Assistance & Guidance on

CITY OF TALLAHASSEE
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"Implementation of GASB Statement 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"

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Introduction

This Assistance and Guidance Report is intended to help the Department of Management and Administration and other applicable City departments in the successful implementation of GASB Statement 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Because of the complexity and amount of changes that are required by GASB Statement 34, it is critical that the City allocate sufficient time and resources to plan and complete implementation of the new reporting model required by that statement. This report provides: (1) a basic overview of the reasons for the issuance of GASB Statement 34, (2) the basic elements of the new reporting model, and (3) specific steps and actions that must be completed to ensure a successful and timely implementation.

Background

GASB Statement 34 represents one of the most comprehensive financial reporting standards in the history of standards setting. It could be considered the most revolutionary change in government financial reporting since the inception of governmental accounting principles. It was precipitated by a desire of governmental financial professionals and users of governmental financial statements to provide/obtain a more meaningful, understandable, and complete financial picture of government operations.

All state and local government entities are required to implement GASB Statement 34. While the Governmental Accounting Standards Board (GASB) has no authority to enforce that required implementation, failure by a government to implement GASB Statement 34 would constitute a violation of "generally accepted accounting principles" (GAAP). Such a violation would result in an "adverse opinion" being rendered on the government's financial statements by its auditors. An adverse opinion, in turn, would likely result in the governmental entity receiving lower bond and credit ratings. Those ratings are critical when debt is financed through public credit markets. Therefore, not implementing GASB Statement 34 is not a viable option.

Reasons for GASB 34

Except for business-type activities, the primary focus of governmental entity financial statements has traditionally been to present financial data in a manner that shows activity relating to "current resources." This means that financial activity for general governmental operations (e.g., public safety and public works) has been presented to show (1) current resources that are available to pay current obligations and (2) the inflows (revenues) and outflows (expenditures) of current resources. In regard to business-type activities (e.g., utility operations), the primary focus of a government's financial statements has traditionally been to present the financial position, cash flows, and net increase or decrease in assets (similar to profit or loss) generated by those activities. Unlike general government operations, this "profit/loss" approach takes into account non-current as well as current resources and obligations.

While this traditional approach has been very useful to financial statements readers and users such as bondholders and oversight bodies, it was argued that it does not present comprehensive and complete information about the government. Specifically:

- The approach does not adequately reflect the status of non-current assets and non-current obligations pertaining to general government operations. Non-current assets include, for example: land, buildings, roads, bridges, vehicles, and machinery and equipment. Examples of non-current obligations include amounts owed on bond issuances that are not due to be paid during the current fiscal year, amounts due in future fiscal years to vendors for long-term leases of equipment, and amounts expected to be paid current employees in future years for unused vacation and sick leave balances. Without a complete and accurate status of non-current assets and obligations, the financial statement reader/user does not see the probable financial impact of those items on future fiscal years.

- The presentation of general government operations using a current resources approach and the presentation of a government's business-type activities using a profit/loss approach precludes a reader/user from gaining a "government-wide perspective" of the entity's operations.

- The government's oversight body is often interested in how much of a particular program/service is self-financing through fees for services compared to how much is funded through taxes. However, the traditional presentations did not disclose that information.

- There was no management summary incorporated into the financial statements that provided an overall analysis of the financial statements and identification of the significant events, changes, and factors that impacted or are expected to impact the government's financial position and operations.

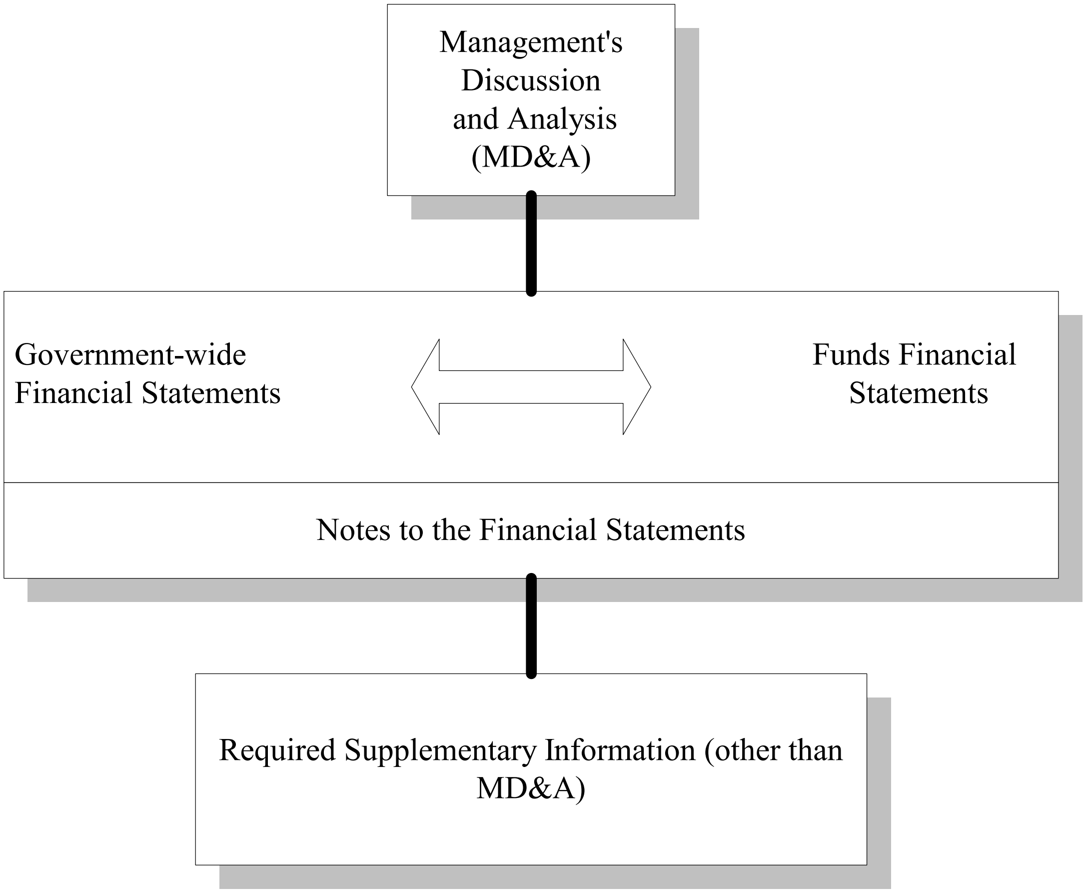
- Traditional financial statement presentations compared budgeted revenues and disbursements to amounts actually received and expended. That comparison provided a measure of how well the government operated based on funding expectations set by the government's oversight body. However, the budgeted amounts used for those comparisons were from the "final" budgets, which reflect all changes that occurred throughout the fiscal year to the original budget as established by the oversight body. Accordingly, there was no comparison of initial funding expectations (original budgeted amounts) to the final budget and to the funds actually received and expended during the fiscal year.

