



# State of North Carolina

## Department of State Treasurer

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*State and Local Government Finance Division  
and the Local Government Commission*

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To: Officials of Local Education Agencies and Certified Public Accountants

From: T. Vance Holloman, Director  
Fiscal Management Section

Subject: GASB Statement No. 34 Implementation Issues for Local Education Agencies

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and several related statements, an interpretation, and implementation guides in order to establish a new reporting model for external financial reporting. Statement No. 34 should minimally affect the daily accounting for a local education agency’s (LEA’s) operations.

In order to identify issues that would be unique to LEAs in North Carolina, the staff of the Local Government Commission began working with the Chart of Accounts Committee of the North Carolina Association of School Business Officials, a task force of North Carolina LEA auditors and the GASB 34 Implementation Task Force of the North Carolina Association of Certified Public Accountants. We greatly appreciate their valuable assistance. Following are the guidelines that were developed.

### **Fund Categorizations**

The governmental fund type still exists and consists of the general, special revenue, capital projects, debt service, and permanent funds. Nonexpendable trust funds and expendable trust funds under the previous reporting model will no longer exist. If the monies in the nonexpendable trust funds were intended to benefit the LEA, they will now be reported as permanent funds. The monies accounted for in the expendable trust funds that were intended to benefit the LEA will now be reported as special revenue funds. This includes the Individual School Fund that was previously accounted for as expendable trust funds. **The Individual Schools Fund is considered a single fund for financial reporting and determining major funds for the fund financial statements.** This will not change NCGS 115C-425(c) which exempts individual schools from the requirement to adopt an annual budget.

Fiduciary funds consist of pension trust, investment trust, private-purpose trust, and agency funds. These funds are not used to support the government's operations. Pension trust funds and investment trust funds are not applicable to North Carolina LEAs. Private purpose trust funds would be the former expendable and nonexpendable trust funds that benefit individuals, private organizations, or other

governments rather than the reporting government and its citizens. An example of a private purpose trust fund would be a scholarship fund.

Finally, Statement 34, for financial reporting purposes, no longer utilizes account groups to account for fixed assets or long-term debt. However, governmental funds must continue to maintain this information in order to report on the full accrual basis of accounting in the government-wide financial statements.

See Exhibit A for a list of the most common fund categorizations.

### **Government-wide Financial Statements**

The new model will consist of two government-wide financial statements prepared on the full accrual basis of accounting. These are the Statement of Net Assets, similar to the current Balance Sheet, and the Statement of Activities, similar to the current Statement of Revenues, Expenses and Changes in Retained Earnings. These statements will present the primary government's governmental and business-type activities in separate columns. For most units the governmental activities will consist of the Local Current Expense Fund, the State Public School Fund, the Federal Grants Fund, the Capital Outlay Fund and the Individual Schools Fund. Business-type activities will consist of the School Food Service Fund and the Child Care Fund.

There will not be many differences in the presentation of the business-type activities and the current presentation of the proprietary funds. The main differences will be in the equity section and the formatting of the operating statements. The presentation of the governmental activities will be different from the current presentation of the governmental funds. Governmental activities will be presented on the full accrual basis. On the Statement of Net Assets, capital assets and long-term debt will be included. On the Statement of Activities, additions to fixed assets will not be recognized as an expense, depreciation expense will be recognized, and long-term debt proceeds will increase liabilities and not be recognized as an other financing source.

In order to accomplish this, there will need to be a series of conversion entries from the presentation of governmental funds in the fund statements to the governmental activities on the government-wide statements. These entries are for financial reporting only and most will not be posted to the records of the unit. Our office is preparing a conversion worksheet that we hope will assist units in identifying and recording these entries.

The Statement of Activities will attempt to match program revenues and program expenses, resulting in a net cost of a program. This statement will report expenses, program revenues, and net revenues (expenses) for each function for governmental activities or separately identifiable activities for business-type activities. General revenues will be reported at the end of the statement. See Memorandum # 928 for a more detailed description of the new model.

Revenues will be categorized as general or program specific. General revenues include all tax revenues and any other revenues that do not meet the criteria for program revenues. Program specific revenues include charges for services, program specific – operating grants or program specific – capital grants. Charges for services represent revenues generated from exchange or exchange-like transactions of a

function (program) or identifiable activity (segment). Program specific revenues can originate from operating grants or capital grants and contributions. They are restricted for use in a particular program by the resource provider. If a grant can be used for either operating or capital purposes, it should be classified as an operating grant at the recipient's discretion. See Exhibit B for guidance on how to classify the most common LEA revenues.

