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A Primer for

With the start of the new millennium, government entities face the implementation of a new, sweeping Governmental Accounting Standards Board (GASB) reporting model. Often the most challenging aspect of such a major project is getting started, particularly for smaller governments with minimal staffing.

The good news for these smallest governments, also known as Phase III governments, is that they have extensive time to prepare. If their revenues are less than \$10 million for the first fiscal year ending after June 15, 1999, implementation is not required until the first fiscal year beginning after June 15, 2003. Larger entities will implement GASB 34 in the two previous years, depending on size. Though these dates seem distant, now is the time to begin planning.

This article was inspired by interviews with personnel from a small local government. The interviews were part of a project to reformat the financial statements and obtain comments from the government's users and staff regarding GASB 34 reports. The process revealed that implementation will require forethought and will not be solely a mechanical, numerical procedure. The purpose of this article is to prime government financial statement preparers on the basic decision-making

and planning needed before the implementation year.

GASB 34 will affect numerous aspects of financial accounting, reporting and budgeting, and state and local government entities of all sizes should formulate an action plan. Some steps will take more or less effort, depending on record keeping and availability of capable personnel. It is possible that some of the required information may not have been previously compiled. It is important to note that GASB 34 allows each entity to make certain choices in preparing its financial statements. Regardless of the unique circumstances for each government entity, the following options should be thoroughly researched:

Form a Task Force

Each government entity should appoint at least two people to spearhead the implementation effort. Even in

smaller entities, selecting one person to be the resident expert can be a mistake due to the size and complexity of tasks and the need for multiple perspectives. The task force should include at least one person with broad knowledge of the entity's activities and the corresponding accounting. If possible, another task force member should have detailed knowledge of the government's infrastructure. A member of the oversight board should also be a task force member serving as a liaison between the finance function and the oversight board. Governments should provide a budget for the task force and relieve members of other responsibilities if necessary.

Get Plugged In

Your government entity may be unique, but it is not alone. All state and local government entities are dealing with similar issues; make use of others' expertise. Professional associations, such as the Association of Government Accountants, American Institute of Certified Public Accountants, Government Finance Officers Association and state CPA societies will provide guidance to those affected by GASB 34. The task force should contact these associations and, if practical, become involved. Remote governments can seek out the associations' newsletters, journals or implementation guides.

Planning for GASB 34 Implementation

Some organizations also have information on their websites (see *Figure 1* for examples of sites). Do not forget about GASB—they have a vested interest in successful implementation and will be providing guidance.

Train and Educate

Training that has both breadth and depth is crucial. First, the task force leaders should be trained on every aspect of the statement; this may include completing self-study and attending workshops and conferences. They will be the guidance counselors for others affected by this change. Next, the accounting staff implementing the changes should be trained. Finally, the oversight board will need user-friendly education so they can properly read, interpret and act on information they receive in this new format.

Meet With System Providers

Much of the challenge of GASB 34 may be in trying to use an existing information system built around a dramatically different reporting model. Approach your information systems provider or department to gauge their responsiveness to generating information in a new format. Be sure your information systems department or provider is involved in the implementation process early and often. It would be wise to establish the expectations, time frame and costs associated with meeting the new reporting requirements. One caution—do not rely too extensively on your information systems provider for the GASB 34

implementation; the providers will be relying on you to tell them what you need. The task force should carefully and thoroughly communicate with systems providers and diligently follow-up to ensure systems changes are being made as needed.

Know Your Options

GASB 34 allows choices on several items. These options should be thoroughly researched since they can affect accounting functions, reporting formats and disclosures. The major options along with other implementation challenges are discussed below.

Infrastructure—By far the most controversial and daunting aspect of the

statement is the requirement to report and depreciate infrastructure assets. Infrastructure decisions revolve around choosing either depreciation or a “level of maintenance” method to represent the current value of infrastructure assets. GASB 34 offers choices of different methods of reporting and depreciating infrastructure, and certain smaller government entities are not required to retroactively reflect infrastructure. Options are also available for the method of determining the initial infrastructure value. Governments may accomplish this from in-house historical information, use of professional valuation agencies, generic guidelines published by various professional associations or existing guidelines used by state and federal departments.

