

## GASB Statement No. 34

Indiana LTAP  
Annual Road School Conference  
Purdue University  
West Lafayette, Indiana  
March 11, 2004

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## GASB Statement No. 34

Summary of Capital Asset and  
General Infrastructure Accounting  
and Financial Reporting Issues

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## GASB Statement No. 34

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## GASB Statement No. 34

...the most significant change in the  
history of governmental accounting. It  
represents a dramatic shift in the way  
local governments present financial  
information to the public.

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## GASB Statement No. 34 – the basics

- ◆ Depreciation of all general capital assets
- ◆ Prospective reporting of all new general infrastructure assets at implementation of the new Reporting Model
- ◆ Retroactive reporting of existing general infrastructure back to 1980

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## GASB Statement No. 34 – the basics

- ◆ Infrastructure reporting options of historical cost and depreciation or the modified approach (condition assessment)
- ◆ Policy disclosures
- ◆ Additional note disclosures
- ◆ Required Supplementary Information

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## Capital Assets

- ◆ Land
- ◆ Improvements to land
- ◆ Easements
- ◆ Buildings
- ◆ Building improvements
- ◆ Vehicles
- ◆ Machinery and equipment
- ◆ Works of art
- ◆ **Infrastructure**
- ◆ Other tangible and intangible assets

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## Capital Assets

...used in operations and have initial useful lives extending beyond a single reporting period.

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## Infrastructure

...assets that are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

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## General Government Infrastructure

- ◆ Prospective Reporting
  - capitalization required with Reporting Model implementation and establishment of a construction in progress account
- ◆ Retroactive Reporting
  - to 1980 (except land and rights-of-way which may be all-inclusive regardless of date of acquisition)
  - assets acquired, significantly reconstructed, or that received significant improvements

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## Network of Assets

A network of assets is composed of all assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure *asset* that is composed of many components. For example, a network may be a dam composed of a concrete dam, concrete spillway, and a series of locks.

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## Subsystem of a Network

A subsystem of a network of assets is composed of all assets that make up a similar portion of the network. For example, all the roads of a government could be considered a network of infrastructure assets. Interstate highways, state highways, and rural roads could each be considered a subsystem of that network.

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## Reporting General Capital Assets

General capital assets are capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds. They are associated with and generally arise from governmental activities. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.

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## General Disclosure Requirements

Governments should provide these additional disclosures (if applicable) in their summary of significant accounting policies based on the requirements of this Statement.

- e. The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense). Governments that choose to use the modified approach should describe that approach.

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## Required Note Disclosure about Capital Assets

- ◆ Provide detail about capital assets of the primary government reported in the statement of net assets
- ◆ Major classes of assets
- ◆ Assets associated with governmental activities
- ◆ Assets associated with business-type activities
- ◆ Capital assets not being depreciated should be disclosed separately from those being depreciated

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## Information Presented about Major Classes of Assets

- ◆ Beginning and end-of-year balances with accumulated depreciation presented separately from historical cost
- ◆ Capital acquisitions
- ◆ Sales or other dispositions
- ◆ Current-period depreciation expense with disclosure of the amounts charged to each of the *functions* in the statement of activities

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## Reporting General Capital Assets (footnote)

The term *function* refers to the minimum level of detail for both governmental and business-type activities (by segment) required to be presented in the statement of activities.

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## Reporting General Infrastructure at Transition

Prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective date of the Statement. Retroactive reporting of all *major* general infrastructure is encouraged at that date.

