



Basic Guide for
GASB 34
Phase III Local Governments

Phase III Governments with
Total Annual Revenues
(Excluding Extraordinary Items)

Date to Apply
GASB 34

Less than \$10 M

June 15, 2003



TABLE of CONTENTS

What is GASB?	1
Overview of the New Reporting Model	2
Reporting Infrastructure Cost of Use	3
Implementation Questions	4
Implementation Timeline	5
Basic Financial Statements	6
Definition of GASB 34 Terms	8
Asset Management	9
Other Resources	10

What is GASB?

GASB stands for Government Accounting Standards Board. GASB is a nonprofit organization responsible for establishing and improving accounting and financial reporting standards for governmental units (a listing of GASB related terms can be found at the back of this guide).

The 34 part is a statement issued by GASB in 1999 to establish reporting requirements for state and local governments on infrastructure investments and accounting.

Statement 34 calls for state and local governments to do the following:

- Calculate the original cost of infrastructure constructed or improved during the 20-year period prior to the statement's issuance date in the annual financial reports.
- Governments may choose to report how much of the estimated original cost has been "used up" or depreciated in the intervening years, or they can, if they meet certain requirements, report as expense the cost to maintain and renew that infrastructure on an annual basis.
- All new infrastructure must also either be depreciated or have its maintenance requirements accounted for.



OVERVIEW OF THE NEW REPORTING MODEL

GASB Statement 34 specifies that revenues and costs will be accounted for as they occur; costs may not be shifted to a future year by delaying payment. Therefore, Statement 34 calls for all long-lived capital assets including infrastructure such as roads and bridges to be reported in state and local government financial statements.



To meet the specifications of this new standard, governments will need to determine the cost associated with their transportation infrastructure assets. This includes initial construction costs and the cost of subsequent capital improvements as well as the associated expense of using the assets.

In terms of determining the cost of using the assets, GASB will allow governments to report a depreciation expense or apply an alternative modified/preservation approach. Governments may use the modified approach in lieu of depreciating their assets if they have a systematic approach to managing those assets that, at a minimum, meets the following four requirements:

- Having a current inventory of eligible assets.
- Documenting the condition of those assets via a reproducible assessment procedure.
- Demonstrating that assets are being preserved at a level predetermined by the government.
- Estimating the actual cost to maintain and preserve the assets.

For the first time, governments will account for all of the capital resources they use in delivering services. In other words, they will provide the full cost of serving the public.



REPORTING INFRASTRUCTURE COST of USE

The traditional approach (depreciation) involves two components:

- Operating maintenance and repairs
- Depreciation which is a method of accounting for the “using up” of long-lived assets due to use or obsolescence.

Using the modified approach (preservation), under which improvements and additions that increase capacity or efficiency are capitalized, but not depreciated.

IMPLICATIONS

In summary, under the depreciation option, infrastructure assets are capitalized based on historical cost and reported (net of accumulated depreciation) in the statement of net assets. Also capitalized are improvements, additions, and preservation activities. Depreciation expense is reported in the statement of activities.

In the case of the modified approach, infrastructure assets are capitalized based on historical cost. These costs are recorded in the statement of net assets. However, they are not depreciated. Instead, preservation costs are recorded as expenses in the statement of activities. As with depreciation, expenditures that materially improve the quantity or quality of the subject asset are to be capitalized.

IMPLEMENTATION QUESTIONS

As state and local transportation agencies begin to investigate the requirements for complying with GASB Statement 34, they will need to address questions such as those presented below:

How will we define our networks/subsystems for reporting purposes? For example, the highway infrastructure could be reported, in its entirety, as a network. Alternatively, it could be broken down into subsystems such as pavements and bridges, or it could be reported by functional class. How should asset classes such as signs be treated?

Is it better to depreciate or apply the modified approach? How concerned should we be about the information we provide to readers of the financial statements? How much effort will one approach



require, versus the other? What will be the relative cost?

