

What on Earth is GASB-34 and why should you care?

New Accounting System Will Impact Small Systems

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All public government agencies, which include public water systems, will experience a significant change in accounting over the next several years. The change is called Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments*—or “GASB-34” as it’s more commonly known. And this statement may cause public water system accountants, financial advisors, and auditors to scramble for new technical and accounting information so that they can understand the differences between the two terms:

- “Cash-based accounting” (currently used in government agencies and municipalities) and
- “Accrual based accounting” (commonly used in the private sector).

Accounting changes may happen faster for some public water systems more so than others, but it will depend upon their size. (See the sidebar on page XX for more information about when systems must adopt GASB-34 standards.) Regardless of the size of your water system, now is the time to prepare: Proper planning and implementation of the GASB-34 system are the keys to keeping pace with public water systems of the future.

What is GASB?

GASB is a private, nonprofit organization formed in 1984 to develop and improve accounting and financial standards for state and local governments. The board has seven members and is supported by a full-time staff. The board’s members include users, preparers, and auditors of state and local government financial statements, as well as an academic advisor. The board is the government equivalent of the Financial Accounting Standards Board (FASB), which sets accounting standards for the private sector.

GASB is responsible for setting generally accepted accounting principles (GAAP) for both state and local governments. These GAAP set the criteria that the government must follow—or in this case public water system—to obtain “clean opinions” from their auditors. A clean opinion means you have good credit and is very important when a state or local government wants to issue bonds, procure financing for long-term construction projects, and obtain performance bonds.

In June 1999, GASB approved GASB-34, the latest in a series of standards that the board has issued. This proclamation requires that state and local governments begin to report on the value of their infrastructure assets—including roads, bridges, dams, and water and sewer facilities—and to develop procedures and methods for asset management systems. While the future requirements will still contain some of the original accounting information, GASB-34 mandates a more comprehensive approach to financial statement preparation. GASB-34’s main goal is to make the financial statements reflect the financial health of government offices. An informed user should be able to review this new statement format and determine the overall condition of a

government or a public water system, especially concerning its progress toward infrastructure repair or replacement.

How will GASB-34 be implemented?

Under the current reporting method, revenue and expenditures are recorded in the fiscal year in which they are received or paid (cash basis accounting). Under the GASB-34 method, governments must account for revenues and expenditures for the period in which they are earned or incurred (accrual basis accounting). In addition, all current and long-term assets and liabilities, such as infrastructure and general obligation debts, need to be reported within the balance sheet.

GASB defines infrastructure assets as long-lived capital assets associated with governmental activities that are permanent in nature and have a longer useful life than most capital assets. Water systems are one example of infrastructure assets. Buildings are not included unless they are an ancillary part of the infrastructure network. GASB-34 is designed to help inform the general public as to how well the government maintains infrastructure assets using preventative maintenance verses replacement. GASB-34’s reporting requirements are designed to provide more information about the government’s ability to repay its debts and care for the infrastructure asset once built.

The effective GASB-34 compliance date depends upon the size of the government, measured by the government’s total annual revenues in the first fiscal year ending after June 15, 1999. Larger systems need to begin using GASB-34 this year, while medium-sized and smaller systems will start in subsequent years. (The sidebar on page XX lists implementation dates.) In the first year that agencies are required to report the value of infrastructure assets, they only need to report the value of newly acquired or recently built infrastructure assets. This is called GASB-34’s *prospective reporting requirement*.

Implementation Requirements for GASB-34

Phase	Government Revenue	Implementation Dates
Phase 1	\$100 million or greater	Beginning after June 15, 2001
Phase 2	Between \$10 million and \$100 million	Beginning after June 15, 2002
Phase 3	Less than \$10 million	Beginning after June 15, 2003

Once the appropriate initial phase is determined, governments must retroactively capitalize and report all general infrastructure assets acquired, renovated, or improved since 1980. (See the sidebar on page XX for implementation dates.)

