

GASB Statement No. 34 Its Relationship to Asset Management

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Why do Governments Follow the GASB

- Most governments are required to prepare financial statements in accordance with GAAP
 - Fiscal accountability
- Compliance with GAAP ensures a “clean” audit opinion
 - Credit-worthiness
 - Financial stewardship
 - Planning and budgeting purposes

GASB 34 Requirements

- When implemented, it established new reporting requirements for governments
 - Specifically for DOTs, it required reporting the values and costs related to infrastructure and other long-term assets
 - Requires finance/accounting staff coordinate with asset management staff
- Essentially called for an Asset Management System

Capital Asset Reporting Requirements

- Governments must now report values for capital assets:
 - Reported on the Statements of Net Assets
 - The 'old' Balance Sheet
 - Before June 15, 2001 - amounts were not previously required
 - Reported and Capitalized at Historical Cost
 - Two allowable methods
 - Reported at the Network, Subsystem, or Individual Asset Level
 - Entities have options for reporting

Traditional Method

- Depreciation approach - “using up” the asset
 - Allocating the expense over the useful life until it reaches its salvage value
 - Based on the cost to put the asset in use
 - A basic math equation / straight-line method
 - Not intended to measure actual deterioration
 - Ignores maintenance and repairs
 - Does not tell the public how well assets are being maintained (or not)

The Modified Approach

- You must have an asset management system that:
 - Has an up-to-date inventory
 - Regularly assess the condition of those assets (at least once every 3 years)
 - Estimate the annual cost required to maintain and preserve the assets at a minimum condition level
 - Must establish and make public the condition goals
 - Must compare actual spending to amount required to maintain the asset
 - Assert that assets are maintained at or above the condition goals established

Link to Asset Management

- Can be used to comply with GASB Statement No. 34
 - Has similar characteristics:
 - Condition goals
 - Inventory information
 - Current condition levels
 - Investment levels needed
- An internal management tool that complements the Financial Statements prepared for external users
 - GASB 34 helps move AM principles forward even though AM was here way before the financial reporting requirement
 - GASB 34 helps governments explain its AM decisions

Concerns with GASB Valuations

- Transition period concerns:
 - Multiple approaches were allowed
 - Estimated historical costs or used a deflated current replacement cost
 - Does that really represent today's value?
 - Assets acquired after June 30, 1980
 - Different reporting expectations depending on government size

Concerns with Depreciation Approach

- The Good:
 - Easiest method
 - Spreads costs over multiple periods
- The Bad:
 - Does not provide asset condition
 - Inflationary increases not accounted for
 - Ignores maintenance efforts
- The Ugly
 - Book value could equal Zero
 - How is that possible?

Concerns with Modified Approach

- The Good:
 - Actual costs are reported
 - Ties expenditure levels directly to condition
 - Greater emphasis on maintenance and life-cycle cost analysis
 - Demonstrates investments - stewardship
 - Can help with bond ratings
- The Bad:
 - Investment levels may vary in any given year
 - Asset management goals can be different than GASB 34 targets
- The Ugly:
 - If targets are not met, must revert to Depreciation Approach

Impacts

- GASB 34 reporting helps demonstrate AM decisions to the public
 - Provides a more thorough understanding of government stewardship
 - Includes the full costs of providing services
 - Allows financial statement users to assess long-term progress
 - Sustainability
 - Capital Asset Investments
 - Results
 - Requires more coordination between the financial decision makers and the asset owners

Questions?

