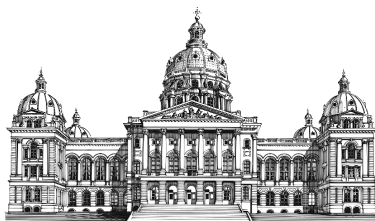

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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“Future GAAP” Provision Delay Proposed

ISSUE

The Government Accounting Standards Board (GASB), which sets the standards of Generally Accepted Accounting Principles (GAAP), requested comments from interested organizations and parties on proposals for the presentation of information for a "future GAAP" provision. The specific provision is referred to as "Statement #11" and provides for accrual of revenues and expenditures (including bonded indebtedness). Several government organizations, including the National Conference of State Legislators (NCSL) and the National Association of Counties, requested that implementation of Statement #11 be delayed beyond FY 1995. In letters to GASB, the Iowa Department of Revenue and Finance and the Iowa Auditor of State's office argued against delaying implementation. If delay is allowed, Iowa policy-makers may have a more difficult time in 1996 in complying with recently enacted language in SF 2351 which requires elimination of the GAAP deficit by the end of FY 1997.

AFFECTED AGENCIES

Department of Revenue and Finance (DRF)

Auditor of State (AOS)

CODE AUTHORITY

8.53, Code of Iowa

BACKGROUND

GASB had requested comments on major display issues relating to the implementation of Statement #11, "Measurement Focus and Basis of Accounting--Governmental Fund Operating Statements." A Preliminary Views document was developed by GASB to solicit comments which will be taken into consideration while preparing an exposure draft.

As previously mentioned, several government organizations requested that implementation of Statement #11 be delayed beyond FY 1995.

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The primary effect of Statement #11 is to allow for accrual of revenues and expenditures when the underlying transaction has occurred and payment has been demanded rather than when the cash is received or paid-out. Implementation of accrual basis accounting under GAAP provides an estimated \$240.0 - \$280.0 million positive impact to Iowa's GAAP balance. Other future GAAP provisions scheduled for implementation by FY 1995 have a negative impact. Attachment A provides a breakdown and net total of these future GAAP provisions.

While Iowa receives a significant positive impact with implementation of Statement #11, governments with large amounts of General Fund bonded indebtedness will experience significant negative impacts to their unreserved General Fund GAAP balances. It is in the interest of these governments to delay implementation of Statement #11.

CURRENT SITUATION

SF 2351, passed by the 1992 General Assembly, provides that beginning FY 1997, the Governor and the Legislature "shall provide funds to eliminate the State GAAP deficit as reported in the prior year's Comprehensive Annual Financial Report (CAFR), and taking into account the revised GAAP standards that are projected to be in place by the end of FY 1995."¹ Richard Johnson, State Auditor, and Iowa's GAAP Coordinator, Calvin McKelvogue both sent GASB a letter recommending implementation should not be delayed. Johnson said there has been adequate time to prepare for implementation by affected entities. McKelvogue cited the GAAP deficit reduction plan recently enacted in SF 2351.

It is anticipated that GASB will make a decision on the issue of delay by November 1992.

ALTERNATIVES

Until GASB reacts and makes a decision, taking action is premature with one exception: policy-makers may want to consider conveying their position on the delay to GASB, as well as to NCSL and the National Association of Legislative Fiscal Officers (NALFO).

Iowa's GAAP Coordinator indicated that if the statement's effective date is delayed, the GASB may still have the option of allowing early implementation.

BUDGET IMPACT

Delayed implementation of accrual accounting under GASB's Statement #11 is estimated to have a negative impact of \$240.0 to \$280.0 million on the unreserved General Fund balance under GAAP beginning FY 1995 and continuing until implementation occurs.

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¹Other actions taken by policy-makers pertaining to GAAP are as follows: creation of the GAAP Deficit Reduction Fund (GDRF) to set-out adjustment items that contribute to the GAAP deficit; requirement that the Department of Management (DOM) submit an annual plan containing recommendations relating to the elimination of GAAP adjustment items set-out in the GDRF; appropriation of \$60.0 million to the GDRF for FY 1993; provision that monies in excess of the goal amount for the newly created Cash Reserve Fund (CRF) are appropriated to the DOM for the purpose of eliminating the State's GAAP deficit; requirement that the DRF prepare a CAFR in accordance with GAAP for each fiscal year; and repeal of a \$35.0 million FY 1992 appropriation to school districts which would have reduced a GAAP adjustment item.

State Funded International Programs

FUTURE GAAP ESTIMATES

(Expressed in Millions)

GASB PROJECT	ESTIMATED IMPACT	
	FY92	FY93
Statement #10. Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.	(49.0)	(51.0)
Statement #11. Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements.	248.3	263.7
Statement #13. Accounting for Operating Leases with Scheduled Rent Increases	-	-
Compensated Absences	(5.0)	(5.0)
Reporting Model	(5.0)	(6.0)
Pensions	(3.0)	(4.0)
Total Net Estimated Impact	<u>186.3</u>	<u>197.7</u>

Revenue & Finance
8/25/92