



NEWSLETTER

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GASB 34 – A Wonderware Opportunity – a point of entry for you with prospective municipal clients

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**Next Month we will tell you
about our new GIS and Avantis
interface!**

In our July 2001 newsletter, we promised more details on the Government Accounting Standards Board (GASB – pronounced gasbee) Statement 34. In this issue, we will dig into this topic more deeply and explore the opportunities created for Wonderware.

What is GASB 34?

To put it simply, GASB 34 mandates that government entities throughout the United States report the value of their infrastructure assets and the condition of those assets over time. Infrastructure assets are defined as capital assets associated with governmental agencies, that are a normally stationary object, and that can be kept operational for a much greater number of years than conventional capital assets. Examples include bridges, tunnels, roads, water systems, etc. Although GASB 34 does not carry the weight of law, it establishes “Generally Accepted Accounting Principles,” or GAAP. Financial statements must comply with GAAP in order to receive a clean opinion from auditors. This is critical if the agency intends to issue bonds.

What Changes With GASB 34?

The major change for governmental agencies is that they must report on a full accrual basis. Most municipal agencies report on a cash basis today, meaning they report the capital costs of infrastructure assets in the year in which they are incurred. Capital expenses are also reported in full in the year in which incurred. The difference between capital expenses and operating expenses is that capital expenses benefit more than one period. A capital improvement is one that extends the useful life or utility of the asset. What this means is that under a cash basis, the value of physical assets is essentially off the books. Under GASB 34, the capital asset is depreciated over its useful life. Infrastructure entities will, therefore, appear in financial statements at their current depreciated values. This presents a more realistic view of financial status on a year-to-year basis.

One important effect to expect from GASB 34 is that government agencies will have greater incentive to move from a deferred maintenance approach to a preventive maintenance approach. Historically, the easy availability of Federal funds encouraged state and local governments to defer maintenance on their roads in favor of capital projects. The impetus now is to demonstrate fiscal responsibility and proper stewardship of the infrastructure assets under their control. When fully implemented, literally trillions of dollars in infrastructure value will be reported on the books of state and local governments. Maintaining the value of these assets is an important requirement for obtaining favorable bond ratings and financing options.

Although Federal financing has increased over the last decade, it is not expected to keep up with the increasing need for infrastructure maintenance, rehabilitation, improvement, and replacement. Government agencies will need to be more creative in securing financing for infrastructure projects. This will include private financing to supplement and leverage public financing.

Who is affected?

GASB 34 applies to all state and local government agencies in the United States. There are approximately 84,000 affected agencies. The compliance date varies based on the size of the agency. Large agencies, those with annual revenues greater than \$100 million were required to comply by the fiscal year beginning after June 15, 2001. Agencies with revenues between \$10 million and \$100 million must comply by the fiscal year beginning after June 15, 2002.

Agencies with less than \$10 million in revenues must comply with the fiscal year beginning after June 15, 2003. The above schedule applies only to newly acquired or built capital assets. Agencies then have an additional four years to comply with the retroactive reporting requirements. This means that they must identify and report on assets put in place after June 30, 1980 (small agencies are exempted from this requirement.)

Some examples of affected agencies are:

- transportation departments
- waste treatment systems
- water systems
- school systems
- state universities
- port authorities

Compliance Methods

Agencies have a choice of two accounting methods under the new GASB rules. The first, or Standard method, depreciates assets using standard depreciation methods and capitalizes renovation expenses (re-paving a road for example.) The Standard method has some major drawbacks. Because infrastructure assets have very long lives, depreciation is difficult to reflect realistically. On the books, an asset may have a very low value. What is not shown is the potentially huge replacement cost liability.

The second method is referred to in GASB 34 as the "Modified Approach." This is the method that most agencies are likely to use. In order to use the modified approach, the agency must:

1. Maintain their infrastructure to an established level. This level is set by the individual agencies for their infrastructures and can be a simple rating scale. For example, where 5 = "Excellent condition" and 1 = "Unusable condition."
2. Have in place a system to track and assess the condition of assets. Using the above scale, for example, an asset with a rating of 3 could suggest repairs; a rating of 2 could indicate renovation; and a rating of 1 could indicate replacement.
3. Maintain a detailed inventory of infrastructure assets.
4. Be able to estimate annual costs to maintain the infrastructure to an acceptable condition level.
5. Report all money spent to maintain or improve assets. Depreciation is *not* reported and funds spent are not capitalized.
6. Reset valuations as least tri-annually.
7. Report the condition of infrastructure assets in annual financial statements and report how the condition compares with the asset condition policy.

