CPAs Are Taking a New Look at Roads...What It Means to You

Randy Finden
Project Manager
Governmental Accounting Standards Board

Summary of Capital Asset and Infrastructure Requirements
GASB Statement 34 [*]
Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

Statement 34 establishes new requirements for the annual financial reports of state and local governments. Financial statements for the funds are similar to current requirements. The principal change to fund statements is that only major funds and non-major funds in aggregate are required to be reported. The greatest changes are to the government-wide financial statements. The focus of these statements is on the government as a whole, with governmental and business-type activities presented separately. The government-wide statements, consisting of a *statement of net assets* and a *statement of activities* that presents revenues and expenses by function or program in a net expense format, use the economic resources measurement focus and accrual basis of accounting for both governmental and business-type activities. The change in measurement focus and basis of accounting for governmental activities requires that all capital assets, including infrastructure, be recorded and depreciated. Additionally, management's discussion and analysis, that gives readers an objective and easily readable analysis of the government's financial performance for the year, should be presented as required supplementary information.

Capital Assets Include Infrastructure

All capital assets are required to be reported at historical cost and should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach. Infrastructure assets are included as capital assets in the statement of net assets. (¶ 18, 19, 21)

Required Note Disclosures about Capital Assets

The notes to the financial statements should provide the following detail for historical cost and accumulated depreciation for each major class of capital asset:
1. Beginning- and end-of-year balances
2. Capital acquisitions
3. Sales or other dispositions
4. Depreciation expense.

Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. Additionally, the amounts of depreciation charged to each of the functions in the statement of activities should be disclosed. (¶ 117)

---

[*] The complete document, Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, including the Board's Basis for Conclusions, should be read for a full understanding of infrastructure issues.

Modified Approach for Infrastructure

Infrastructure assets are not required to be depreciated if the assets are:
1. Managed using an asset management system
2. Preserved at an established condition level.

The asset management system should include an inventory of infrastructure assets, perform condition assessments of the infrastructure and estimate the annual amount needed to maintain and preserve the infrastructure assets at the condition level established by the government. (¶ 23)

The government should perform condition assessments at least every three years, and the results of the three most recent assessments should show that the infrastructure assets are being preserved at or above the established condition level. (¶ 24)

Disclosures for Modified Approach for Reporting Infrastructure

For infrastructure assets reported using the modified approach, the following disclosures should be presented as *required supplementary information*:
1. The assessed condition from the three most recent condition assessments
2. Annual maintenance and preservation cost, both estimated and actual, for the past five years
3. The basis and scale for the condition measurement
4. The condition level established by the government as acceptable
5. Factors that significantly affect trends in the information in 1. and 2. (¶ 132, 133)

Effective Date and Transition

The provisions of Statement 34, except for retroactive recording of infrastructure, are effective for:
1. FYE after June 15, 2002 for governments with revenues of $100 million and greater
2. FYE after June 15, 2003 for governments with revenues between $10 and $100 million
3. FYE after June 15, 2004 for governments with revenues less than $10 million. (¶ 143)

Depreciation of capital assets and prospective capitalization of infrastructure assets are two of the requirements that must be adopted according to the schedule above.

Reporting General Infrastructure Assets at Transition

The requirement for retroactive recording of general infrastructure is effective for:
1. FYE after June 15, 2006 for governments with revenues of $100 million and greater
2. FYE after June 15, 2007 for governments with revenues between $10 and $100 million

For governments with revenues less than $10 million, retroactive recording of infrastructure is not required. (¶ 148)

Modified Approach for Reporting Infrastructure Assets at Transition

Governments may begin using the modified approach as long as at least one condition assessment has been completed and the results of the assessment show that the infrastructure assets are being preserved at the established condition level. (¶ 152)

Initial Capitalization of General Infrastructure Assets

Only *major* general infrastructure assets that were acquired in fiscal years ending after June 30, 1980 are required to be capitalized. The threshold for a major asset is set at a percentage of the cost of all general capital assets reported for the year ended June 30, 1999. If the asset to be capitalized is a subsystem, the threshold is 5% of capital assets; if the asset is a network, the threshold is 10%. (¶ 156)

