at the network or subsystem level and should be based on the following criteria:

1. The cost or estimated cost of the subsystem is expected to be at least 5% of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, or
2. The cost or estimated cost of the network is expected to be at least 10% of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

A network is considered to be composed of all assets that provide a particular type of service for a government. A subsystem is composed of all assets that make up a portion or segment of a network. For example, a water distribution system could be considered to be a network. Pumping stations, storage facilities, and distribution mains could be subsystems of that network. The City will need to examine its infrastructure items to determine the best possible way of keeping track of them and accounting for them.

The City has the option of estimating infrastructure by calculating current replacement cost and deflating through price-level indexes to the acquisition year.

Fiduciary Statements:

Fiduciary funds are only accounted for on the Fiduciary Statements. There should be a separate column on the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets for each fund type: pension trust funds, investment trust funds, private-purpose trusts, and agency funds. (Agency funds will not be shown on Statement of Changes in Fiduciary Net Assets).

Items to be Resolved by the City:

Each Fiduciary fund needs to be categorized into the above categories.