Avantis to the rescue!

The new GASB rules set the stage for Avantis. The standard features found in the Avantis will help municipalities comply – a summary includes:

- Maintenance of the infrastructures is a natural fit for Avantis PM jobs, work orders, and work requests. Avantis can help the client to replace *reactive* maintenance with *planned* maintenance, and move *fixed-interval* planned maintenance toward *predictive* and *on-condition* maintenance using the PM triggering feature.
- Avantis maintains the detailed inventory of assets in the Entity Cabinet. We use entity Add-ons to maintain static data that is unique to the fixed assets of each type of governmental agency.
- When the Avantis "Collect fixed asset costs" business policy is set to "yes", a Fixed Asset tab will appear on each entity. Cost transactions for fixed asset costs must use a cost group that allows fixed asset costs. In addition, the entity type must be enabled for fixed assets. A custom cabinet that filters for only fixed asset entities and fixed asset cost group transactions organizes these costs for export to any financial package. Avantis automates integration with the Peoplesoft financials with a button on the Fixed Asset tab. The Avantis "fixed asset identifier" is used to exactly match to the PeopleSoft data.
- View cost summaries and transactions for any maintenance calendar period and for any cost group from each entity object. Use custom cabinet views to analyze costs and export for projections. Fixed asset costs are also categorized by the time periods in the maintenance calendar.
- The Avantis Equipment Activity feature is a tool that can be used to track and assess the condition of assets.

What does this mean for Wonderware?

Every government agency: cities, counties, states, school districts, etc. must assign a value to every capital asset. In the US, there are over 84,000 of them. Problem number one for many of these organizations is simply to identify the assets that they have. Lucky for them, this is one of the most basic functions of the Avantis asset management product. Take a

minute to think about the city in which you live. The infrastructure must now have a detailed valuation. This means roads, bridges, water systems, waste treatment, and everything else that is maintained by the city.

When MRI implemented Avantis.PRO at the School District of Philadelphia, we found that capital assets, if recorded at all, were in several unrelated systems. Avantis.PRO gave the District the structure they needed to pull all of their entities together in one system. This gave them the information that they needed to achieve GASB 34 compliance. Although, technically, buildings are excluded from the GASB's definition of infrastructure, they are accounted for in the same way.

The knowledge gained by MRI and Wonderware at both the School District of Philadelphia and various Port Authorities serves as a valuable resource for any new Avantis implementation at municipal agencies.

The government agencies with the most infrastructures are the transportation agencies, which also happen to be heavy users of GIS (geographical information systems.) This is important because many of the capital assets have already been identified and are available in an electronic format. This data can be used as a source for Avantis entities. The level of detail will vary, but it is a good starting point and a good selling point for the Wonderware salesperson. In addition, MRI has developed an Avantis/GIS interface program that ties the two programs together. Other entities using GIS are pipelines, water systems, sewer/waste treatment systems, and highway lighting systems.

GASB 34 allows assets to be grouped or classified. For example, all bridges could be reported under one group and all roads can be reported under another. Think about how the Avantis entity type and entity classification could be used here. The Avantis hierarchy feature is a perfect fit for organizing assets into systems, networks, or classes. Qualifying for the Modified Approach also requires a comprehensive preventive maintenance program. Again, preventive maintenance is one of the strongest Avantis functions.

Most of the larger transportation agencies are already using pavement management systems and bridge management systems. These systems do not negate the need for a maintenance management system such as Avantis.

InRIM

For anyone not yet familiar with InRIM (Industrial Rapid Implementation Methodology), it is Wonderware's methodology for implementing Avantis within a defined budget and timeframe, while minimizing the impact on customer resources by applying proven industry standards – with no compromises. Government agencies must adhere to budgets and projections to obtain ongoing funding for their projects. With InRIM, we can give them realistic numbers with which to work.

Conclusion

The implementation of GASB 34 will provide a financial reporting system that will be consistent with systems used by the private sector. Financial results will now be more understandable to taxpayers, investors, creditors, and other interested parties. It will now be possible to compare the value of infrastructure assets from period to period, assigning greater accountability to the agencies responsible for millions of dollars worth of assets.

GASB 34 presents an opportunity to Wonderware and its business partners to present the Avantis line of products and the InRIM implementation process. The features included with Avantis products are well suited to helping government agencies comply with the requirements presented in GASB 34.

GIS and Avantis are Complimentary

We are developing a robust interface between Avantis and the ERSI software. ERSI is the leading producer of geographic information software (GIS). More about this in our next newsletter.