Do we have management systems in place that will support the modified approach?

- Do we know our inventory?
- Are we able to assess the current condition of our inventory? Are we using a reproducible approach?
- Do we have the ability to set minimum condition targets that we can defend and achieve?
- Can we estimate future system condition given alternative investment levels?
- Can we estimate investment requirements to achieve a given system condition level?
- Can we determine the level of funding associated with a particular network or subsystem?

IMPLEMENTATION TIMELINE

GASB 34 is implemented in three phases depending on your agency's total annual revenues as shown below in the table:

	Annual Government Total Revenues Excluding Extraordinary Items	Date to Apply GASB 34
Phase I	> \$100M	After June 15, 2001
Phase II	\$10M - \$100M	June 15, 2002
Phase III	< \$10M	June 15, 2003



IMPLEMENTATION QUESTIONS (continued)

How concerned should we be about our reporting practices being consistent with those of other governmental units?

What method should we use to arrive at the historical cost of our infrastructure, especially if our historical records are inadequate?

How should we define "maintenance" versus "preservation" versus "additions" versus "improvements" for reporting purposes? Depending on the assumptions, these activities will be capitalized and depreciated or expensed.

If we choose to implement the depreciation approach, what method will we use? Also, what should be depreciated, what should be the useful life of the asset, and what should be the capitalization dollar threshold?

Do we have a sufficient understanding of GASB Statement 34 to effectively communicate with our Comptroller's Office?

Do we have the ability to explain to external groups how we arrived at our spending/investment decisions?

Do we have available the information necessary to provide for an informed resource allocation process as it takes place outside our agency as well as at the highest levels within our organizations? For example, can we demonstrate the merits of preserving assets as opposed to deferring maintenance?

BASIC FINANCIAL STATEMENTS

With GASB Statement 34, the following statements are required as part of the state and local financial reports and are audited.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements are a new requirement and include a statement of net assets and a statement of activities. The subject statements focus on the government as a whole and report all assets (including infrastructure), liabilities, revenues, and expenses. These statements follow the flow of economic resources method using full accrual basis accounting. Accrual accounting transactions are recorded when they occur, rather than when disbursed or received.

BASIC FINANCIAL STATEMENTS (continued)

These methods are similar to those used in the private sector and for enterprise funds of State and local governments (for example, tollways). GASB believes that this approach will provide better information about (1) operating results, (2) the government's financial position as a whole, (3) how and when expenses to provide government services are incurred, and (4) how one government compares to another.

Statement of Net Assets

The statement of net assets accounts for the entity's assets and liabilities at a given point in time. Net assets are simply the difference between assets and liabilities. All financial and capital resources are reported. Infrastructure assets that are being or have been depreciated are reported at historical cost (or estimated historical cost, at transition), less accumulated depreciation. Infrastructure assets that are reported using the "modified approach" are presented separately, capitalized at historical cost. Because preservation costs are expensed, there is no accumulated depreciation. In either case, additions and improvements to infrastructure are capitalized at historical or estimated historical cost.

Statement of Activities

The statement of activities reports government operating revenues and expenses. Expenses are reported by function and program, such as transportation, and any revenue (except taxes) attributable to that function or program is reported with the function or program and net expense or revenue presented. A review of this statement will indicate which programs contribute to and which draw from general revenues. Annual depreciation expense is generally reported with each program or function. For those assets reported via the modified approach, preservation expenditures are expensed; no depreciation expense is reported.

FUND FINANCIAL STATEMENTS

Fund accounting is used only by governments. A self-balancing set of accounts is maintained for various categories or funds for the organization. With GASB 34, the presentation, measurement focus, and basis of accounting of funds did not change. Fund accounting will continue alongside the new government-wide statements. Reconciliation of the fund statements with the government-wide statements will be required. The funds are organized into three categories: governmental, proprietary, and fiduciary.