Expenses on the government-wide statements must be presented by function/program for governmental activities and by separately identified activities for business-type activities. For governmental-type activities, functions/programs will be defined as functional categories for the 5000 (Instructional Programs) and 6000 (Supporting Services) purpose codes. The function/program categories should be consistent with those listed in the Uniform Chart of Accounts, i.e., 5100, 5200, etc. (As discussed later in this memorandum, employee benefits and additional pay in the 5900 and 6900 functions will be allocated to other functions/programs.) Fewer funds are expended from the 7000 (Community Services) and 8000 (Non-programmed Charges) purpose codes and there are fewer functions within those purpose codes. Therefore, these purpose codes will be functions/programs for reporting governmental activities.

For business-type activities the separately identified activities will be School Food Service and Child Care.

A valuable resource for LEA's is the *GASB Statement No. 34 – Implementation Recommendations for School Districts* published by the Association of School Business Officials International Accounting, Auditing and Budgeting Committee, Subcommittee on GASB Statement No. 34 Implementation. However, where the functional categories in this guide differ from the Uniform Chart of Accounts, the Uniform Chart of Accounts should be followed. You may order a copy of this guide from [www.asbointl.org](http://www.asbointl.org) or by calling (703) 478-0405.

### **Specific Revenue Classifications**

#### *County Appropriations*

You will notice on Exhibit B that County appropriations to the Local Current Expense Fund will be classified as general revenue. Based on the guidance in Q120 of the first GASB Statement No. 34 Implementation Guide, the ability of LEAs to change the allocation of the county's appropriation to the Local Current Expense Fund [NCGS 115C-433(b)] causes that appropriation to be reported as a general revenue regardless of the method in which the County appropriated the funds to the LEA under NCGS 115C-429(b).

NCGS 115C-429(b) permits a county to appropriate capital outlay funds to a LEA by the projects listed in that Statute if it chooses. If the county chooses to make this allocation by project, NCGS 115C-433(b) requires the LEA to gain approval of the county to adjust that appropriation to projects for the acquisition of land or the acquisition, construction or renovation of buildings. These expenditures usually benefit a large number of programs, so the revenues appropriated for that purpose are not restricted to a particular program. The LEA may move money among the other projects listed in NCGS 115C-429(b) without approval from the county, so those revenues can not be considered program revenues. Therefore, all LEAs will report capital outlay appropriations by a county as general revenues. Similarly, grants from the State to counties, such as the Public School Building Bond Fund, that are

passed on to the LEAs to be used for capital outlays that benefit many programs will also be classified as general revenues.

#### *State Public School Fund*

Based on the guidance provided in Q 62 of the second GASB Statement No. 34 Implementation Guide, most State Public School Fund revenues will be classified as program specific. The State allocates monies to the LEA's by program report codes. Most of the codes carry restrictions on the use of the funds. Code 019, Small School Supplemental Funding, and code 031, Low-wealth Counties Supplemental Funding, allow broader use of funds and have the potential to be material revenue sources to the LEAs receiving the funds. The LEAs receiving these monies should report revenues received in codes 019 and 031 as general revenues and the remainder of the State Public School Fund revenues as program specific - operating.

#### *Replacement School Buses*

Currently, LEA's are responsible for purchasing school buses if they want to expand their fleet; and the state is responsible for replacing those buses as needed. Under the previous reporting model, the replacement school buses, which are essentially donations from the State, should have been recorded in the General Fixed Asset Account Group. Since the school buses are not current financial resources, there will be no impact on the fund financial statements for the replacement school buses. In the government-wide statements, revenue and a capital asset will be recorded for the fair market value of the donated asset. That revenue is restricted for the acquisition of school buses only and would appear as a program specific-capital grant for function/program 6500 (Business Support Services). The capital asset will then be depreciated over the asset's estimated useful life.

#### *Individual Schools*

Revenues for individual schools would be classified as program revenues, either as a charge for service, operating grant or capital grant.

