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## What's GASB 34—and why should you care?

by Tom Maze, former director of the Center for Transportation Research and Education; Transportation Sector Leader, Howard R. Green Company

*Editor's note: News about coming changes in financial reporting requirements is just beginning to hit the radar screens of Iowa's governmental agencies. These changes will affect how agencies report major infrastructure assets, including roads and bridges. If "GASB (say gasbee) 34" is just a mysterious blip on the edge of your own awareness, this short series of articles will help you understand what the buzz is about—and why you should sit up and take notice.*



### How do you report infrastructure investments?

Traditionally, state and local governmental agencies have used cash accounting methods to report infrastructure assets like roads, bridges, water and sewer facilities, dams, etc. With cash accounting, the capital cost of an infrastructure investment appears in an agency's annual financial report during the year in which the cost of construction is incurred; the value of existing physical assets does not appear on financial reports.

In other words, using cash accounting methods, the value of all physical assets is off the books.

In actuality, of course, physical infrastructure like roads and bridges generally continues to have value, or usefulness, long after agencies have incurred the cost of construction. And, just as cars depreciate in value, the value or usefulness of roads, bridges, and other physical assets declines over the course of many years, typically 20–50 years.

A more realistic report of an agency's financial status would therefore show the existing value of the agency's capital assets. Under this accounting method—accrual accounting—the cost, or the loss in value, of an asset is spread across the asset's useful lifetime rather than accounted for in its first year.

Accrual accounting keeps infrastructure assets on the books and is more consistent with the reporting of other costs of doing business.

The Governmental Accounting Standards Board (see article on page 3) has been carefully studying the valuation of government capital investments for many years. In fact, the board issued its first concept statement regarding this issue as long ago as 1987.

*GASB . . . continued on page 2*

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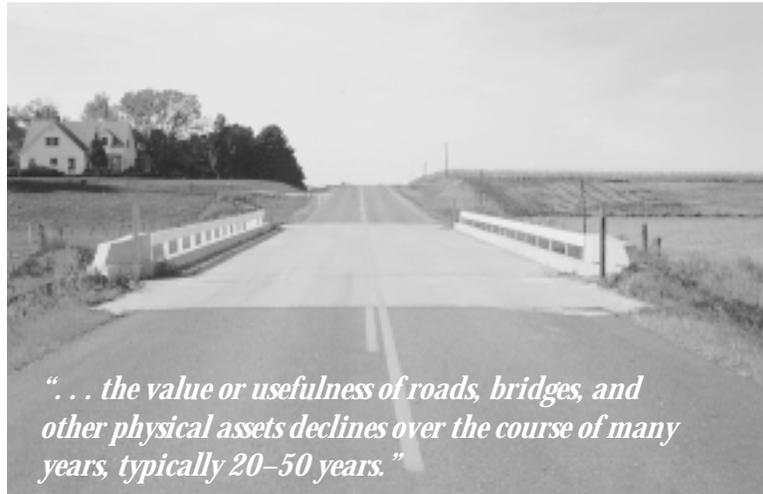
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*" . . . the value or usefulness of roads, bridges, and other physical assets declines over the course of many years, typically 20–50 years. "*

Finally, in June 1999, GASB Statement 34 (or GASB 34) was published. GASB 34 requires state and local governments to begin reporting the value of their infrastructure assets, including roads, bridges, water and sewer facilities, and dams, in their annual financial reports on an accrual accounting basis.

**Why the change?**

Accrual accounting methods are generally the standard in the private sector. When most of us see an annual report, we therefore expect to see an accounting of the remaining useful value of all assets. By bringing public agencies in line with accounting norms, GASB 34 has the potential to make agencies' overall financial condition more comprehensible to the public, investors, creditors, and the agencies themselves.

The principle purpose of Statement 34, then, is to "improve the accountability of governments to their citizens by providing better, more accessible information about the condition and costs of capital assets."<sup>1</sup>

Ultimately, the new standards may encourage better stewardship of

public resources. By reporting the value of public assets over time, governmental agencies will make their improvements—or lack of improvements—in public assets more apparent.