Figure 1—Examples of GASB 34 Reference Material Available on the Web

GASB Information—The Financial Reporting Model Project
www.rutgers.edu/Accounting/raw/gasb/repmodel/state&localgov.html

GFOA Technical Bulletin—GASB’s New Financial Reporting Model: An Overview for Finance Officers—July 1999
www.gfoa.org/gfoa2000/samples/GASB.htm

National Association of State Auditors, Comptrollers and Treasurers—database of GASB 34 questions and a GASB 34 training product (for purchase)
www.sso.org/nasact/GASB%2034/GASB34page.htm

AICPA—Listing of state society web pages
www.aicpa.org/yellow/ypasca.htm

North Carolina Office of the State Comptroller—submit GASB 34 questions to be included in the state’s implementation guide
www.state.nc.us/OSC/financial/34gasb/34gasb.html

AICPA’s “Understanding and Implementing GASB’s New Reporting Model” (for purchase)
www.aicpa.org/store/products/022515.htm

Begin by thoroughly studying the infrastructure options, taking an inventory of infrastructure records and choosing the measurement option best suited to your entity's situation (see paragraphs 18-26, 132-133 and 148-166 of GASB 34). Choices should be made after soliciting input from a wide variety of government officials, including accounting, engineering and oversight representatives. Do not choose one option without evaluating the long-term costs. What may appear to be a more palatable option at the implementation stage may prove more costly over the long run.

Major Fund Designation—Under GASB 34, information about funds will be presented for "major" funds separately and for other funds in combination. GASB provided two numerical tests to determine which government or enterprise funds are required to be displayed as major funds. Each government entity can choose major fund status for any fund if there is a compelling reason to do so. Begin by analyzing the relative size of each fund according to the major fund tests (paragraph 76 of GASB

34). For funds not meeting the major fund test, consider whether the information will be adequate if it is included in the non-major category.

Net Assets—Net assets must be presented in three categories: invested in capital assets net of related debt, restricted and unrestricted. GASB 34 is very specific in the definition of restricted net assets. Many assets now considered restricted and accounted for in a separate fund will be unrestricted under this new definition. Governments will need to address how to most efficiently reflect net assets categories; for example, restructure the system to track according to new categories or make adjustments at the end of the year.

Statement of Activities—The new Statement of Activities can be presented with expenses shown first, followed by program revenue offsets, with the net (expense) revenue of each program finally offset by general revenues. Alternatively, it may be presented in a more familiar format with revenues followed by expenses. Do not pass up the first option until you have solicited

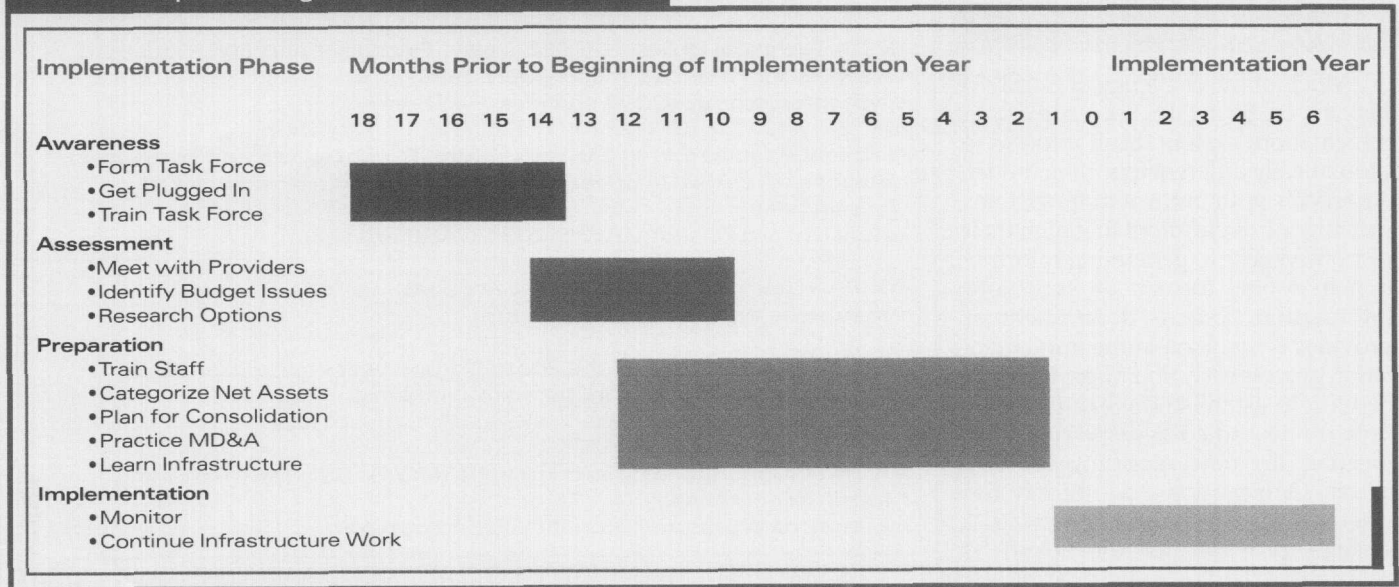
user input. The users we talked with generally preferred the first option.

