

GASB 34 COMPLIANCE GUIDE

FINANCIAL REPORTING, PART 2

BASIC FINANCIAL STATEMENTS

There are two basic types of financial statements that GASB 34 requires. The first is the **Government-Wide Financial Statements**, including a Statement of Net Assets and a Statement of Activities. These are new to GASB and are intended to provide activity-based reporting, separated into governmental-type activities and business-type activities. In order to produce them, you need to convert your governmental activities from your fund financials to a full accrual basis of accounting. If you use an independent auditor to generate financials, he or she can assist you in making the conversion.

The second type is the **Fund Financial Statements**. These are organized by fund, and the format of the statements for each fund depends on each fund's individual measurement focus. Governmental funds use a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. Proprietary and Fiduciary funds both use a Statement of Net Assets. For operating statements, the Proprietary funds use a Statement of Revenues, Expenses, and Changes in Net Assets, while the Fiduciary funds use a Statement of Changes in Net Assets. Proprietary Funds also require a Statement of Cash Flows, showing cash received and disbursed for various types of activities.

You also now have the option to include your Budgetary Comparison with the Fund Financial Statements instead of with your Required Supplementary Information. If you look at your audit reports, you'll see that the budgetary basis statements comparing budget to actual are in the back of the report (as RSI) rather than up front with your basic financials.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The **Statement of Net Assets** reports what the town owes and what it owns for its Governmental Activities, Business-Type Activities and the combined total of both. It lists each type of asset in order of liquidity with Cash, the most liquid, at the top, and Capital Assets, the least liquid, at the bottom. Liabilities are then listed in order of maturity or the need to free up cash to meet all obligations. Accounts Payable, those accounts that are due within the shortest term, are at the top, and Noncurrent Portion of Long-Term Debt, the balance of debt remaining after the current year's payments are subtracted, will be at the bottom.

At the end of the Statement is the breakdown of Net Assets (Assets minus Liabilities). It consists of:

Invested in Capital Assets, Net of Related Debt– This is the depreciated value of your Capital Assets less all associated debt.

Restricted– Balances that are subject to restrictions beyond the municipality's control, such as federal grants or highway funds.

Unrestricted– Everything else!

This format is an *Assets – Liabilities = Net Assets* approach, showing Net Assets as the difference between what you have of value and how much of that value is taken up by your creditors. You may also choose to use the traditional Balance Sheet format of *Assets = Liabilities + Net Assets*, where your total assets are shown to be in balance with the total of your liabilities and net assets, placing the emphasis on the total value of all assets and how that value is distributed between creditors and your own equity. GASB 34 favors the use of the first approach with your Statement of Net Assets.

So the Statement of Net Assets is really just another version of the Balance Sheet, however, there are a couple of important differences. First, it uses a full accrual basis of accounting: capital assets and long-term debt are reported in your governmental activities. This is not the case with your governmental funds reported in the Fund Financial Statements; these use the modified accrual basis, with a current financial resources measurement focus.

Second, the Statement of Net Assets reports only your governmental and business-type activities. Fiduciary funds are reported in the Fund Financial Statements only, since the municipality is only an agent or trustee and does not use the funds for its own operations.

The **Statement of Activities** details the activities for both Governmental (General, Public Safety, Public Works, etc.) and Business-Type (Water and Wastewater, etc.) activities. The first

column in the statement lists the type of activity, and the second column the expenses. The next three columns show the program revenues and are broken down into Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions. Two columns follow that show the Net (Expense) Revenue and Changes in Net Assets, one for Governmental and the second for Business-Type Activities (the expense column minus the revenue columns for the appropriate activity). The last column shows the total net for both activity types.

This section of the statement calculates the difference between costs and non-tax revenue that is directly related to those costs. With Governmental Activities, the net should generally be a negative number since tax and investment revenue haven't yet been applied. This gives the reader an idea of how much each governmental activity is subsidized by tax dollars.