The initial capitalization amount should be based upon historical cost or estimated historical cost. One method of estimating historical cost is deflating the current replacement cost of a similar asset using price-level indexes to the acquisition year. Bond documents, capital outlay expenditures in prior financial statements or engineering documents may also be used for estimating historical cost. (¶ 158, 160)

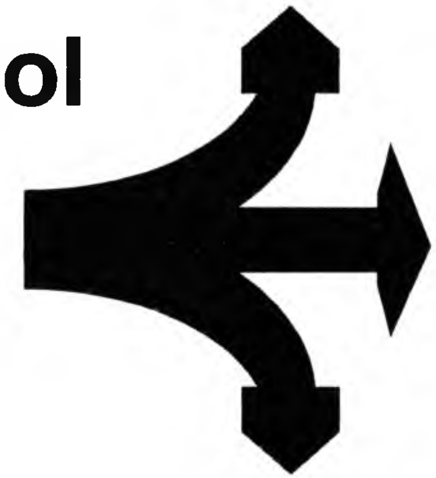
Methods for Calculating Depreciation

Any established depreciation method may be used. Depreciation may be calculated for a class of assets, a network of assets, a subsystem of a network, or individual assets. (¶ 161)

Governments may use composite methods to calculate depreciation expense. Composite methods refer 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. (¶ 163)

Infrastructure Reporting
The GASB Reporting Model

Purdue Road School



March 22, 2000

Purdue University

What is the GASB?

- Establishes accounting rules as an independent organization
- Recognized and organized by auditors, state and local finance officials, and financial statement users
- A not-for-profit organization

Why the new standard? Current statements are:

- Fractured—fund accounting
- Have a short-term bias
- Incomplete—not all assets are reported

What are the elements in the new model?

- Management's discussion and analysis
- Government-wide statements
  - Infrastructure included
- Fund statements
  - Major funds
- Restricted use of trust & agency funds
- No account groups
- Original budget presented as RSI (or basic)

Statement of Net Assets

- Capitalization—historical cost is the standard
- At transition
  - Historical cost
  - Estimated historical cost
  - Deflated current replacement cost