- Traditional financial statement presentations did not emphasize the individual funds used to account for material or significant financial activity. Instead, all individual funds were classified, aggregated, and presented by fund type on the financial statements.

After deliberation of these issues for 15 years, GASB issued Statement 34 in June 1999.

Major Elements of GASB 34

GASB Statement 34 provides for a financial reporting model containing the following elements:



<u>Management's Discussion and Analysis (MD&A)</u>. The government financial statements will be preceded by a section, called MD&A, that provides an objective and readable analysis of the government's financial activities. This section will primarily be in narrative form. However, charts, graphs, and tables may be used to enhance the understandability of the narrative information. The MD&A should assist the financial statement users (bondholders and oversight bodies) in assessing whether the government's financial position has improved or deteriorated as a result of the year's activities. Facts, decisions, or conditions known at the date the financial statements are issued and that had (or are expected to have) a material effect on the government's financial position should also be disclosed. Additional information that will be disclosed in the MD&A includes:

- A brief discussion of the basic financial statements and their relationship to each other.
- Condensed financial information comparing current year activity to prior year activity.
- Reasons for significant changes from the prior year.
- Important economic factors that significantly affected the year's financial activity.
- An analysis of significant variations between original and final budget amounts and between final budget amounts and amounts actually received/expended for certain general government operations.
- A description of significant capital asset and long-term debt activity during the year, including a discussion of material commitments for capital expenditures, changes in credit ratings, and whether debt

limitations may affect the financing of planned services or projects.

- Depending on the approach selected to account for the government's infrastructure (roads, bridges, traffic systems, etc.), information on the condition of that infrastructure.

The primary focus of the MD&A should be the provision of readable (understandable), condensed, and relevant information on the government's financial position and operations. The MD&A will be part of the "required supplementary information" (RSI), which is statistical, and other information intended to supplement the basic financial statements and notes to those statements.

Government-wide Financial Statements. Unlike the traditional financial statements, GASB Statement 34 provides for financial statements that display information about the government entity as a whole. These statements are the (1) statement of net assets and (2) statement of activities. Both general government activities (e.g., public safety and public works) and business-type activities (e.g., utilities) will be presented on these statements, thereby providing a "government-wide" perspective to the reader and user of these financial statements. Additionally, these statements will reflect the status of non-current as well as current assets and liabilities for both general government and business-type activities. Accordingly, information can and will be presented to reflect the net increase/decrease in the government's net assets (i.e., similar to profit or loss) for both general government and business-type activities.

In addition to providing a government-wide perspective and reflecting the status of all non-current assets and liabilities, these government-wide statements will disclose for each basic general government and business-type activity: (1) the amounts funded by charges for services (e.g., permit, license, and utility fees) and grants designated by grantor agencies for that specific service/activity, (2) the amounts funded by taxes, grants not restricted for any specific activity(s), and investment earnings, and (3) expenses incurred. This presentation is intended to provide the readers and users of the financial statements with information on how much of a particular program's expenses were funded through its own activities versus how much was funded from general government revenues (e.g., taxes imposed on the government's citizens). Another way of stating this is that this presentation shows to what degree a particular service or program is self-financing.

Furthermore, these statements will segregate the balance reported for net assets (assets less liabilities) into several components, including: (1) amount invested in capital assets, net of related debt, (2) restricted net assets – this represents amounts where constraints have been placed on use of the net assets by external entities (e.g., creditors through bond covenants or grantor agencies) or laws or regulations, and (3) unrestricted net assets. This presentation will provide the financial statements users with information on the availability of net assets and how those net assets may be used.