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## Reporting Capital Assets

Capital assets should be reported at historical cost. The cost of a capital asset should include (capitalized interest) and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and **professional fees**. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

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## Professional Fees

- ◆ Costs for internally and externally incurred engineering, planning, design, construction management, etc.
- ◆ Included with replacement cost/new construction cost calculation
- ◆ Added to replacement cost/new construction cost as an additional percentage with a brief engineering narrative supporting percentage

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## Professional Fees

- ◆ Per LTAP County Bridge Survey
  - preliminary engineering costs at 10% for local and 11% for federal
  - construction inspection costs at 6% for local and 13% for federal

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## Reporting General Infrastructure at Transition

If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, governments should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

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## Determining Major General Infrastructure Assets

- ◆ The cost or estimated cost of the subsystem is expected to be at least 5% of the total cost of all general capital assets
- ◆ The cost or estimated cost of the network is expected to be at least 10% of the total cost of all general capital assets  
(reference total cost of all general capital assets in the first fiscal year ending after 6/15/99)  
(reporting of nonmajor networks is encouraged but not required)

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## Estimated Historical Cost – Current Replacement Cost

A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown).

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## Estimated Historical Cost from Existing Information

Other information may provide sufficient support for establishing initial capitalization. This information includes bond documents used to obtain financing for construction or acquisition of infrastructure assets, expenditures reported in capital project funds or capital outlays in governmental funds, and engineering documents.

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## Estimated Historical Cost

...governments may use any approach that complies with the intent of GASB Statement No. 34

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## Task at hand...

Regarding the retroactive reporting for general infrastructure it comes down to answering three questions\*

- What assets do we have?
- When did we acquire these assets?
- What did these assets cost?

\*Reference GFOA GAAFR Review 10-1-01

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## Inventory

What assets do we have?

- ◆ Use of available information
- ◆ Utilizing available staff and resources
  - INDOT example and comments

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## General Infrastructure – Ownership (footnote)

Governments that have the primary responsibility for managing an infrastructure asset should report the asset.

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## Aging

When did we acquire these assets?

- ◆ Establishing date of acquisition or construction
- ◆ Estimates appropriate
- ◆ Need for support

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## Establishing Replacement Cost

What did these assets cost?

- ◆ INDOT approach
- ◆ LTAP resources
- ◆ Federal Highway Administration resources

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## Establishing Replacement Cost

- ◆ Will County, Illinois approach
  - examples
  - Reference GFOA GAAFR Review 10-1-02 case study

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## Establishing Replacement Cost

- ◆ Importance of supporting detail
  - replacement cost drives all/most estimated historical cost
  - needs to be auditable

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## Estimating Historical Cost

- ◆ Deflate total replacement cost to date of construction or re-construction
- ◆ Trends, indexes, deflators
  - Federal Highway Administration Price Trends
  - Engineering News Record Construction Cost Index
  - Consumer Price Index
  - Bureau of Water Reclamation Trends
  - Other

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## Estimating Useful Life

- ◆ INDOT
- ◆ Various governments in Indiana
- ◆ Other governments across the United States
- ◆ Will County, Illinois

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## Estimating Useful Life

- ◆ GFOA Recommended Practice on establishing estimated useful lives for general infrastructure
  - consider quality of construction
  - consider application
  - consider environment

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## Depreciation

- ◆ Annual Depreciation
- ◆ Accumulated Depreciation
- ◆ Net Book Value

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## Depreciation

- ◆ reference straight-line method and no salvage value
- ◆ assets stated as net of accumulated depreciation for GASB 34 reporting

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## Depreciation

- ◆ May use any established method per GASB
- ◆ May use composite methods per GASB

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## Prospective Reporting of New General Infrastructure

General infrastructure assets acquired after the effective dates of this Statement should be reported using (actual) historical costs.