Indirect Expenses—Certain expenses qualify as "indirect expenses" and may be allocated among programs. Each government needs to decide which is the most meaningful and cost-effective handling of indirect expenses. If indirect expenses are allocated, the entity should carefully research the kinds of expenses included in this category. GASB 34 provides specific guidance on certain items such as interest, depreciation and administrative expenses. Also, internal implications of allocating indirect expenses should not be overlooked.

Identify Budget Issues

The budget is the most important financial document in a government, and preparing it begins far in advance of the period to which it applies. GASB 34 may generate new budget items. Depreciation expense, the treatment of interfund transactions and other accrual basis expenses may affect the

Figure 2—Sample Timeline for Implementing GASB 34



budget. And of course, the personnel costs to implement the statement will be an additional budget consideration. If you choose the modified infrastructure option, the costs of conducting an infrastructure maintenance evaluation every three years should also be considered. For the smallest of governments these implementation costs will need to be included in the budget approved as early as the fiscal year beginning after June 15, 2001. Thus, the budgetary impact of implementing GASB 34 should be considered at least 18 months before implementation.

Start at the Beginning

GASB 34 does not require comparative numbers to be shown on the financial statements. This does not mean you can ignore the effects of GASB 34 on the beginning balances in the year of implementation. The Statement of Activities is to be prepared on a full accrual basis, and some revenues and expenses will be partly a function of an asset or liability balance at the beginning of the year, for example, depreciation and interest. In some

cases, the assets and liabilities generating the revenues or expenses may not have been recorded in prior years because the modified accrual basis of accounting was used. An example of this would be a discount on bonds payable that results in interest expense when amortized. Be prepared with adjustments needed to convert the old format ending balances to the new format beginning balances.

Plan for Consolidation and Accrual Accounting

Current reporting standards based on fund presentation do not require elimination of interfund transactions and balances. GASB 34 requires these items be eliminated in the government-wide financial statements within the government and businesslike categories. Additionally, transfers and balances between these categories must be displayed on single lines netting to zero for the primary government. Eliminations can be complex due to the sheer volume of such transactions. The challenge comes in identifying all these interfund transactions, reversing their effects and being in balance when it is all done. Attempt a "dry run" consolidation at least one year before you implement the statement. Again, working with your systems provider or department would really pay off in this area. Finally, the government-wide financial statements will be reported on a newly defined accrual basis that follows normally accepted accrual definitions, with only a few exceptions. Preparers need to examine items formerly accrued or discarded from accrual to decide where they fit in the new format.

Practice Your MD&A

The Management's Discussion and Analysis (MD&A), a new section of the financial report, requires in-depth

discussion of the financial issues affecting the entity. Government entities currently present a transmittal letter to introduce the financial statements, and they will continue to do so, though it will be abbreviated. The MD&A is much more thorough and must include discussion of both positive and negative financial trends. The MD&A is a crucial part of the financial statements since it provides management's analysis of the financial information. After becoming familiar with the MD&A requirements, prepare one for an old set of financial statements. Solicit opinions on the writing style, flow, informativeness and objectivity.

Chart Your Course

Large projects such as the implementation of GASB 34 greatly benefit from the use of project management tools and techniques. These tools and techniques, such as GANTT charts and PERT charts, will help to outline the specific tasks to be accomplished, the time each task should take and the sequence. In addition, project management tools can assist in assigning responsibilities and identifying slack time (or lack thereof). Project management can be aided by use of a timeline. See Figure 2 for an example timeline chart for a Phase III implementation.

Expect Sales Pitches

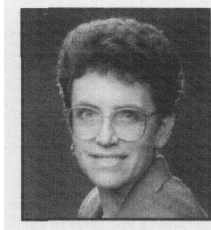
A government entity's professional partners recognize the enormity of implementing GASB 34. Auditors, lawyers, systems providers and freelance consultants are likely to offer to hold your hand through the process. Do not be too quick to reject them. They will be experts on one or more of the above issues, and their price may be worth it. When entertaining these offers, demand a presentation that covers precisely the services offered, ramifications of missing deadlines, pricing, references and demands on your staff.

Figure 3—Steps in Planning for GASB 34

1. Form a Task Force
2. Get Plugged In
3. Train and Educate
4. Meet With System Providers
5. Know Your Options
6. Identify Budget Issues
7. Start at the Beginning
8. Plan for Consolidation and Accrual Accounting
9. Practice Your MD&A
10. Chart Your Course
11. Expect Sales Pitches

It may be possible for you to loan your staff to their project, thereby reducing costs and increasing training of your personnel.

Planning for GASB 34 is a big job. Beginning the planning process outlined above will help ensure that your entity thoroughly and thoughtfully approaches this significant change. The steps to prepare for implementation are summarized in *Figure 3*. ■



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