**Who's affected, and how soon?**

The new requirements for reporting physical assets will be phased in, beginning with the largest governmental agencies (see table below). In the first year that agencies are required to report the value of capital

assets, they need only report the value of newly acquired or built capital assets. That is, they need only comply with GASB 34's *prospective reporting requirements*.

- Agencies with \$100 million or more per year in revenue must meet prospective reporting requirements for the fiscal year beginning after June 15, 2001.
- Those with annual revenues of \$10 million to less than \$100 million have until the fiscal year beginning after June 15, 2002, to meet prospective reporting requirements.
- Smaller agencies with less than \$10 million in annual revenue have until the fiscal year beginning after June 15, 2003, to comply with prospective reporting requirements.

Schedule for complying with GASB 34 reporting requirements

Reporting requirements	Agency's annual revenue		
	\$100 million or more	\$10 million to less than \$100 million	less than \$10 million
<b>Prospective</b>	fiscal year beginning after June 15, 2001	fiscal year beginning after June 15, 2002	fiscal year beginning after June 15, 2003
<b>Retroactive</b>	fiscal year beginning after June 15, 2005	fiscal year beginning after June 15, 2006	encouraged but not required to report



Agencies then have four more years to comply with GASB 34's *retroactive reporting requirements*; that is, they have four more years to determine and report values for their preexisting capital assets.

- Agencies with \$100 million or more per year in revenue must meet retroactive reporting requirements for the fiscal year beginning after June 15, 2005.
- Those with annual revenues of \$10 million to less than \$100 million have until the fiscal year beginning after June 15, 2006, to meet retroactive reporting requirements.
- Smaller agencies with less than \$10 million in annual revenue are encouraged but not required to report infrastructure values retroactively.

#### What does GASB 34 mean for Iowa's cities and counties?

CTRE staff have recently discussed this question with several managers of local governmental agencies. Some managers believe that meeting the new standards will be not be difficult because they have a good inventory base and good cost records. Others view GASB 34 as a significant unfunded mandate.

Regardless of what shape you think your agency is in with regards to complying with GASB 34, we encourage you to discuss the statement with your agency's financial officer, who should be able to help you develop a strategy for addressing GASB 34. You might also contact the Iowa League of Cities or the Iowa State Association of Counties.

#### What's next?

Basically, GASB 34 allows two methods for assessing the value of infrastructure: the depreciation approach, and a modified approach. In the next issue of *Technology News*, we will discuss these approaches and other issues related to meeting GASB 34 requirements.

In the meantime, visit the web site of the Governmental Accounting Standards Board, [www.rutgers.edu/Accounting/raw/gasb/](http://www.rutgers.edu/Accounting/raw/gasb/), for a summary of GASB 34 and related information. •

<sup>1</sup> Terry K. Patton and Penny S. Wardlow, "Why Infrastructure Reporting?" *GASB Action*, Vol. 16, No. 5, May, 1999

## Where does GASB get its authority?



THE GOVERNMENTAL Accounting Standards Board (GASB) is a nonprofit entity responsible for establishing accounting standards—or generally accepted accounting practices (GAAP)—for state and local governments. Along with its sister organization the Financial Accounting Standards Board (FASB), which sets accounting standards for the private sector, GASB is operated by the nonprofit, privately funded Financial Accounting Foundation.

Although there is no legal requirement that Iowa governments follow GAAP, it is generally prudent business practice to do so. For example, public agen-

cies follow GASB standards in order to obtain clear opinions from their auditors. Even more important, following GAAP will likely reduce the cost of issuing debt through general obligation or revenue bonds. Bonding organizations want to see (1) a government agency's true financial condition and (2) accounting information based on GAAP. Communities that don't follow GAAP may pay more to issue debt in terms of their bond rating. •

#### LTAP Advisory Board

The people listed below help guide and direct the policies and activities of the Center for Transportation Research and Education's Local Technical Assistance Program (LTAP). The board meets at least annually.

Contact any of the advisory committee members to comment, make suggestions, or ask questions about any aspect of LTAP.

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