



# State of North Carolina

## Department of State Treasurer

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Memorandum # 998

August 12, 2003

TO: Officials of Local Governments, Boards of Education, Public Authorities, and Certified Public Accountants

FROM: T. Vance Holloman, Director  
Fiscal Management Section

SUBJECT: Reporting Issues for GASB 34

As we continue to evaluate the 2002 audit season, we have developed a discussion of the reporting issues that came to light as a result of Phase I of the implementation of GASB 34. This discussion is organized along the lines of the basic financial statements, with some additional areas covered as well. Our objective in reporting these issues is to help all units of government improve their reporting by benefiting from the experiences of the Phase I implementation. The GFOA also offers a discussion of the common items noted in the review of CAFRs from units across the country participating in the certificate program in the December, 2002, issue of *The GAAFR Review*.

### **Independent Auditors' Report:**

- ❖ The third paragraph of the audit opinion should agree to the statements with regards to which funds' budgetary statements are included in the basic financial statements. The General Fund and each major annually budgeted Special Revenue Fund must be listed by name. See our illustrative statements for the city of Dogwood, Carolina County, or the Carolina County Board of Education for examples.

### **Management Discussion and Analysis (MD&A):**

- ❖ The MD&A will be included in a unit's official statement beginning in the year of implementation. Units must be careful that all information in the MD&A is fact-based and historical (i.e. not about things occurring in the future) and ties to the

**Management Discussion and Analysis (MD&A) (continued):**

financial statements where applicable. The MD&A must include no more and no less information than is required by GASB; any other information that a unit wishes to include in the annual financial report should be in the form of supplemental schedules or other documents. Units that prepare a CAFR may include speculative information in the transmittal letter if they choose to do so.

- ❖ The budget data in the MD&A refers to the budget for the year being presented in the financial report. The discussion should focus on the General Fund or its equivalent. Single purpose governments that have only a proprietary fund should not include a discussion of their budget in the MD&A. Information on the next year's budget may be discussed in the economic outlook section as it relates to the data included there. Units that prepare a CAFR may included discussions relative to the next year's budget in the letter of transmittal if they choose to do so.

**Statement of Net Assets:**

- ❖ Reserved by State statute is not an acceptable restriction of net assets; reserved by State statute is a calculation made as part of the modified-accrual fund statements of governmental funds. The Statement of Net Assets is not prepared with a spending focus and net assets do not represent available funds. Restricted net assets are those restricted by the funding source or some other outside factor. Board action alone is not enough to restrict net assets at the government-wide level. Restricted net assets are presented only in the government-wide and proprietary fund financial statements that use the full accrual basis of accounting.
- ❖ Accounts receivable and payable must be detailed on the face of the financials or in the notes, per GASB 38. Please see the City of Dogwood for an example of detailed presentation on the face of the statements and Carolina County for an example of detailed presentation in the notes.

- ❖ Unrestricted assets should not be shown as reserved or designated – there should be only one unrestricted net asset figure for each activity type.

**Statement of Activities:**

- ❖ The use of a prior period adjustment or reporting beginning net assets as restated is not necessary to reflect the effect of GASB 34 in the year of implementation. Beginning net assets is a new figure and therefore has not been “restated”. A prior period adjustment is not necessary because implementation did not occur in a prior period. GASB 34 statements that reflect a restated or adjusted beginning net asset figure due to the effects of implementation will be rejected beginning with the 2003 audits. Units that change their capitalization threshold for capital assets in the year of implementation will need to disclose this in the notes rather than show an adjustment on the face of the statement. See Memorandum #984 for a discussion of this issue.
- ❖ Capital outlay is not an acceptable function on the Statement of Activities. Any capital outlay that does not result in a capitalized asset should be allocated as an expense to the proper functional classification.
- ❖ Schools must allocate 5900 and 6900 expenses for benefits and additional salary payments, other than staff development, to the proper functions. Related program income should follow the expense. We have worksheets to help with this allocation as well as Memorandum # 973, available on our website.
- ❖ Funds flowing to and from discretely presented component units no longer are reported as transfers. These transactions are reported as revenues and expenses in the government-wide statements only in the appropriate revenue source or function.
- ❖ Transfers are no longer differentiated between “operating” and “residual equity”. All transfers are aggregated into “transfers in” and “transfers out” on the operating statements. On the Statement of Activities, transfers should be between the governmental activities and the business-type activities; all intra-activity transfers should be eliminated in the conversion process.