Fund Financial Statements. Traditionally, a government's resources have been categorized and accounted for in "funds." Those resources derived from the same or similar sources and/or subject to similar requirements are included in the same fund or fund type. For general government operations, these funds were used to account for current resources. For business-type activities, funds were used to account for all resources and activity (current and non-current) for the purpose of determination and presentation of the overall financial position, cash flows, operating income, and changes in net assets (i.e., similar to profit or loss) generated by those activities. GASB realized that financial statement presentations under this fund approach are meaningful and useful. For example, in regard to general government operations, a presentation that shows the inflows and outflows of current resources provides management and oversight bodies meaningful information on the current financial solvency of those operations. Additionally, presentation of financial operations by fund type provides for meaningful classifications of financial activity and allows for comparisons of the actual receipt and disbursements of resources to budgeted revenues and expenditures. Accordingly, with some modifications, GASB Statement 34 provides for continuation of fund financial statements.

GASB Statement 34 provides for the following modifications to traditional funds financial statements:

- The funds financial statement presentation for general government operations and business-type activities will <u>emphasize "major" funds</u>. This means that individual funds that account for (1) the government's general operations (i.e., the general fund), (2) a material amount of the government's activity, or (3) an activity that is believed to be of particular interest to financial statement users will be presented separately within those financial statements. All other funds will be aggregated and shown as a single activity (i.e., in a single column) on the statements.

- There will be <u>minor reclassifications of fund types</u>. For example, a new fund type was established (permanent fund) to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs. For example, a cemetery perpetual care fund that accumulates resources, for which the earnings thereon are used to maintain a cemetery, will now be classified as a permanent fund. Such funds were previously classified as nonexpendable trust funds, which is no longer a fund type under GASB Statement 34.

In addition, GASB Statement 34 requires that a summary reconciliation of the funds financial statements to the government-wide financial statements be presented either on the bottom of the funds financial statements or in an accompanying schedule. That summary reconciliation is intended to allow the readers of the financial statements to assess the relationship between the two financial statement presentations. The most significant reconciling items will pertain to the general government activities. This is because those activities on the government-wide financial statements are presented to reflect the status of non-current resources as well as current resources, while the corresponding funds financial statements only reflect current resources. Furthermore, the focus of the government-wide financial statements is to show the net increase/decrease in the government's net assets (i.e., similar to profit or loss), while the focus of the funds financial statements is to show the inflows and outflows of current resources. Examples of differences that must be reconciled include: (1) non-current assets such as land, buildings, infrastructure, and resources due but not receivable in the near future are reflected in the government-wide financial statements but not in the corresponding funds financial statements and (2) payment of both interest and principal on debt is shown as outflows of current resources on the funds financial statements while the government-wide financial statements only include the payment of interest as an expense.

In addition to presentations of funds for general government and business-type activities, the funds financial statements will also continue the traditional presentation of funds that account for the government's fiduciary activities. This includes, for example: (1) pension funds used to account for resources held in trust for employees and their beneficiaries as part of an employee benefit plan and (2) funds collected by the government and held on behalf of individuals or another private or governmental entity. Because funds held in a trustee capacity (fiduciary relationship) are not used to support a government's own activities and operations, they will not be included in the government-wide financial statements.

<u>Notes to the Financial Statements</u>. The purpose of the notes to the financial statements is to communicate essential information that is not displayed on the face of the financial statements. GASB Statement 34 will require changes and additional disclosures in the notes that address the presentations required by that statement. For example, new disclosures must be made regarding capital assets and long-term liabilities that now must be accounted for in the government-wide financial statements. As another example, the types of transactions included as program revenues on the government-wide financial statements must be disclosed in the notes.

Required Supplementary Information (RSI). – RSI represents certain actuarial, statistical, or other information that GASB has determined to be necessary to supplement the basic financial statements. Information that has traditionally been reported as RSI includes historical trend information on pension plans. Other than MD&A, GASB Statement 34 now requires state and local governments to also present as RSI (1) the required budgetary comparisons if such comparisons are not included in the basic financial statements and (2) infrastructure condition and maintenance data if the modified approach is selected for reporting infrastructure assets. Both of these are explained in the following:

- **Required Budgetary Comparisons**. Prior to GASB Statement 34, accounting standards required comparisons of approved budgeted amounts with actual results of operations. Those comparisons were required for governmental fund types for which there was a legally adopted annual budget (usually general and special revenue funds). However, as noted previously in this report, the budgeted amounts used in those comparisons were the "final" budgeted amounts. Accordingly, there was no presentation of data allowing for a comparison of amounts per the initial funding expectations (original budgeted amounts) to the final budget and to actual inflows and outflows. To remedy this, GASB Statement 34 will require a statement or schedule that compares the original budgeted amounts, final budgeted amounts, and actual amounts for (1) the government's general fund and (2) each major special revenue fund that has a legally adopted annual budget. Any excess of expenditures (outflows) over amounts appropriated within individual funds presented in this comparison must be disclosed in the notes to the financial statements. GASB Statement 34 provides that the required budgetary comparisons may be presented either as part of the basic financial statements or as RSI.