Business-Type Activities, if sustained by user fees, should show a surplus or be close to breaking even. In cases where a part of the costs are tax-subsidized, that amount will show as a negative number.

The final section of this statement applies tax revenue, investment income, and other revenues and transfers not directly allocated to any particular activity. When this revenue is added to the total of Net (Expense) Revenue from the various activities for both Governmental and Business-Type Activities columns, and the results added to prior year totals, you get your year-end Net Assets totals. These totals should match the year-end Net Assets in your Statement of Net Assets.

FUND FINANCIAL STATEMENTS

I can only provide a brief summary of the changes here, due to the length and complexity of the explanation for the various types of funds. If you are familiar with fund accounting and GAAP, pre-GASB 34 practice will not change substantially. For those of you who are unfamiliar with fund accounting principles, these particular statements will be very similar to what your independent auditors have generated for your financial statements in the past. Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balances will remain the same except for the revisions discussed below.

- Funds in your statements are reported by major fund type. (See last paragraph of last month's article for explanation.)
- You have the option to include your Budgetary Basis Statements here instead of with your Required Supplementary Information (RSI).
- Proprietary and Fiduciary Funds report using a Net Assets format, rather than the traditional Fund Equity.
- Permanent Funds, a new type of fund introduced with GASB 34, are funds where only the income can be used for government purposes (such as cemetery funds used for perpetual care). Before GASB 34, these were reported as Fiduciary Funds and should now be treated as governmental funds, in both the Fund Financial Statements and the Government-Wide Financial Statements.
- The Balance Sheet must be reconciled to the statement of Net Assets for governmental funds, showing the adjustments necessary to convert from a current financial resources measurement focus to an economic resources measurement focus.
- The Statement of Revenues, Expenditures and Changes in Fund Balances must be reconciled to the Statement of Activities for governmental funds, showing the adjustments necessary to convert from a current financial resources measurement focus to an economic resources measurement focus.

NOTES TO FINANCIAL STATEMENTS

In order to provide a clear picture of your municipality's financial position, it is necessary to report certain detailed information that is outside the scope of the financial statements. The

notes in your independent audit are an example of such disclosures and there are about four-dozen of these (not all of which apply to every local government) with only a few resulting from GASB 34 changes. Here are four changes that you should be aware of and may need to provide information for:

- **Summary of Significant Accounting Policies** – This includes a description of the Government-Wide financials, the measurement focus and basis of accounting being used, policy for capitalization of assets and estimating useful lives, and the policy for allocating indirect expenses to the Statement of Activities.

- **Capital Assets** – A schedule should be provided of major categories of capital assets that include the beginning and year-end balances, acquisitions, dispositions and the current depreciation expense.

- **Long-Term Liabilities** – A schedule should be provided of all long-term debt and other liabilities (including bonds, notes, loans, compensated absences, claims and judgments) that includes the beginning and year-end balances, increases and decreases, portions due within one year of the statement date and which governmental funds have been used in prior years to liquidate other long-term liabilities.

- **Reconciliation between Governmental Funds Statements and Government-Wide Statements** – This is a simple columnar reconciliation of the total Governmental Funds Statement to the Statement of Net Assets by adjusting long-term revenues/expenses, capital-related items, and long-term debt transactions from the appropriate asset, liability or net assets.

More information on the general disclosures can be found in the resources listed below.
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RESOURCES

- *GASB Statement 37 – Basic Financial Statements and Management's Discussion and Analysis* (2001) by the Governmental Accounting Standards Board, available through GASB. Tel., 800/748-0659 or visit on-line at <http://www.gasb.org>.

- *GASB Statement 38 – Certain Financial Statement Note Disclosures* (2001) by the Governmental Accounting Standards Board, available through GASB. Tel., 800/748-0659 or visit on-line at <http://www.gasb.org>.

- *Guide to Implementation of GASB Statement 34* (both 1998 and 2000 editions) by the Governmental Accounting Standards Board, available through GASB. Tel., 800/748-0659 or visit on-line at <http://www.gasb.org>.