### **Specific Expenses**

#### *Depreciation*

One of the most pervasive changes under the new model is the requirement to report general capital assets on the Statement Of Net Assets instead of in an account group. This means that depreciation expense will have to be calculated on those assets and reported in the Statement of Activities. See Memorandum # 934 for a detailed discussion of how to account for capital assets. Our research indicates that most LEAs have an immaterial amount of infrastructure and land improvements. Those amounts appear to be recorded as part of the building. If the amount of infrastructure and land improvements included in the cost of buildings is immaterial, those costs can be included in the cost of the building for financial reporting purposes.

When reporting depreciation expense on the statement of activities, the guidance provided in Q 108 of the first GASB Statement No. 34 Implementation Guide should be followed. Where a capital asset essentially serves all functions, depreciation expense may be reported in a single, separate line item entitled *Unallocated Depreciation*. It appears that many of the capital assets of the LEAs will fall into

this category. However, if the LEA has assets that serve a single function, the depreciation expense should be included in the expenses of that function. For instance, depreciation on school buses should be reported in function/program 6500 (Business Support Services). Assets such as computers that are used for regular instructional classrooms should be reported in 5100 (Regular Instructional Programs). Because unallocated depreciation will be reported separately, a disclosure should be added on the face of the Statement of Activities that indicates that unallocated depreciation does not include depreciation expense that is included as a direct expense of programs.

#### *Individual Schools*

Because individual schools will be accounted for as Special Revenue Funds under the new reporting model, the expenses will be included as a function of governmental activities. In order to achieve consistency in financial reporting and in order to minimize the time invested in allocating amounts that are potentially immaterial to governmental activities in total, these expenses should be reported in a single functional category. The function/program that appears to be most appropriate is 5400 (Co-Curricular Instructional Programs).

#### *Benefits, Additional Pay, Staff Development and Accrued Vacation*

Under the current chart of accounts, benefits and some salaries for the 5000 (Instructional Programs) series functions are recorded in function 5900 and in function 6900 for the 6000 (Support Services) series functions. Paragraph 41 of Statement 34 requires that the expenses reported for a program include all direct expenses of the program. Direct expenses would include benefits and salaries earned by employees. In order to accurately show the cost of these programs, LEA's should allocate the expenses recorded in the 5910 and 5920 sub-functions to the appropriate functions/programs in the 5000 (Instructional Programs) series and allocate the expenses in the 6910 and 6920 sub-functions to the appropriate functions/programs in the 6000 (Support Services) series. Expenditures from the 5930 and 6930 sub-functions for staff development will not be allocated to other functions and will be reported as expenses in the Other Instructional Programs or Other Supporting Services programs.

This allocation of benefits will be for reporting on the government-wide statements only and will not be posted to the accounting records of the LEA. Some LEAs can run computer queries that will enable them to do very precise allocations of certain benefits. Many benefits such as retirement contribution, social security taxes and health insurance premiums can be allocated very accurately based upon total salaries or number of employees in a function/program. Some benefits such as worker's compensation or disability payments can not be allocated as accurately by salaries or number of employees, but are not large amounts compared to total expenditures. For benefits that the LEA must allocate based upon salaries and positions, benefits and the additional pay expenditures that are determined by the salary of the employee should be allocated based upon the salary expenditures in the different functions/programs. Benefits and additional pay expenditures that are equal for each employee should be allocated to functions based upon the number of employees for each function/program. Also, LEAs must allocate changes in the liability for accumulated annual leave to functions/programs. If units cannot track this by function/program, an allocation based upon total salary payments can be made.

The materiality level for the statement of activities will be determined for the governmental activities in total. Governmental activities will include revenues and expenses from the State Public School Fund, Federal Grants Fund, the Capital Outlay Fund and the Individual School Funds. The materiality level

will be high. It is not necessary to perform complex allocations that attempt to be accurate within a few dollars. We believe that benefit allocations based upon salaries and number of employees will be accurate within the materiality level of the governmental activities.

*Expenditures from the Capital Outlay Fund*

The capital outlay functions in the chart of accounts are not programs under Statement 34. The great majority of expenditures from the capital outlay fund will not be reported as expenses on the Statement of Activities, but will be capitalized and depreciated over the life of the assets. Most will benefit many different programs.

However, there will be some expenditures in the Capital Outlay Fund that are not capitalized and will be expenses in the current period. Those expenses must be allocated to other functions/programs for reporting on the Statement of Activities. This allocation will be for reporting in the government-wide statements only and will not be posted to the LEA's accounting records.

Expenditures from Category 1 projects, purpose code 9100, that are not capitalized are considered maintenance and repairs. These expenditures would be allocated to function/program 6500 (Business Support Services) because expenditures for the maintenance of the physical plant would be charged to sub-function 6580.