Retroactive Implementation Requirements for GASB-34

Phase	Revenue	Implementation Dates
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Phase 1	\$100 million or greater	Beginning after June 15, 2005
Phase 2	Between \$10 million and \$100 million	Beginning after June 15, 2006
Phase 3	Less than \$10 million	

Agencies with less than \$10 million in annual revenues are not required to report infrastructure values retroactively. While not required, the state and local governments are encouraged to conform.

The 1996 Amendments to the Safe Drinking Water Act require capacity development programs to be in place for all states. Capacity development means that a state helps its drinking water systems improve their finances, management, infrastructure, and operations so they can provide safe drinking water consistently, reliably, and cost-effectively. (See the Fall 1998 issue of *Water Sense* for more information about capacity development.) State agencies implementing capacity development programs should be able to help with GASB-34 requirements, and also help determine the cost and depreciation of systems. State agencies responsible for capacity development programs will need to become sufficiently knowledgeable about GASB-34 in order to help provide this assistance.

Why is it important for a municipal or public water system to comply?

Under the U.S. Environmental Protection Agency's drinking water state revolving fund (DWSRF), where monies are provided to the states in order to provide drinking water loans, one eligibility criteria is that each water project undergo financial analysis to ensure the ability to repay the loans. The financial analysis will have a more complete picture of the overall financial stability of the state and local governments once the GASB-34 conversion is completed. This analysis will give auditors the necessary information to decide whether current-year revenues were sufficient to cover the costs of current-year services. This information also will allow the analyst to determine whether the rates that are currently being charged are adequate to meet the future needs for loan repayments.

Financial consultants and accountants will face the task of placing values on existing assets, infrastructure under construction, and future projects. Values for assets that are currently being depreciated will be adjusted to reflect the new requirements. GASB-34 allows enough flexibility for state and local governments to adapt the new pronouncement. This latitude is obscured within the terminology of the pronouncement and raises concerns for the financial users. Some state officials are concerned about whether GASB-34's applications will be consistent within branches of state and local governments.

Communities that don't follow GAAP may pay more to issue debt in relation to their bond rating since the bonding agency will not be able to easily compare their financial health with statistical information. Public water systems that refuse to adapt or implement the new accounting procedure may also become casualties by not being able to obtain loans due to a poor bond rating, thus, making them unable to replace non-repairable or outdated infrastructure.

GASB-34 Will Provide a Better Financial Picture

The idea of taking a closer look at a water system will

- 1) Force systems to perform a more technical analysis and potentially force the accountant to obtain training in the technical aspects of the system relative to past material costs or to obtain guidance from a technical source (engineers, technicians, contractors, operators, etc.); and
- 2) Assist municipalities and public water entities to evaluate their systems and determine the life of their infrastructure, thereby evaluating and generating repair and replacement revenue.

Text Box (?)

Where can a public water system get help with GASB-34?

Local governments and small water systems can explore a number of different sources to learn more about GASB-34 requirements. Here are three:

GASB offers an *Implementation Guide* that further discusses issues, provides additional illustrations, and presents nearly 300 questions and answers that have arisen about GASB-34. Go to the GASB Web site at accounting.rutgers.edu/raw/gasb/, or call (203) 847-0700 to learn more.

In December 2000, GASB issued an Exposure Draft: *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus, an Amendment of GASB Statements No. 21 and No. 34*. This amendment clarifies provisions that are not clear enough to be consistently applied. The GASB intends to release it soon as GASB Statement No. 37.

The American Institute of Certified Public Accountants (AICPA), offers guidance via *Understanding and Implementing GASB's New Financial Reporting Model*. This publication may be ordered online at the AICPA Web site at www.aicpa.org/index.htm or by calling AICPA toll-free at (888) 777-7077.

Other authoritative guidance may be found with the Government Finance Officer's Association (GFOA). The GFOA, a professional association of state, provincial, and local finance officers in the U.S. and Canada, recently issued an updated book, *Governmental Accounting, Auditing, and Financial Reporting*. This book is commonly referred to as *The Blue Book* or *GAAFR*. It has been revised to include instruction about the new reporting model. In addition, the GFOA offers technical bulletins and services, and other information on their web site at www.gfoa.org.

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