



## **The Impact of GASB 34 on State & Local Highway Departments**

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### **What is GASB 34?**

- A new accounting statement issued by the Government Accounting Standards Board (GASB).
- The purpose of GASB 34 is to change the way government financial statements are presented.
- Statements issued in compliance with GASB 34 will more closely resemble statements issued by companies in the private sector.
- All assets and liabilities of the government will appear on the balance sheet.
- The government-wide income statement will be prepared on the full accrual method.

### **When Does GASB 34 Become Effective?**

- Year beginning after June 15, 2001 - Governments with total annual revenue of \$100 million or more.
- Year beginning after June 15, 2002 - Governments with total annual revenue of \$10 million or more but less than \$100 million.
- Year beginning after June 15, 2003 - Governments with total annual revenue under \$10 million.

### **Who Will GASB 34 Effect?**

- GASB 34 will effect any government unit that wishes to issue GAAP financial statements with an unqualified audit opinion.
- GAAP stands for Generally Accepted Accounting Principals.
- Consult with the State Board of Accounts to see if your government unit should be complying with GASB 34.
- If your county, city or town does not choose to issue GAAP statements, then implementation of GASB 34 may not be required.
- This is a decision that will be made by your unit's Audit Committee, Controller, Clerk Treasurer, Auditor, Council, Board, or a combination of all of these entities.

## **What Effects Will GASB 34 Have on Highway Departments?**

- Highway Departments will need to account for:
  - Capital assets such as buildings and machinery.
  - Infrastructure
  - Land
  - Right-of-way
  - The way these items are accounted for will change.

## **What is Infrastructure?**

- Long-lived capital assets that normally are stationary in nature and typically can be preserved for a significantly greater number of years than most capital assets.
- Examples are:
  - Roads
  - Bridges
  - Sewer Systems

## **How Far into the Past Must Information be Obtained?**

- Infrastructure back to 1980.
- Land and right-of-way since it was acquired.
- The cost of the asset, be it land or infrastructure, must be calculated even if the asset was donated to the government unit.
- Taking into account inflation, the cost of many assets become very low the earlier they were purchased.

## **How Can Cost Information be Obtained?**

- Review records back to 1980, further back for land.
  - City or County Highway Reports.
  - Internal Accounting Records.
  - Consultants are available with expertise in this area.
    - Highway Departments should first work with their Accounting Departments to see if there are alternative ways of obtaining the information internally.

### **How is Inflation Taken into Account for Valuing Older Infrastructure?**

- If the records exist, the initial value is the cost of putting the infrastructure into service.
- If the records do not exist, the cost is that of building a comparable piece of infrastructure at current prices adjusted for inflation to the date it was put into service.
  - There are resources available to assist in performing these calculations.

### **How Must Highway Departments Account for Infrastructure Under GASB 34?**

- There are two methodologies available:
  - The depreciation method.
  - The modified approach.

### **Differences Between the Two Methods**

- Depreciation Method
  - Infrastructure decreases in value as it ages.
  - Infrastructure eventually approaches a lower value at which time it is rebuilt or abandoned.
- Modified Approach
  - Infrastructure maintains its value as long as it meets the established condition level. The maintenance of value is achieved by periodic maintenance performed by the Highway Department.

### **Deciding on the Method Used to Account for Infrastructure**

- If condition assessments of the infrastructure have been performed in the past in accordance with the guidelines set forth in GASB 34, the modified approach may be used.
- The decision of which methodology to use should be made at a high level of government. Input from the legislative as well as executive branch of government should be considered.
- The depreciation method may be appropriate for one class of infrastructure while the modified approach may be appropriate for another class of infrastructure.

## **Depreciation Method**

- In order to depreciate infrastructure assets, the following actions are required:
  - Complete inventories of assets, including asset costs.
  - Determine the useful lives of the different classes of assets.
  - Determine the capitalization thresholds for the different classes of assets.

## **Depreciation Method**

- Calculate depreciation expense and accumulated depreciation, based on the method of depreciation used by the government unit.
- Expense will vary from year to year.
- The book value of the infrastructure will decrease each year if capitalizing maintenance is not performed that increases the value.

### **Modified Approach**

- There must be an infrastructure management system with the following components:
  - Current inventory of all infrastructure assets, including costs.
  - Condition assessments must be performed either internally or through contracted parties. The results of the assessments must be translated into a defined measurement scale, in which the results can be replicated by third parties.
  - Condition assessments should be performed at least once every three years.

### **Modified Approach**

- Each year, estimates must be made to determine the cost associated with maintaining the condition of the assets at the acceptable level, and comparisons of actual expenses to estimates must be presented.
- The assessment condition level must be established and documented by “administrative or executive policy, or by legislative action.”
- Maintenance and preservation expenditures assessed during the year are expensed as incurred. Only costs of construction that increase the efficiency or capability of the existing network of assets are allowed to be capitalized.



## **Modified Approach**

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## **Infrastructure Will be Divided into Networks, Systems, and Subsystems**

- Assets can be divided into major networks (e.g., all roads) or subsystems (e.g., rural roads).
- These groupings can be determined by the government unit and do not necessarily have to group similar assets, although the groupings should be reasonable.

## **Infrastructure Will be Divided into Networks, Systems, and Subsystems**

- Major infrastructure assets are defined as:
  - Networks that are at least 10% of the units general capital assets.
  - Subsystems that are at least 5% of the units general capital assets.
- The choice of networks, systems, and subsystems should be logical and utilize reporting that may already be in use.

## **What Effect Will the Method Used Have on Accounting for Future Expenses?**

- The use of either method means that the accountants will need to adjust the year end reports by:
  - Examining all maintenance and new construction expenses to determine if they are maintaining a current asset or adding to its value by extending the life.
  - The expense may be reclassified from “maintenance expense” to “infrastructure.”

## **New Infrastructure**

- Expenditures classified as engineering, maintenance or construction at the time they are paid will have to be reclassified as infrastructure if the expenses are creating a new structure.

## **Retiring Infrastructure**

- The cost of the item that is being retired will need to be captured and taken off the books.
- The elements of cost include the construction cost, and, if it is a depreciated item, the accumulated depreciation.
- If the piece of infrastructure is being donated to another government unit, such as the State, the cost and accumulated depreciation must be removed from the financial records.

## **Land and Right-of-Way Exchanges**

- When right-of-way is received from or given to another entity, be it an individual or another government unit, the cost of the land and right-of-way must be either put on or taken off the accounting records.

## **Conclusion**

- GASB 34 may or may not apply to your Highway Department.
- If GASB 34 does apply there are alternate ways of accounting for capital assets.
- Make the best use of the construction and accounting records that you currently have available.
- Be sure to work with the executive and legislative branch of your government unit in setting the policies that this new standard requires.