Category 2 projects involve the acquisition or replacement of furnishings and equipment. Acquisitions often result from expansion or changes to specific functions/programs. Replacements of assets are current expenses necessary to replace or maintain current furnishings and equipment. These expenditures are most closely associated with maintenance and operational services that would be accounted for in function/program 6500 (Business Support Services). For uncapitalized expenditures from Category 2 projects, a LEA should allocate these expenses to a specific program if the program can be determined. If that program cannot be determined or the purchase benefits many programs, these expenditures should be allocated to 6500 (Business Support Services).

Expenditures from Category 3 projects, purpose code 9300, are made for buses and motor vehicles. Expenditures from this category that are not capitalized should be allocated to function 6500 (Business Support Services) because sub-function 6550 is used to account for transportation expenditures.

If any debt service payments have been reported in Category 1,2 or 3 on the fund financial statements, those expenditures can be allocated to debt service for financial reporting on the government-wide financial statements.

*Indirect Costs*

When reporting on the government-wide statements, indirect cost payments from the Federal Grants Fund, the School Food Service Fund and the Child Care Fund, to the Local Current Expense Fund need to be eliminated in order to avoid overstating revenues and expenses. In the case of the payment from the Federal Grants Fund, the indirect cost revenue (4880) and the payments to other governmental units function/program 8000 (Non-Programmed Charges) would need to be reduced by the amount of the indirect cost payment. Because governmental activities includes both the Local Current Expense Fund

and the Federal Grants Fund, you will be left with the federal grant revenue and the expenses in the appropriate functional categories.

In the case of payments by the School Food Service Fund or the Child Care Fund to the Local Current Expense Fund, the indirect cost revenue (4880) and the function/program 6500 (Business Support Services) for the governmental activities would need to be reduced by the actual amount of the indirect cost payment. Function/program 6500 (Business Support Services) was chosen because it appears to include most of the indirect expenses. This adjustment would not apply to indirect costs not paid by one fund to another. No entry would be required in the business – type activities because the cost of providing this service should include these payments. All entries mentioned above should be made during the process of converting from the fund to the government – wide statements and should not be posted to the general ledger.

#### *Debt Service*

Debt service principal and interest payments should be presented as a separate expenditure category on the fund statements. Some units have not done this in the past because the amount was considered immaterial. If amounts are immaterial, units may continue this practice. However, material amounts of debt service should be reported as a separate category of expenditure on the fund statements rather than in function 8300 or other functions.

If debt service is presented on the fund statements, the principal portion of the expenditure will not be considered an expense on the government-wide statements. It will be reclassified as a reduction in a liability. In addition, the interest expense on the government-wide statements should not be based upon the cash payment, but on the amount of interest expense accruing each month of the year. These adjustments will not be posted to the records of the LEA.

#### **Conclusion**

LEA's should consider obtaining copies of the implementation guides, interpretation, and statements from GASB. You may contact them at [www.gasb.org](http://www.gasb.org) or 1-800-748-0659. We also encourage you to be familiar with other memorandums concerning GASB Statement No. 34 issued by this office. If you have any questions concerning this memorandum, please call Ren Wiles at (919) 807-2389 or Preeta Nayak, (919)-807-2392.

## Exhibit A

### **GASB 34 Funds Boards of Education**

#### **Governmental Funds**

##### **General**

Local Current Expense

##### **Special Revenue**

State Public School

Federal Grants

Expendable Trust

Individual Schools

##### **Capital Projects**

Capital Outlay

##### **Permanent**

Non-expendable Trust

#### **Proprietary Funds**

##### **Enterprise**

Child Nutrition

Child Care

##### **Internal Service**

#### **Fiduciary Funds**

**Pension and Other Employee Benefit Trust**

##### **Private Purpose Trust**

Scholarships/Awards

##### **Agency**

Regional Consortia

Exhibit B

Uniform Chart of Accounts  
 Revenue Classifications  
 Government-wide Statements