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## Prospective Reporting

- ◆ Capital vs. expense
- ◆ Maintenance and repair vs. improvement
- ◆ Improvement
  - increased capacity
  - increased efficiency
  - new asset or significant reconstruction

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## Prospective Reporting

- ◆ Retirements
  - remove from record
  - decrease general infrastructure, accumulated depreciation, and net book value totals

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## Abbreviated Approaches and Assumptions – Inventory

- ◆ Same length for streets, sidewalks, alleys, storm drainage, rights-of-way
- ◆ Average width for streets, sidewalks, alleys, rights-of-way
- ◆ Weighted-average or unweighted-average for storm drainage underground pipe diameters

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## Abbreviated Approaches and Assumptions – Inventory

- ◆ Overall length of sidewalks at twice the length of streets (urban setting)
- ◆ Streetlights installed every 200 feet of street (so divide total length of streets by 200 feet or other increment to derive estimated total number of streetlights)
- ◆ Traffic signals – use of maintenance inventory information

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## Abbreviated Approaches and Assumptions – Aging Assets

- ◆ Use same date of acquisition (if appropriate) for streets, sidewalks, alleys, storm drainage, etc.
- ◆ Rights-of-way acquired when streets were built
- ◆ Rights-of-way acquired at annexation
- ◆ Rights-of-way acquired when subdivision was developed

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## Abbreviated Approaches and Assumptions – Aging Assets

- ◆ Aging assets via color-coding a jurisdiction map by decade indicating growth
- ◆ Streetlights installed when street was built
- ◆ Traffic signal maintenance records should indicate date of original installation

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## Abbreviated Approaches and Assumptions – Aging Assets

- ◆ Incremental aging – e.g., streets in 5, 10, 25 year periods
- ◆ Allocation of incremental ages – e.g., 10 miles built in the 1950's allocated at 1 mile per year

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## Abbreviated Approaches and Assumptions – Establishing Estimated Historical Cost

- ◆ Averaging projects to establish cost per foot or mile for streets, sidewalks, alleys, storm drainage, etc.
- ◆ Include storm drainage as an element of street construction

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Bridges and use of State Department of Transportation or LTAP averages (if available)
- ◆ Bridges and use of new construction cost expressed as average per square foot of deck surface cost

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Streetlights and use of per light cost increased by an allowance for wiring, system control, and engineering for application to large groupings
- ◆ Traffic signals and establishment of estimated historical cost per intersection

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Rights-of-way and use of current and historic fair values per decade or other increment
- ◆ Rights-of-way and use of current fair value deflated with Consumer Price Index
- ◆ Rights-of-way and use of assessed value (land only) deflated with Consumer Price Index

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Rights-of-way and use of land-cash ordinance (if available) to establish fair value
- ◆ Rights-of-way and use of sale/purchase information related to existing rights-of-way within jurisdiction
- ◆ Rights-of-way and use of U.S. Department of Agriculture Farm Land Values data from 1850 to 1992

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Rights-of-way and use of average selling price for land within jurisdiction to establish fair value (example)
- ◆ Rights-of-way and use of average selling price by decade and regression analysis within jurisdiction to establish fair value (example)
- ◆ Rights-of-way and use of percentage amount applied to replacement cost/construction cost to establish lane value

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**Abbreviated Approaches and Assumptions  
– Establishing Estimated Historical Cost**

- ◆ Inclusion of professional fees – as stated earlier, costs for internally and externally incurred engineering, planning, design, construction management, etc.
- ◆ Develop percentage amount to applied to replacement cost/new construction cost and supporting narrative

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## Modified Approach

...infrastructure assets are not required to be depreciated as long as the government manages the assets using an asset management system and the government documents that the eligible infrastructure assets are being preserved at (or above) a condition level established and disclosed by the government.

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## Asset Management System

...the system should:

- a. Have an up-to-date inventory of eligible infrastructure assets
- b. Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale
- c. Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the government

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## Transition Provisions

...the requirements of Statement No. 34 are effective in three phases based on a government's total annual revenues based on the first fiscal year ending after June 15, 1999

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## Effective Date

Depending on total annual revenues, governments will apply the Statement beginning with fiscal years ending after June 15, 2002, 2003, or 2004

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## Effective Date

For the retroactive reporting of infrastructure, governments are allotted *an additional four years* beyond the effective date of the Statement to do so.

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## Summary and Conclusion

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