- **Infrastructure Condition and Maintenance Data**. – As noted above, government-wide financial statements will be prepared to reflect the status of non-current as well as current assets and liabilities. One non-current asset that will be shown on those statements will be infrastructure. Infrastructure is defined as long-lived assets that are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. It includes roads, bridges, sidewalks, drainage systems, water and sewer systems, dams, and lighting systems for example. Governments can select one of two options for reporting infrastructure assets. Those approaches are (1) the standard (or depreciation) approach where the reported values will be cost of the assets and significant enhancements less any accumulated depreciation and (2) the modified approach where the reported values will be the cost of the assets and significant improvements. Assets reported under the modified approach will not be depreciated because the government will be required to maintain and preserve those infrastructure assets at a pre-established condition level (i.e., the assets will be preserved and will not depreciate). If a government selects the modified approach for all or a portion of its infrastructure assets, it must include as RSI current and historical information regarding the condition and maintenance (preservation) of that infrastructure.

Implementation Requirements

Because of the comprehensive nature of GASB Statement 34, the City will have to complete several steps and make various decisions to successfully implement the new reporting model provided by that standard. The following table provides a summary of the necessary steps and decisions.

Management's Discussion and Analysis (MD&A)	
Preparation of the MD&A will not be done until after the basic financial statements and notes are completed. However, certain steps can be addressed during the implementation phase. Specifically:	
1.	Develop a **method for capturing data, events, and issues** that are expected to be addressed in or impact the MD&A.
2.	Determine if prior year financial statements will be restated in the GASB Statement 34 format for purposes of providing **comparative financial data in the initial MD&A**.
3.	Establish a **planned format for presenting the MD&A**. For example, preliminary decisions can be made as to whether charts, graphs, and/or tables will be used to supplement the narrative information.
Government-wide Financial Statements	
The numerous steps and decisions necessary for implementation of the government-wide financial statements include:	
1.	Identify the accounts and amounts recorded in the City's existing accounting system (PeopleSoft Financials) for which **conversion worksheets** will be necessary to adjust from the current resources basis to the economic resources measurement basis. This means that conversion worksheets will need to be prepared to adjust inflows and outflows of current resources recorded in the City's accounting system to reflect revenues and expenses necessary to measure the "change in net assets" (i.e., similar to profit or loss). These conversions will primarily be required for general government operations. Conversions to the City's business-type activities should not be as significant since those activities were traditionally accounted for on the economic resources basis prior to GASB Statement 34.
2.	Identify the **programs and functions** that should be reported. This should include City activities other than those that are fiduciary in nature, as defined in GASB Statement 34. For those activities to be reported, classify them as either (1) governmental activities (e.g., public safety and public works) or (2) business-type activities (e.g., various utility operations).
3.	For each program/function to be reported as a separate line item on the government-wide statement of activities identify the related **program revenues**. Program revenues are intended to represent the portion of a program's funding that is financed through charges for services (e.g., permit or utility fees) and grants and contributions restricted specifically for that program. Classify identified program revenues into the following categories: (1) charges for services, (2) program-specific operating grants and contributions, and (3) program-specific capital grants and contributions.
4.	For each program/function to be reported as a separate line item on the statement of activities identify and determine the related **expenses** to be reported. Note – the expenses associated with a particular program or function may be accounted for in more than one fund.
5.	Identify the **general revenues** that will be presented on the statement of activities. Determine the classifications for presentation of those general revenues (e.g., property taxes, public service taxes, grants and

	contributions not restricted to specific programs, etc.).
6.	Identify **other increases (or decreases) to net assets** that will be presented on the statement of activities. This will include, for example, any contributions to permanent funds, special and extraordinary items, and certain transfers.
7.	Determine whether **expenses of general government and support services** (e.g., legal, executive, and financial/administrative) that, in essence, constitute indirect expenses of other functions will (1) be allocated to benefiting City programs/functions (e.g., public works, public safety, utility operations) on the statement of activities or (2) be shown as a separate line item (e.g., as general government activities) on that statement. Note – GASB Statement 34 allows for either method.
8.	For the statement of activities, determine whether all or a part of the **depreciation expense relating to capital assets** (other than infrastructure) can be charged or allocated to direct benefiting programs/functions (e.g., public safety, transportation, economic development, etc.). For any depreciation expense for which it is impracticable to allocate to direct benefiting functions (e.g., capital assets that essentially serve all City functions/programs), a determination should be made as to whether the amount should be shown as a separate item or included as part of any general government expenses shown on the statement (see item #7 above).
9.	Determine if **interest on long-term liabilities** should be included as part of the direct expense of a particular program/function, or whether it should be shown as a separate line item on the statement of activities. Note – such interest should be included as part of the direct expense of a program/function only when the related debt is essential to the creation or continued existence of that program/function.
10.	Identify **non-current assets and obligations** that are required to be reported in the government-wide financial statements. This will include, for example, capital assets (land, buildings, infrastructure) and long-term debt. For those identified assets and obligations, determine the values that should be reported. (Also, see the following three steps that specifically address works of art, capital assets, and infrastructure.)
11.	Identify any **works of art or historical treasures** owned by the City that should be capitalized and, for any capitalized items, whether they should be depreciated based on a limited useful life.
12.	In regard to **capital assets** determine: (1) the initial cost values to be assigned to those assets, (2) the useful lives of those assets, (3) estimated salvage values, if any, and (4) the most equitable and appropriate depreciation method to be applied to those assets that have a limited useful life. Then, calculate the amount of accumulated depreciation to be recorded and presented for the assets in the initial government-wide financial statements. (Also, see the following steps regarding infrastructure.)
13.	In regard to **infrastructure** (for example: roads, bridges, sidewalks, and water and sewer systems):
a.	Determine whether all or only **major general infrastructure assets** will be capitalized and reported. GASB Statement 34 only requires that major general infrastructure assets be capitalized and reported. That statement provides a method (formula) to determine what constitutes major general infrastructure assets.
b.	Determine if **infrastructure assets that were acquired or constructed prior to October 1, 1979**, will be capitalized and reported. Note – GASB Statement 34 provides that infrastructure acquired or constructed in fiscal years ending prior to June 30, 1980, does not have to be capitalized and reported in the event that adequate records are not available to document that infrastructure's historical cost.