DEFINITION of GASB 34 TERMS

Accrual Basis of Accounting

Revenue, expenses, and other changes in the financial condition of an organization are accounted for when they occur, without consideration of the timing of actual cash received or expenditures made.

Capital Asset

A long-term, productive asset, such as a building or a road.

Capitalize

To record an expenditure as capital asset (long-term) rather than an expense. If the benefits from an expenditure will be realized over several future periods, the expenditure is capitalized and the cost is allocated to future periods through depreciation, that is, if it has a definite life and the modified approach is not used.

Composite Depreciation Expense

Refers to grouping similar assets or dissimilar assets within the same class together for the purpose of computing a single depreciation rate to be applied to all assets in the group. (Source: GASB)

Depreciation

A systematic allocation to current operating cost, over the asset's estimated useful life, of the original cost of the asset. (See useful life).

Expense

To record an expenditure as an expense to current operations (as opposed to capitalizing the expenditure). (See capitalize).

Fund Accounting

A system of accounting used by governments that presents an array of self-balancing accounts representing governmental categories, or funds.

Generally Accepted Accounting Principles (GAAP)

The standards and conventions recognized by certified public accountants as required in the preparation of financial statements.

Government Accounting Standards Board (GASB)

An organization established in 1984 to establish generally accepted accounting standards for state and local governments. GASB operates with oversight from the Financial Accounting Foundation.

Infrastructure Assets (GASB Statement 34 Context)

Infrastructure assets are long-lived capital assets that normally can be preserved for significantly greater number of years than most capital assets and that normally are stationary in nature. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, are not considered infrastructure assets. (Source: GASB)

Modified Approach (GASB Statement 34 Context)

An alternative to depreciating infrastructure assets. The modified approach recognizes that such assets are routinely preserved (or renewed) so as to indefinitely extend useful life. Under this approach, preservation (or renewal) expenditures are expensed rather than being capitalized and the original cost and improvements and additions to the asset are not depreciated. (See capitalize, expense).

Prospective Reporting (GASB Statement 34 Context)

Reporting on long-lived capital assets that were acquired or materially improved after Statement 34's effective date.

Retroactive Reporting (GASB Statement 34 Context)

Reporting on long-lived capital assets that were acquired or materially improved after June 15, 1980.

Useful Life

An estimate of how long the asset will be in use assuming a given maintenance and repair schedule.



ASSET MANAGEMENT

It is highly desirable for local governments to adopt the new concepts of asset management. Asset Management provides the framework for investments needed to operate and manage transportation facilities systematically and cost-effectively. It is also a business process.

Asset Management provides a decision-making framework which covers an extended time horizon, draws from economics and engineering, and considers the broad range of assets that an organization possesses.

Some of the goals that Asset Management can pursue are:

- Strategic or long-range
- Inventory and valuation
- Quantitative conditions
- Performance measures
- Performance predictions
- Links to the budget process
- Economic analysis
- Continuous feedback
- Reporting on how these goals are being met

More complete information about Asset Management can be found in file No. 4 on the CD distributed with this pocket guide.

OTHER RESOURCES

American Institute of Certified Public Accountants

<http://www.aicpa.org>

AICPA is currently working on new audit guidance for Audits of State and Local Governments.

Federal Highway Administration

Office of Asset Management

Economic Evaluation and Investment Team

<http://www.fhwa.dot.gov/infrastructure/asstmgmt>

Provides miscellaneous information on Transportation Asset Management and GASB Statement 34.

FinanceNet

<http://financenet.gov>

Provides general information.

Governmental Accounting Standards Board

<http://gasb.org>

Provides the latest on GASB Statement 34 implementation.

Government Finance Officers Association

<http://www.gfoa.org>

Provides a forum for GASB Statement 34 questions and answers.

National Association of State Comptrollers

Sponsors educational materials directed at GASB Statement 34 implementation.