**Budgetary Statements – General Fund and Major Annually Budgeted Special Revenue Funds:**

- ❖ We prefer that the budgetary statement included in the basic financial statements be presented at the summarized, functional level and not detailed. Detailed statements can be presented as supplementary information and are required by the LGC if necessary to show budgetary compliance at the legal level of budgetary control for annually budgeted governmental funds.

**Notes:**

- ❖ The statutory compliance note must include a corrective action plan per GASB 38 if there are any violations disclosed.
- ❖ Debt disclosures should comply with GASB 38. Principal and interest payments must be separately disclosed for each of the next five years and in five-year increments for all subsequent periods. If a unit has variable rate financing outstanding, the disclosures should use the interest rate in effect at the date of the financial statement. The terms by which the rate will change must also be disclosed.

**Capital Assets:**

- ❖ Per GAAP, capital assets are required to be segregated only between depreciable and non-depreciable assets within the activity types. No segment information is required. However, the LGC will be requiring presentation by segment beginning with 2003 audits as we need this information for statistical reporting purposes. This presentation should be part of the capital asset note.

**Capital Assets (continued):**

- ❖ If a unit is using the phase-in feature for booking its infrastructure, it must do so by network and it must book the assets net of the associated accumulated depreciation. Both the gross amounts of capital assets and the accumulated depreciation must be presented in the notes. Note disclosure must be very specific about which networks are booked and which remain to be booked. An illustrative note disclosure for units using the optional phase-in for reporting of infrastructure will be posted to our website.

**Internal Service Funds:**

- ❖ Internal service funds must be deemed to be either governmental or business type activities and the entire residual balances of the internal service fund must go with one activity type or the other. This determination is made by calculating which activity type uses a majority of the services provided by the internal service fund. Balance sheet accounts cannot be allocated between activity types.
- ❖ The share of the internal service fund's income or loss that belongs to the minority activity type must be reflected as a due to (income) or from (loss) the minority activity type to or from the predominant activity type. Please see our conversion workbooks for the City of Dogwood, available on our website, to assist you with this complex process.

**Supplemental Statements/Schedules:**

- ❖ Combining statements must be included for all non-major funds, as well as budget/actual statements/schedules for all Capital Projects Funds, all non-major and/or project budgeted Special Revenue Funds, and Enterprise Funds. For annually budgeted governmental funds, budgetary compliance should be demonstrated at the legal level of budgetary control. Please see our illustrative statements for the City of Dogwood for the placement of combining statements and supplementary budgetary statements/schedules.

**Net Assets/Fund Balances:**

- ❖ For units in the second year of implementation of GASB 34, please be certain that net assets and fund balances flow from the prior year. If adjustments are necessary, it is appropriate to use prior period adjustments or restatements in the second and subsequent years.

**Website:**

- ❖ <http://www.treasurer.state.nc.us/SLG/frslg.htm>

See "GASB 34 Resources"

**Other GASB 34 Information:**

- ❖ We are offering to review draft copies of your audits for units implementing GASB Statement 34 for the first time again this year. Please submit them as early as possible so that your report can get our complete attention. Also, please bind the report in some manner and clearly mark it "DRAFT" so that we know not to enter the data into our databases.
- ❖ If you are submitting a print-ready copy of a CAFR, please mark it as such so that we will enter that data into our database and not treat the report as a draft financial report. Again, please bind the report in some manner.

If you have any questions about this memorandum or other GASB 34 issues, please contact Sharon Edmundson at 919-807-2384 or Sara Shippee at 919-807-2356.