c.	Determine when **infrastructure in existence as of the GASB Statement 34 transition date** (October 1, 2001, for the City) will be reported in the government-wide financial statements. Note – GASB Statement 34 provides that the City does not have to report infrastructure retroactively until fiscal year 2005-2006. However, the City will be required to report all infrastructure acquired/constructed subsequent to the transition date (October 1, 2001) beginning with the fiscal year 2001-2002 financial statements. Note – in the event there is still significant outstanding debt associated with infrastructure acquired or constructed prior to the transition date, it may be advantageous for the City to go ahead and report that infrastructure at the transition date. This is because there would be no reported assets (i.e, the infrastructure) to offset the related debt (that must be reported), thereby presenting a "worse" financial position in the government-wide statement of net assets.
d.	After completion of the above steps, **identify all infrastructure that should be reported**. Note – Although capital assets for some City activities (i.e., utility operations, Airport operations, Taltran, Hilaman Park Golf Course, and Solid Waste) have traditionally been accounted for in enterprise funds, steps should still be taken to ensure that all infrastructure relating to those activities are identified and properly reported.
e.	Determine the **initial cost values** to be assigned to the applicable infrastructure items. GASB Statement 34 provides various options for determining those initial values. For example, if records are not available showing the historical cost, the City may use a reasonable method to estimate those costs.
f.	Establish **guidelines for determining when disbursements relating to the infrastructure should be capitalized or expensed**. Normally, disbursements that increase the capacity or efficiency of infrastructure assets should be capitalized, while disbursements that represent repair and maintenance should be expensed at the time of disbursement. In regard to preservation costs (outlays that extend the useful life of an asset beyond its original useful life, but do not increase its capacity or efficiency), the capitalization policy will depend on whether the standard (depreciation) approach or modified approach is selected. (See item "g" below that addresses those two approaches.)
g.	Perform cost-benefit analyses as to whether the (1) **standard (depreciation) approach or the (2) modified approach** should be applied. (Note: Within the guidelines established by GASB Statement 34, the City may elect to use one approach for all infrastructure assets, or account for some infrastructure assets using one approach and other infrastructure assets using the other approach.) This step is applicable to both general government infrastructure assets and infrastructure assets pertaining to the City's business type-activities. Under the depreciation approach, the initial cost of the infrastructure and any significant improvements that extend the infrastructure's useful life or increase the infrastructure's capacity or efficiency are depreciated over its useful life. Under the modified approach, the infrastructure is not depreciated. However, under that approach the City must implement a policy that provides the infrastructure will be maintained at a certain condition level. In addition, the City must assess the condition of that infrastructure periodically (at least every three years) and report in the financial statements whether it has been maintained at the pre-established condition level. Furthermore, each year the City must estimate the annual amount that must be expended to maintain the infrastructure at the pre-established condition level. That estimated amount and the amounts actually expended to preserve the infrastructure must be disclosed within the annual financial statements.
h.	If the standard approach is selected, a determination should be made as to whether the calculated **depreciation expense** should be reported as part of the direct expense for the applicable function associated with capital outlays and maintenance of infrastructure assets (e.g., public works or transportation) or shown as a separate line item in the statement of activities. Note – Unlike depreciation expenses for other capital assets, depreciation expense for general government infrastructure should not be allocated to general government programs and functions.