Transition Capitalization

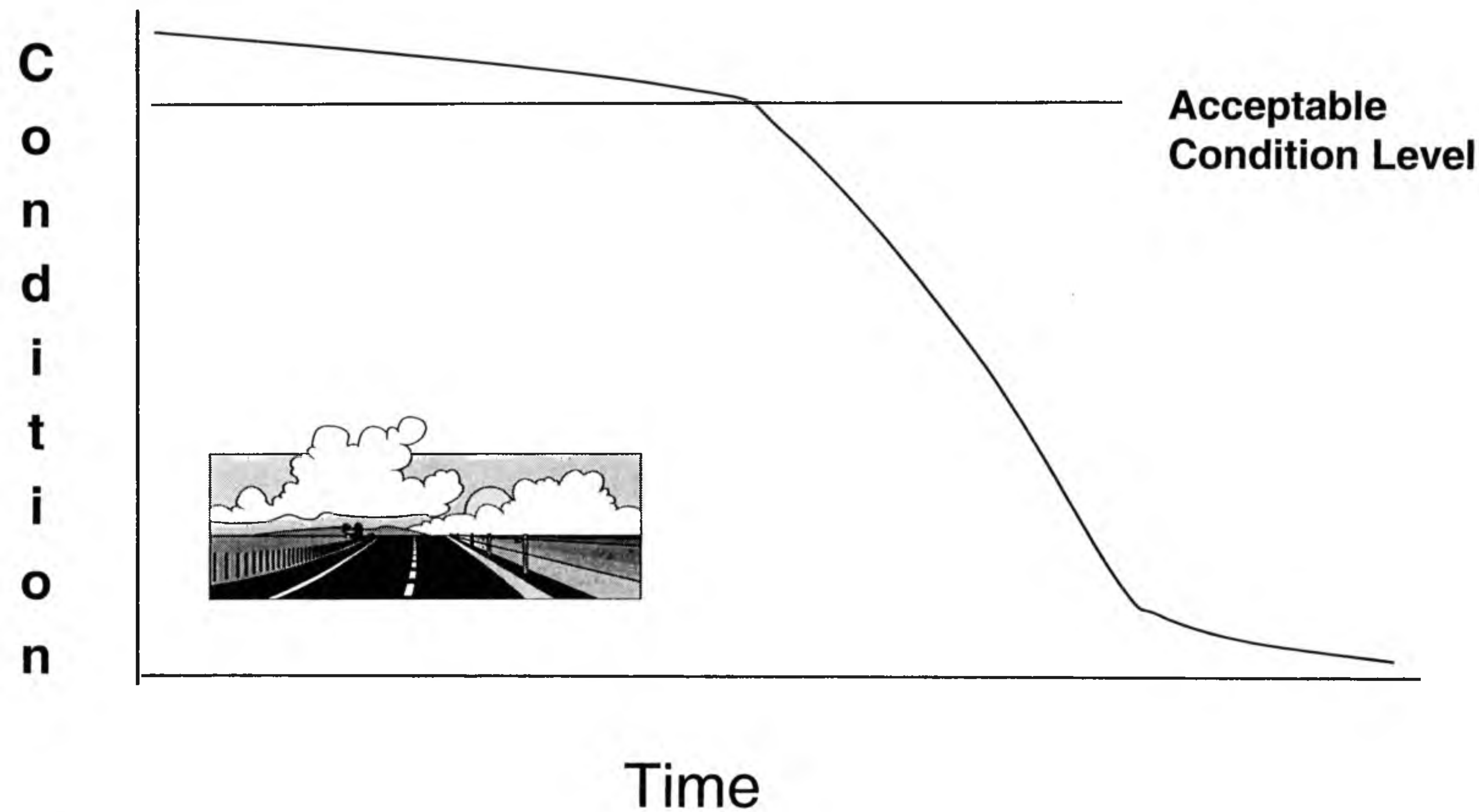
Look-back requirement is limited to:

- *Major* general infrastructure assets
- Acquired or significantly reconstructed or received significant improvement
- Fiscal years ending after June 30, 1980
- Governments with revenues of more than $10 million

Statement of Activities

- Traditional cost/depreciation method:
  Depreciate asset over useful life
- Modified approach for infrastructure: Preservation costs are in lieu of depreciation

Degradation Curve



8

Modified Approach

- If asset is being preserved, preservation cost is the relevant measure of annual service cost
- How is this determined?
  - Asset management system
  - Documentation that the network is being preserved at a condition level selected by the entity

Characteristics of an Asset Management System

- An up-to-date inventory of assets in the network by location, type, physical parameters
- Ability to perform replicable condition assessments

Documentation the Network Is Being Preserved at a Certain Condition Level

- Consistent condition assessments every three years
- Past three assessments provide reasonable assurance network is being maintained

RSI Disclosures-Modified Approach

- Measurement scale and the definitions of condition used in assessing and reporting condition
- The condition level at which the government intends to preserve its network

12

RSI Disclosures-Modified Approach

- Measurement scale and the definitions of condition used in assessing and reporting condition
- The condition level at which the government intends to preserve its network

Transition, Effective Dates

- *Basic standard* is effective for fiscal years ending after June 15, 2002
- Infrastructure must be reported no later than fiscal years ending after June 10, 2006

Modified Approach- Continuing Research

- Impairments
- Condition assessment methods
  - How consistent are they?
  - Can they be replicated?
  - Should we limit the methods?
- Estimation of needed maintenance/preservation

More Information

- GASB Order Department
  - 203.847.0700 x555
- GASB Staff 203.847.0700
  - Randy Finden x240 (rjfinden@gasb.org)
  - Roberta Reese x324 (rereese@gasb.org)
- Governmental Accounting Standards Board, P.O. Box 5116, Norwalk, CT 06856-5116
- www.gasb.org