

GASB 34 GUIDE FOR VERMONT TOWNS

PART 3: TRACKING AND REPORTING INFRASTRUCTURE

Reportable Infrastructure and Timelines. One of the major asset categories included in the capital assets reporting requirements of GASB 34 is *Infrastructure*. Infrastructure is a category of capital assets that may be preserved for much longer than most other capital assets and is stationary in nature. This includes bridges, drainage systems, roads, sidewalks, dams, and lighting systems. It generally does not include buildings or land.

Phase 1 governments (\$100,000,000 or more in annual revenue in their fiscal year beginning after June 15, 1999) are required to begin reporting all infrastructure assets newly acquired during their fiscal year beginning after June 15, 2001, i.e. FY 2001-2002 for July to June fiscal years, or calendar year 2002 for January to December fiscal years. Assets acquired before that fiscal year do not have to be reported until FY 2005-2006 for July to June fiscal year governments or 2006 for calendar year governments. The only Phase 1 municipality in Vermont is Burlington.

Phase 2 governments (between \$10,000,000 and \$100,000,000 in annual revenue in their fiscal year beginning after June 15, 1999) must begin reporting all infrastructure assets newly acquired during their fiscal year beginning after June 15, 2002, i.e. FY 2002-2003 for July to June fiscal years, or calendar year 2003 for January to December fiscal years. Assets acquired before that fiscal year do not have to be reported until FY 2006-2007 for July to June fiscal year governments or 2007 for calendar year governments.

Phase 3 governments (under \$10,000,000 in annual revenue in their fiscal year beginning after June 15, 1999) must begin reporting all infrastructure assets newly acquired during their fiscal year beginning after June 15, 2003, i.e. FY 2003-2004 for July to June fiscal years, or calendar year 2004 for January to December fiscal years. They are **not** required to report assets acquired prior to that period, but are encouraged to do so.

Certain infrastructure valuation may be difficult or impossible due to a lack of adequate records. If that is the case, you can report retroactively only those assets acquired after your fiscal years that end after June 30, 1980, which would be years beginning with FY 1981-1982 for July to June towns, or 1980 for calendar year towns. These should include estimates of historical cost (actual cost at time of purchase) for any major infrastructure assets that were purchased or materially improved.

What constitutes a “major” infrastructure asset? In the first year after your fiscal year that ends after June 15, 1999, the cost or estimate of the **subsystem** should be at least 5% of all of your general capital assets reported or the cost or estimate of the **network** should be at least 10% of all of your general capital assets reported. Either of these criteria will meet the major infrastructure test.

One more note before moving on to the nuts and bolts of recording inventory. GASB 34 allows you to choose the Modified Approach option to avoid having to calculate depreciation for infrastructure, however it has certain requirements that make it a more difficult process in some ways than simply depreciating the assets. This approach will be covered in Part 4 of this series.

Recording Inventory and Costs. The first step is to take an inventory of all your infrastructure assets. Work with your public works or highway staff, as they may already have an inventory. If you have a town engineer, he or she can help you cost the assets. The Vermont Local Roads Program has software that will allow you to create useful databases of your public works assets and provide the basic information you need to comply with GASB 34. We will explore that and other resources in the next article. What you include in your inventory is governed by your capitalization policy. (See last month’s article, “Tracking and Reporting Capital Assets.”)

Infrastructure consists of networks and subsystems, and GASB 34 allows you to report costs either individually or in total. In other words, you may record the total cost of all the miles of roads in the town (the “network”), or you may record a breakdown of each road with associated miles and cost. The distinction between a network and subsystems is that a network is the combination of all assets used to provide a particular service, while a subsystem might be assets that together make up one part or component of the network. A sewage or water distribution system would be considered a network, and the pumping stations, distribution lines, and storage buildings are considered subsystems of that network. How you group these assets are entirely up to you and should be done in a way that best meets your municipality’s needs.

How do you record your infrastructure and what kind of information do you need for each asset or group of assets? You should have the date the asset was acquired or improved, and the cost of the asset or

improvement project. You need to determine the useful life (in years) of the asset, based on either industry standards, or your own experience or knowledge of the asset. If the asset was removed or replaced, you must have the date of removal or replacement. A salvage or residual value should be assigned if you feel there will be some value left in the asset once it has been fully depreciated. Use a spreadsheet such as Excel or Lotus if you have no software application that will keep track of your inventory and calculate depreciation for you.

Determining the historical cost of infrastructure can be done using a combination of documents, judgment and research. Invoices or town records that may have recorded costs of projects are the most accurate source. If you need to estimate costs, talk to your public works staff or town engineer for reasonable estimates and document how they came up with the estimate. Other sources for estimation purposes are listed in the resource section below.

When a capital asset, infrastructure or otherwise, is improved or some type of renovation is made to it, you need to determine whether the cost needs to be capitalized (i.e. added to the value of the asset) or expensed as a maintenance cost. This is an important distinction because capitalization changes the overall value of the asset by increasing its capacity or its original useful life, while maintenance will have no effect other than keeping the asset in its current condition. On your financial statements, when you capitalize a cost, what you pay for the asset or its improvement reduces your cash and increases your assets value on the Balance Sheet. However, a maintenance cost is an actual expense and will reduce your cash and increase your overall expenditures in whatever line item you choose to cost it to.

Depreciation. As we discussed in the last article, depreciation is a way to spread the cost of the asset over its useful life, rather than expensing the entire value the year the asset is purchased. For each asset or group of assets, you need a value, a residual or salvage value, and a useful life. With this information, depreciation (so called "straight-line" depreciation) can be calculated by taking the value of the asset, subtracting the salvage value, and dividing the result by the useful life.

General fund depreciation for infrastructure, unlike that for other capital assets, is not allocated to other activities. Computers, furniture and other equipment depreciation may be distributed among the various General fund departments to try to apply the costs where they are truly expended, such as town clerk, highway, selectboard, etc. Infrastructure is really a cost of public works (or highway) and should remain there.

When reporting at the end of a year, your capital assets disclosure (the GASB compliant report of your assets) should be categorized in two major sections: Governmental and Business-type activities. Within each of these categories, you should list first your non-depreciable assets by major asset type, then your depreciable assets by major asset type. The first column of data should show the book value of each asset at the beginning of the year, the second column the additions or increases (acquisitions made throughout the year), the third column the deletions or decreases (disposals and sales made throughout the year), and the last column the ending book value (beginning plus increases minus decreases).

RESOURCES

- *GASB Statement 34* (1999) by the Governmental Accounting Standards Board, available through GASB. Phone 800/748-0659 or visit on-line at <http://www.gasb.org>.
- *GASB Statement 34 Capital Assets & Depreciation Guidance* (2001), available on-line at <http://www.la.state.la.us/gasb34/capas.pdf>.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)* (2001) by Government Finance Officers Association, available through GFOA. Phone 312/977-9700 or visit on-line at <http://www.gfoa.org>.
- *Guide to Implementation of GASB Statement 34* (2000) by the Governmental Accounting Standards Board, available through GASB. Phone 800/748-0659 or visit on-line at <http://www.gasb.org>.
- *Vermont Local Roads inventory software: RSMS (Road Surface Management System); Minor Structures Program.* Phone 800/462-6555.
- *On-line valuation deflator (allows you to put in a current value and "deflate" it back to get prior year valuations):* www.jsc.nasa.gov/bu2/inflateGDP.html
- Michael Gilbar, Director, VLCT Administrative Services (Please contact Mike at mgilbar@vlct.org with any questions.)