i.	If the modified approach is selected, establish an **asset management system** that: (1) maintains an up-to-date inventory of eligible infrastructure assets, (2) provides for documented, replicable condition assessments of the infrastructure assets, and (3) estimates each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the established condition level. Also, determine the condition level at which the eligible infrastructure assets are to be maintained and how that level will be established. Note – GASB Statement 34 provides that the condition level shall be established in a formal, documented manner through appropriate administrative or executive policy, or by legislative action (e.g., by the City Commission).
j.	Determine if and/or how infrastructure assets should be classified, such as in **networks** or **network subsystems**, for purposes of (1) calculating depreciation if the standard approach is selected or (2) establishing an asset management system if the modified approach is selected. Note – A network of assets is composed of all assets that provide a particular type of service for a government. For example, the City's road network might consist of streets, curbs, sidewalks, street signs, and drainage ditches. A network subsystem is all assets that make up a similar portion or segment of a network of assets. For example, the City's road network could be further classified into subsystems, such as a residential roads, minor collectors, major collectors, and principal arterials.
14.	For the statement of net assets, **classify net assets** into the following three components: (1) invested in capital assets, net of related debt, (2) restricted (distinguishing between major categories of restrictions), and (3) unrestricted. This step will require a determination of what portion of the City's outstanding debt was used to finance existing capital projects. It will also require a determination of the major categories of restrictions applicable to the City's net assets.
15.	Identify the **internal service funds** (e.g., central warehouse and human resources) that must be incorporated into the government-wide statements. Determine for each internal service fund whether it should be incorporated as a governmental activity or a business-type activity based on which City programs/functions participate in that internal service fund activity. Additionally, for each internal service fund determine the type of consolidating adjustments that will be required. For example, if an internal service fund only serves City government programs/functions, consolidating adjustments will be made to exclude the fund's net profit/loss from the statement of activities. This will be done by making pro rata adjustments to the benefiting program's/function's revenues/expenses that will be presented on the statement of activities. However, if an internal service fund also serves entities external to the City, then the portion of that fund's net profit/loss applicable to the external entities will not be eliminated from the government-wide statement of activities.
16.	In addition to incorporating internal service fund activity, determine what **internal balances should be eliminated or reclassified**. For example, balances owed between individual funds should be eliminated to preclude "grossing up" assets and liabilities that are reported on the statement of net assets. Only the residual amounts due between governmental and business-type activities should be reflected on that statement.
17.	Determine the **presentation format** for the statements. Note – GASB Statement 34 specifies the information and certain parameters for presenting that information. However, certain presentation options are available.

Funds Financial Statements

The following steps are necessary for implementation of the funds financial statements as provided by GASB 34:

1.	**Reclassify existing funds** into the classifications prescribed by GASB Statement 34. For example, the City's expendable and non-expendable trust funds will need to be reclassified to the appropriate fund types, as GASB Statement 34 eliminated those two classifications. Also, City activities currently accounted for in non-enterprise funds should be evaluated to determine if they are required to be reported in an enterprise fund as prescribed by GASB Statement 34.
2.	For governmental funds and enterprise funds, determine which individual funds will constitute **major funds** for separate presentation on the statements. This will involve (1) applying the formula established in GASB Statement 34 and (2) subjective evaluations to identify other funds that should be presented as major funds because of their significance. Criteria that should be applied in making those subjective evaluations includes, for example: political sensitivity of the activity reported in a fund, high public interest in a fund's activity, known major uses of a fund's financial data by rating agencies and analysts, and year-to-year consistency.
3.	Establish a policy that defines what will constitute **operating revenues and expenses** (i.e., in comparison to nonoperating revenues and expenses) for the funds financial statements prepared for proprietary funds (i.e., business-type activities).
4.	Determine the classifications and required reporting for **interfund activities** within and among the three fund categories (governmental, proprietary, and fiduciary).
5.	For the proprietary funds statement of net assets, **classify net assets** into the following three components: (1) invested in capital assets, net of related debt, (2) restricted (distinguishing between major categories of restrictions), and (3) unrestricted.
6.	Determine any other **required classifications and presentations for specific accounts**. For example, GASB Statement 34 requires identification of any revenues used as security for revenue bonds in the proprietary funds operating statement. GASB Statement 34 also provides that when certain restrictions are applicable to proprietary fund assets, those assets should be reported as restricted assets on the proprietary funds statement of net assets.
7.	Determine what **conversions** will need to be made to reconcile the funds financial statements to the government-wide financial statements. This will include a determination of the worksheets and records that should be prepared and maintained for this conversion process.
8.	Determine the **presentation formats** for the statements and required reconciliation to the government-wide statements. Note – Although GASB Statement 34 specifies the information that must be presented and certain parameters for presenting that information, there are certain options that can be used to present selected information within the funds financial statements.
Notes to the Financial Statements	
The following steps should be taken to ensure the additional disclosures required by GASB 34 are made:	
1.	Identify and/or determine the **required policies and descriptions** that are required to be disclosed in the note addressing the City's significant accounting policies. For example, the City must include in the notes: (1) the policy for eliminating internal activity in the government-wide statement of activities, (2) the policy for capitalizing capital assets and for estimating the useful lives of those assets, and (3) a description of the types of transactions include in program revenues on the government-wide statement of activities.
2.	Determine the **required disclosures for capital assets and long-term liabilities** and the records that must be maintained to provide information for those disclosures. For example, for each major class of capital assets, the City must disclose (1) beginning- and end-of-year balances, with accumulated depreciation presented