Code	Description	Classification
3100	Allocations from State Public School Fund	Program Specific-Operating except for PRC's 19 and 31
3211	Textbooks	Program Specific-Operating
3310	Nutrition Education Training Programs	Program Specific-Operating
3320	Smart Start Programs	Program Specific-Operating
3390	Other State Allocations	Program Specific-Operating
3420	1973 Bond Issue	General
3430	Critical School Facility Needs Fund	General
3440	Public School Building Capital Fund	General
3450	State of North Carolina Public School Building Bonds	General
3490	Other State Allocations Restricted to Capital Outlays	General
3510	Impact Area Grants	General
3590	Other Unrestricted Federal Grants	General
3610	Federal Grant Funds Received Through the Unit Disbursing Account	Program Specific-Operating
3690	Other Restricted Federal Grants	Program Specific-Operating
3710	Head Start Grants	Program Specific-Operating
3720	Medicaid Reimbursement Program	Program Specific-Operating
3730	NC Medicaid Administrative Outreach Program	General
3740	Coastal Plains Regional Commission	Program Specific-Operating
3750	Highway Safety Act of 1966	Program Specific-Operating
3760	Work Study	Program Specific-Operating
3770	National Institute of Education Demonstration Project	Program Specific-Operating
3790	Other Restricted Federal Grants	Program Specific-Operating
3811	USDA Grants-Regular	Program Specific-Operating
3812	USDA Grants-Cash in Lieu of Commodities	Program Specific-Operating
3813	USDA Grants-Non-Food Assistance	Program Specific-Operating
3814	USDA Grants- Summer Feeding Program	Program Specific-Operating
3815	USDA Grants-Commodities Used	Program Specific-Operating
3820	Neighborhood Youth Corps	Program Specific-Operating
3830	Emergency Employment Act	Program Specific-Operating
3840	Indian Education Act	Program Specific-Operating
3850	Titles IV and VI of Civil Rights Act	Program Specific-Operating
3860	ROTC	Program Specific-Operating
4110	County Appropriation	General
4120	Supplemental Taxes-Current Year	General
4130	Supplemental Taxes-Prior Years	General
4142	Local Government Sales Tax	General
4210	Tuition and Fees-Regular	Charge for Service
4220	Tuition and Fees-Adult Basic Education	Charge for Service
4230	Tuition and Fees-Summer School	Charge for Service
4240	Tuition and Fees-Before and After School Care	Charge for Service
4250	Tuition and Fees-Out of District Placement	Charge for Service
4260	Tuition and Fees-Private School and Other Non-LEA's	Charge for Service
4311	Sales-Breakfast-Full Pay	Charge for Service
4312	Sales-Breakfast-Reduced	Charge for Service
4313	Sales-Breakfast-Adults	Charge for Service
4314	Sales-Lunch-Full Pay	Charge for Service
4315	Sales-Lunch-Reduced	Charge for Service
4316	Sales-Lunch-Adults	Charge for Service

## Exhibit B

4317	Sales-Special Milk Program	Program Specific-Operating
4318	Sales-Supplemental Sales	Charge for Service
4319	Sales-Other	Charge for Service
4321	Catered Breakfasts	Charge for Service
4322	Catered Lunches	Charge for Service
4323	Suppers and Banquets	Charge for Service
4324	Catered Supplements	Charge for Service
4331	Paid Student Meal Supplement	Charge for Service
4332	Reduced Student Meal Supplement	Charge for Service
4341	State Reimbursement-Kindergarten Breakfast	Program Specific-Operating
4410	Fines and Forfeitures	General
4420	Rental of School Property	Charge for Service
4430	Contributions and Donations	Determined Individually, Usually Program Specific Based on Donor Restrictions
4440	ABC Revenues	General
4450	Interest Earned on Investments	General, Could be Program Specific based on restrictions of grant proceeds
4460	Reimbursements from Special Funds of Individual Schools	General
4470	Income from Endowment and Other Trust Funds	Determined Individually, Usually Program Specific Based on Donor Restrictions
4490	Miscellaneous Local Operating Revenues	General
4810	Bond and Note Proceeds	General
4811	County Installment Purchases	General
4812	Restricted Sales Taxes	General
4820	Disposition of School Fixed Assets	Program Specific-Capital
4840	Insurance Settlement on School Property	Program Specific-Capital
4880	Indirect Cost Allocated	Charge for Service
4890	Other Restricted Local Sources	Program Specific-Operating
4921	Transfer from the State Public School Fund	Transfer
4922	Transfer from the Local Current Expense Fund	Transfer
4923	Transfer from the Federal Grants Fund	Transfer
4924	Transfer from the Capital Outlay Fund	Transfer
4925	Transfer from the Multiple Enterprise Fund	Transfer

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