

Statement 34 Implementation Focus: New York City

In November, GASB staff spoke with Warren Ruppel, assistant comptroller for accounting of the city of New York, and Michael Spitzer, chief accountant of the city of New York, about their experiences related to the implementation of GASB Statement 34. The city of New York implemented Statement 34 reporting requirements, including the Statement's requirements for infrastructure reporting, in its financial statements for the fiscal year ended June 30, 2001. Excerpts from our conversations follow.

What made you decide to implement GASB Statement 34 earlier than required?

Mr. Ruppel: There were a number of different reasons we chose to implement early. First, there are term limits in the city government, and in January 2002 we will have a new mayor, a new comptroller, and the turnover that accompanies those changes. We didn't think that June 2002 would be a good time to implement. Second, by provision of the city charter, there is a mandatory rotation of auditors, so we knew we would have new auditors for the 2002 audit. That presented two challenges. First, we thought that auditing the GASB 34 implementation might be too difficult a task while the new auditor is becoming familiar with the city. Second, our city is a major issuer of debt. The official statements prepared for each debt issuance include comparative financial statements, and it is unclear which auditor would be responsible for reauditing the prior-year financial statements restated for the effects of Statement 34. We thought it would be much easier to implement with our current auditors in order to avoid potential audit issues associated with restating the prior-year statements. Finally, the overall reason we chose to implement early is that we have traditionally implemented new GASB pronouncements earlier than required. We knew that this implementation would be challenging, but we wanted to demonstrate our leading-edge accounting practices.

How did you plan for implementation?

Mr. Spitzer: Over a year ago, we designated one of our staff as the project manager for implementing GASB 34. We started to have weekly meetings with the staff to identify the issues we would face in implementation. First, we identified all the individuals and organizations that would have to be supportive if the city was going to implement early, such as the audit committee, the mayor's office, the city council, and underwriters for the city and their counsel. The second big issue was that in order for us to implement the standard early, all of our component units would also have to implement early. Several of our component units have year-ends prior to June 30, so early notification was important. Next, we identified the key areas we had to address, such as capital assets, revenues and receivables, and debt. Initially, we didn't feel that GASB 33 implementation would be an issue, but as the process continued we realized that there were issues associated with GASB 33 that also had to be addressed. As a result of this initial planning process, we assigned specific tasks to the appropriate staff to continue the work and tracked the progress in Microsoft Project.

Mr. Ruppel: One of the things we decided early in the planning process was that we would be doing the work for the implementation in-house. That decision guided our planning. We were also pleased that, because we decided to do the work ourselves, the only real out-of-pocket costs we incurred were audit fees related to the restatement of the prior-year financial statements in the GASB 34 format, to audit procedures for information required for Statement 34 in our 2001 statements, and to some GASB 33–related audit procedures.

How did you approach the new requirements for capital asset reporting?

Mr. Ruppel: We began by identifying all the different infrastructure assets that the city had, such as roads, bridges, and parks. In addition, since much of the city borders water, there were a number of piers and bulkheads that had to be identified and recorded. We started off by trying to identify all of the individual assets. For example, we found that the city has almost 800 bridges and over 2,000 lane-miles of roads.

We had planned to use the estimated historical cost approach by determining the average life of the assets and then discounting current replacement costs using inflation indices. However, when it came to actually determining the average lives of the assets, it became rather difficult because of the large number of assets and wide disparities in the periods of time they had been in use. We then began to look at whether we had historical-cost information available. As it turned out, we didn't have this information available by individual asset. We didn't know specifically how much each of those 800 bridges cost, but we did have information about how much had been spent annually on bridges, highways, parks, etc., over the past twenty years. We also knew that the amounts we spent on those assets in any particular year would have been capital-eligible expenses and had not already been capitalized as part of general fixed assets.

We also made some assumptions along the way that helped us to simplify this process. For example, we discovered that we spend money on roads in two major ways. We either do a major reconstruction of a road, during which the subsurface and the concrete that is underneath the asphalt are replaced, or we resurface the road, which involves putting a new layer of asphalt on the existing road. We estimated the life of the major reconstruction to be twenty years and the life of the resurfacing to be about ten years. We also found that on average, we spent about equal amounts on each type of project for each year. Based on this data, we decided to treat roads as a single asset category and to use a fifteen-year useful life for depreciation purposes. This allowed us to simplify our calculations. Keeping things simple was a theme of ours. Because of our size, we could have spent enormous amounts of time chasing details that would not necessarily have resulted in better financial information.

Did you consider using the modified approach for infrastructure reporting?

Mr. Ruppel: We actually have a lot of the information needed to use the modified approach, but on an ongoing basis we felt that depreciation would be easier for us. In addition, we are one of those governments that reported accumulated depreciation in the fixed assets account group, so we already had a mechanism in place to calculate

depreciation. For us, it simply required adding the infrastructure amounts to our fixed assets system as additional assets.

Were there any surprises in the implementation of Statement 34?

Mr. Ruppel: The retroactive recording of infrastructure and the depreciation of capital assets are usually the biggest implementation issues that people think of. While we probably spent the most time on those issues, it was relatively less complex for us because we had a lot of good information available and we were willing to make decisions about how to use that information. While it was far more than a number-crunching exercise, we were pleasantly surprised with how solid we felt the numbers that we had calculated were, particularly compared with our earlier tries at estimating historical costs.

The more difficult issue was related to long-term debt. As we went back over a twenty-year period, we found that debt had not always been recorded in a consistent manner in the capital projects funds—that is, whether it was recorded on a gross basis or adjusted for discounts, premiums, or costs of issuance. While we eventually sorted out the details, it was one area that we didn't anticipate spending as much time on as we actually did. We plan on working during the year to revise some of our methodologies to make this a little bit easier going forward.

Another pleasant surprise was the smoothness of the implementation of GASB 34 by all of the city's component units. For the most part, the component units are business-type entities, so the implementation was not that difficult for many of them. However, we do have some component units that have governmental activities, and they had more work to do. We had no negative reaction from any of the component units as to early implementation.

Also, the September 11 attacks occurred at a key time in our closing process. Some of the important contributors of information to the financial statements, such as several component units, some of the retirement system units, the mayor's office of management and budget, and the law department, have offices that were a block or two away from Ground Zero. All of these offices were out of business for a while, and staff was moved to other, temporary locations. In some cases, auditors were not able to get to their work papers for weeks. Our own building was closed for over a week. However, there were many individuals in these offices and throughout the city, including our own staff, who made a tremendous effort to recover and supply the information that we needed. It was an overall pleasant surprise that we were able, despite this tragedy, to issue our financial statements by their legal deadline, which is October 31, and still were able to implement GASB 34 early.

Do you have any advice for others who are getting ready to go through the implementation process?

Mr. Ruppel: My advice would be to try to implement earlier than required. Medium- and smaller-size governments still have the opportunity to do this, and I think early implementation gives you some cushion if you encounter a difficult problem that takes

some time to solve. If such an issue does arise, you will still have another year to try and solve it, which is comforting.

Also, I think the key to being able to do this was having weekly meetings with our staff and, as needed, with other city agencies. This kept the project moving and kept pressure on people to make progress on the implementation so that we didn't leave all the work to get done at the end. We also had monthly meetings with our auditors during which we would talk to them about our approaches to areas before we completed the work. This helped to ensure that they were satisfied with the approach, and we were able to discuss problems as they came up. By keeping the auditors involved, when we were finally done with an area and we turned the information over to them to audit, it wasn't new to them. They had really been reviewing our work as we had been doing it. That approach was an important plus, and I encourage other governments to do that. I think it would benefit them.