	separately from historical cost, (2) capital acquisitions, (3) sales or other dispositions, and (4) current period depreciation expense, with disclosure of the amounts charged to each of the programs/functions on the statement of activities. Additional detailed disclosures are required for long-term liabilities.
3.	Determine the **required disclosures for any donor-restricted endowments**. Required disclosures include: (1) net appreciation on investments available for authorization for expenditure, and how those amounts are reported in net assets, (2) the State law regarding the ability to spend net appreciation, and (3) the policy for authorizing and spending investment income.
4.	Determine whether **segment disclosures** are required for any activities accounted for in the City's enterprise funds. An activity qualifies as a "segment" if: (1) it is an identifiable activity reported as or within an enterprise fund for which one or more revenue bonds or other revenue-backed debt instruments are outstanding, (2) the activity generates a specific identifiable revenue stream pledged in support of that debt, and (3) there is a requirement for a separate accounting of the activity imposed by an external party (e.g., a bond indenture). For an activity meeting these criteria, condensed financial information must be presented in the notes to the financial statements. However, if that activity is reported as a major fund on the face of the funds financial statements, a separate segment disclosure is not required in the notes.
5.	Determine any **required disclosures regarding infrastructure** during the transition period provided by GASB Statement 34. (See item 13.c under "Government-wide Financial Statements.") For example, if all applicable infrastructure is not reported during the allowed transition period the notes should include a description of the infrastructure assets being reported and of those that are not.

Required Budgetary Comparisons

Budgetary comparisons for certain funds will continue under GASB Statement 34 with certain modifications. The following specifies the applicable steps that must be completed for implementation of GASB Statement 34:

1.	Determine whether the required budgetary comparison presentation will be shown as **part of the basic financial statements or as a separate schedule within the required supplementary information** (RSI). As noted earlier in this report, generally accepted accounting principles for governmental financial reporting require the presentation of certain financial information separate from the basic financials statements and notes to those statements. That information is known as RSI. GASB Statement 34 provides the option of presenting the required budgetary comparison as part of the basic financial statements or as a separate schedule within the RSI.
2.	Decide whether to include optional **variance columns** to present the difference between (1) original and final budget amounts and (2) final budget and actual amounts.
3.	Determine whether to use the same **format, terminology, and classifications** as the budget document or the format, terminology, and classifications in the statement of revenues, expenditures, and changes in fund balances. (This is one of the required fund financial statements.)
4.	Determine the presentation format for the required **reconciliation** of budgetary information (revenues, expenditures, and fund balances) to that information on a generally accepted accounting principles (GAAP) basis.
5.	Identify the **individual funds** for which the budgetary comparisons must be made.

Required Supplementary Information (RSI)

Implementation issues pertaining to RSI as required by GASB Statement 34 are addressed above under the captions "Management's Discussion and Analysis" and "Required Budgetary Comparisons." However, in the event a government selects the modified approach to account for and report all or some of its eligible infrastructure assets, the government's asset management system (see step 13.i. under "Government-wide Financial Statements") should be used to complete the following additional steps, and the results presented as RSI:

1.	**Assess the condition** of the applicable infrastructure assets.
2.	At the beginning of the fiscal year, estimate the **annual amount** needed to maintain and preserve the applicable infrastructure assets at the pre-established condition level.
3.	At the end of the fiscal year, determine the **amounts actually expended** to maintain and preserve the applicable infrastructure assets at the pre-established condition level.
4.	Determine the **required disclosures** to be included as notes to RSI, including: (1) the basis for the condition measurement and the measurement scale used to assess and report condition, (2) the condition level at which the infrastructure assets are intended to be maintained/preserved (pre-established condition level), and (3) any factors that will affect trends in the information reported as RSI. (Trend information will not be applicable in the year of implementation.)

Other

In addition to the steps and actions specific to the different elements of the GASB Statement 34 reporting model as noted above, the following will need to be done:

1.	The **ending balances** reported for the fiscal year prior to implementation (fiscal year 2000-2001) should be **restated** using the GASB Statement 34 reporting model. This is necessary in order to provide for accurate beginning balances to be used for the fiscal year that the model is implemented. In addition, restatement of the prior year financial statements (not just ending balances for the prior year) should be considered for purposes of: (1) providing comparable data for the MD&A and (2) identifying well in advance some of the key issues that must be addressed during the required implementation.
2.	Determine what presentations and disclosures will be required for any **component units**. Component units are governmental organizations that are legally distinct from the government that created them (primary government) but for which the elected officials of the primary government are nonetheless financially accountable. GASB Statement 34 provides that component units that are not fiduciary in nature should be presented in the government-wide financial statements. Component units that are fiduciary in nature should be included in the funds financial statements within the primary government's fiduciary funds.
3.	Determine the impact of implementing GASB Statement 34 will have on the information and presentations to be included in the City's **comprehensive annual financial report** (CAFR). The CAFR contains information in addition to the required elements of GASB Statement 34. For example, the CAFR: (1) includes an introductory section that provides general information on the government as well as information useful in assessing the government's financial position and (2) provides information on each individual fund for which data is not provided separately within the basic financial statements. Accordingly, determinations will have to be made: (1) to ensure that the data included in the introductory section is not duplicative of the information presented in the MD&A and (2) regarding which individual funds should be presented in the combining portion of the CAFR (e.g., the nonmajor funds and internal service funds).

