GASB 34 GUIDE FOR VERMONT TOWNS
PART 1: OVERVIEW

ACCOUNTING STANDARDS

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 introducing a revised financial reporting model. Although independent auditors have been following GASB guidelines for a number of years, many local officials find GAAP (Generally Accepted Accounting Procedures) and GASB to be a great mystery. For those folks, a brief discussion of the history of accounting guidelines and why they exist is included before our detailed narrative on Statement 34.

The American Institute of Certified Public Accountants (AICPA), the professional organization for independent auditors, initially set and monitored standards for private sector businesses and corporations. Independent auditors follow these standards to remain members in good standing with the AICPA. The responsibility for setting GAAP eventually was given to the Financial Accounting Standards Board (FASB), operating under the Financial Accounting Foundation (FAF), an independent non-profit organization. FASB continues to set the guidelines for the private sector.

For public sector guidelines, FAF created FASB's counterpart, the Governmental Accounting Standards Board (GASB). GASB issues periodic statements that define or clarify guidelines. The importance of Statement 34 lies in its significant changes from previous standards issued in the prior 33 statements. Incidentally, Statements 37 and 38 are also applicable to our current discussion because they were issued to amend or modify certain parts of statement 34. (Note that the Government Finance Officer's Association (GFOA) also publishes what is known as the "blue book" of government accounting standards, incorporating GASB standards.)

Why do we have these accounting guidelines? Without some kind of financial standards, there would be no way of monitoring and preventing fraud and maintaining accountability from public officials. In Vermont, elected officials can enter office with little or no accounting background and are then expected to keep financial records and report financial conditions to the taxpayers for budgets that may be upwards of $1 million. Municipalities need to make an effort to train their officials and follow accounting guidelines and financial standards.

The federal government or the state does not mandate these standards, but since independent auditors are required to follow them, when you require such an audit you will have to comply with these standards in order to get a clean audit.

WHO SHOULD COMPLY?

This begs the question of whether or not you should comply with the GASB standards and GASB 34 in particular. There are a couple of issues here. First, there is no direct legal requirement to comply. However, if you are required to have an independent audit, compliance may be necessary to receive a clean audit. The AICPA will be issuing some guidance to auditors within the next month or so, letting them know what will constitute issuance of a "clean audit." In other words, what will constitute a qualified or adverse opinion, which then will impact how users of the audit will make decisions.

Two situations that may require a clean audit are:

1) You need to sell bonds through the bond bank or on your own.
2) You have received $300,000 or more in federal grants.

If your voters approve purchasing any expensive equipment or building projects that necessitate bond financing, the Bond Bank or other financial institution will probably request one or more years of audited financial statements (audited independently, **not** by your elected auditors). This is generally required in order to provide investors who are purchasing the bonds some assurance that the municipality is in good financial condition and will be able to make all the bond payments.

The Single Audit Act, a federal mandate, requires independent audits for all municipalities receiving $300,000 or more in federal grants during their fiscal year. There **may** be a legal requirement for Single Audit Act entities to comply with GASB 34. We may know more within the next few weeks.

The most compelling reason to comply with GASB, however, is accountability. The format of the financial reports and the standards applied to government accounting assist municipalities in providing their taxpayers with solid financials that can be analyzed and compared from period to period with relative ease. It also provides comparability across municipalities, something that cannot be accomplished now with the huge variety of reporting formats used throughout the state. There is less room for error and fraud when specific uniform standards are applied to the accounting process. This adds up to better reporting, more accountability and, hopefully, more informed and supportive taxpayers. Though Vermont municipalities cherish the ability to do things their own way, in the area of accounting, at least, we might agree that this is not always the best course of action!

THE NEW MODEL AND COMPLIANCE DEADLINES

The new GASB financial reporting model has the following changes:

1) Requirement for all funds to report capital assets.
2) Requirement to report infrastructure assets.
3) Changes in the format of current financial reports.
4) Added Government-wide Financial Statements.
5) Added Management's Discussion and Analysis.

Beginning with the next issue, each of these areas will be discussed in detail, outlining specifically what you need to do to comply and what can be left to your auditor. The series will take you through the steps of GASB 34 compliance as painlessly as possible.

- *Mike Gilbar, Director, VLCT Administrative Services*

VLCT News, June 2002