

GASB – 34: WHAT IS IT AND WHY SHOULD I CARE?

WHAT IS IT?

In the last year lots of talk in municipal financial circles has swirled around the subject of GASB-34. GASB is the acronym for the Governmental Accounting Standards Board, an association of financial managers, governmental units, certified public accountants and others who establish standards for governmental accounting. Any local government undertaking a professional audit of its books should follow these standards.

GASB is not a regulatory agency of the federal or any state government, rather it is more akin to a professional standard setting association for self-regulation of its members. GASB Statement 34, *Basic Financial Statements-And Management's Discussion and Analysis-For State and Local Governments* is referred to in shorthand as GASB 34.

In Statement 34, GASB established new standards for annual financial reports of state and local governments (as well as public school districts, public benefit corporations and authorities, public employee retirement systems, public utilities, public hospitals and public colleges and universities). According to GASB, the statement was developed to make annual reports easier to understand and more useful to people who use governmental financial information to make decisions, such as selectboards, trustees or councilors; staff; members of commissions; investors; creditors and the public in general. Using GASB 34 principles is expected to also make it easier to compare data and financial health from one community to another. The tricky part will be getting there - how to address new requirements for quantifying fixed assets and infrastructure (such as roads), deciding what to track and who should complete the different jobs.

WHY SHOULD I CARE?

The bottom line with GASB 34 is that there is no *law* that requires municipalities or states to use the new accounting practices, and in fact there is some controversy about whether or not certain states will adopt GASB 34. **But don't stop reading yet!**

If your municipality uses a certified public accountant (CPA) for its year-end audit, the CPA will need to conduct a GASB 34 compliance audit, and if financial statements are not GASB 34 compliant then the auditor will issue an adverse opinion (which might raise some eyebrows among your constituents). If your town expects to bond for projects, the town's financial statements may need to be GASB 34 compliant. If your town does not expect to bond for projects, then GASB 34 would not be an enormous issue for you. The selectboard should probably spend some time considering whether bonding for projects is or is not in their future.

GASB 34 standards are phased in. If dollars in revenues are equal to or greater than \$100,000,000 then the phase-in date is June 30, 2002. In Vermont that means that Burlington will be the first municipality to complete all the work entailed to come into compliance with GASB 34. We can all watch them! If dollars in revenues are greater than or equal to \$10,000,000 then the phase-in date is June 30, 2003. And if dollars in revenues are less than \$10,000,000, the phase-in date is June 30, 2004.

DETAILS, DETAILS

If your town is going to undertake the effort to make its financial records and audits GASB 34 compliant, reporting for all departments will be affected. Very briefly, major areas that will require changes are as follows:

1) A new section entitled, *Management's Discussion and Analysis* will need to be added. The municipality's key financial personnel would provide a general discussion of the most relevant information contained in the financial statement. This information would be subject to review by outside auditors.

2) Government-wide financial statements would need to be issued. The government-wide statement would enable readers to focus on the government as a single economic entity and provide a basis for comparison with other governments.

3) Fund Financial Statements would continue to be required but would focus only on major funds. Capital assets and debt would be incorporated into the government-wide statements.

4) Footnote disclosures would be increased significantly in both number and content required. Included among the new disclosures is a policy for capitalizing assets, a policy for allocating indirect expenses, and a policy for the use of restricted and unrestricted assets.

5) Reporting of *all* the municipality's capital assets, including the calculation of depreciation expense for assets of all funds, is required. In addition, assets relating to the municipality's infrastructure (read roads, buildings, public lands) would be reported and assessed in the financial statements.

6) Budgetary comparison schedules would be expanded to include both the original budget as passed by the legislative body, as well as the final budget that includes changes authorized during the year.

WHAT TO DO, WHAT TO DO?

Complying with GASB 34 is not going to be an easy exercise. The City of Burlington has already been working for over a year to put their books in order for the June 30, 2002 deadline. Mike Gilbar, VLCT Director of Administrative Services, is convening a workgroup that includes representation from the Vermont Government Finance Officers Association (VGFOA); Vermont School Boards Association; Vermont Association of School Business Officials (VASBO); the state Department of Education; and the state Auditor's Office to develop ways they might collaborate in providing education and assistance to municipal and school officials stepping into the world of GASB 34. We will certainly keep municipal officials updated on the group's progress.

For those interested, there is a guidebook put out by GASB, entitled the *Guide To Implementation of GASB Statement 34 on Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, Questions and Answers*. It is not a small book. The book may be ordered from the GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116; 800/748-0659; gasbpubs@gasb.org. For more information, go to the GASB website at www.gasb.org.

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