Implementation Plan

To ensure successful completion of the steps needed to implement the new reporting model under GASB Statement 34, the City should establish an action plan. Based on research and review of available information from other governmental entities, some of which have already implemented GASB Statement 34 ("early implementers"), we have identified the following to be done/included as part of the City's implementation action plan:

IMPLEMENTATION PLAN	
1.	Form a **project team** to oversee the implementation process.
a.	Ensure that the team consists of staff **representing the various City departments with a broad knowledge of City activities** (e.g., the Department of Management and Administration) and other City departments and offices that will be required to provide critical data and information necessary for implementation. For example, the Public Works Department will provide information on the City's street infrastructure. Similarly, each of the various City utility departments will need to provide information on their infrastructures.
b.	Determine which department will be the **lead** and make final decisions on implementation issues (e.g., the Department of Management and Administration).
c.	Include the City Auditor's Office and the City's external auditors for **consultation**.
2.	The project team should **assess the availability of significant information** that is needed to satisfy each significant reporting requirement of GASB Statement 34. As part of this step, the team should consider whether additional resources are needed to obtain the necessary data/information. For example, additional software may be needed to calculate depreciation and accumulated depreciation for infrastructure assets.
3.	The project team should **identify the key areas that need to be addressed** and the **specific tasks that must be completed** for implementation. (See "Implementation Requirements" section above for a summary of areas/steps that should be considered when developing those tasks.)
4.	The project team should determine the departments/office and **staff that will be assigned to complete each task**.
5.	The project team should evaluate the **need for using outside consultants** for completion of specific tasks. Determination as to whether outside consultants will be used should be based on documented analyses that compare the costs and benefits of using City staff to the costs and benefits of using outside consultants for the applicable tasks.
6.	The project team should establish a **timetable** for completing the identified tasks.
7.	The project team should **monitor** and document the progress in completing the identified tasks.
8.	The project team should **recommend key accounting policy changes**. For example, the team should recommend (or revise current) policies to: (1) identify capitalization thresholds for infrastructure assets under the requirements of GASB Statement 34, (2) address depreciation for capital assets, (3) allocate indirect expenses among programs (i.e., if the allocation option is selected), and (4) determine what comprises operating versus nonoperating revenues for proprietary funds.

The project team should stay up-to-date on GASB Statement 34 issues, as that standard is still evolving. For example, GASB Statement 37 issued in June 2001 clarifies and amends certain parts of GASB Statement 34. Examples of amendments/clarifications in GASB Statement 37 are (1) the provision that fines and forfeitures should be classified as program revenues and not as general revenues on the government-wide statement of activities and (2) specification of what should and may be addressed in the MD&A element. Furthermore, staff needs to stay up-to-date on other pronouncements that will impact the reporting required under GASB Statement 34. For example, GASB Statement 33 issued in December 1998 addresses when and how certain transactions (e.g., taxes) should be recognized under the economic resources measurement basis used for the government-wide financial statements, and when and how those transactions should be recognized under the current resources basis used for the funds financial statements. Finally, project staff should consider issues identified and methodologies used by other governments. For example, the Internet can be used to obtain valuable information, such as implementation plans, guides, and checklists as well as articles published by early implementers that discuss issues/concerns and potential solutions.

Conclusion

The City of Tallahassee is required to implement the provisions of GASB Statement 34 for the fiscal year 2001-2002. Because of the complexity and amount of changes that will be involved, it is critical that the City allocate sufficient time and resources to plan and complete implementation of the new reporting model required by those provisions. One article included in an accounting publication suggests that eighteen months in advance of the year of implementation should provide sufficient time to complete the necessary analyses, make the required decisions, and issue financial statements under the new reporting model. Other information provided by local governments (City of Corona, CA; Oklahoma City, OK; and Orlando, FL) that have already implemented GASB Statement 34 suggests that local governments should restate their prior-year financial statements using the new reporting model well in advance of the end of the fiscal year in which GASB Statement 34 will be implemented. (One early implementer defined "well in advance" as six months, and another defined it as one year.) Those timely restatements should allow the governments to identify all key issues and available solutions well before the time that implementation is required.

The City has initiated some actions for the implementation of GASB Statement 34. Specifically, staff within Accounting Services has met several times with staff of the Public Works Department and the City's auditors for the purpose of gathering historical information on the City's non-utility related infrastructure and discussing the costs and benefits of using the standard (depreciation) approach versus the modified approach to account for and report that infrastructure. The Public Works Department is currently in the process of identifying the City's non-utility infrastructure (e.g., roads, sidewalks, bridges, storm water facilities, and traffic system) and determining the initial cost values that should be assigned to that infrastructure. In addition, Accounting Services has developed a process to identify infrastructure acquired or constructed on and subsequent to October 1, 2000, within the City's project accounting system. Accounting Services has also prepared preliminary guidelines providing when expenditures (projects) relating to the City's infrastructure should be capitalized or expensed. Furthermore, City staff has become more knowledgeable about GASB Statement 34 through continuing professional education and by networking with other governments that have or are scheduled to implement this statement. City staff will need to continue efforts to keep abreast of guidance issued by GASB as it implements the new reporting model.

This assistance and guidance report is intended to assist in the City's successful implementation of GASB Statement 34. We recommend that a formal action plan, as described in the preceding section, be developed and followed by the Department of Management and Administration. As needed, the City Auditor's Office will issue periodic progress reports on the City's implementation of GASB Statement 34.

Copies of this Assistance and Guidance Report #0133 (Project #0114) may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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