

# **GASB 34 GUIDE FOR VERMONT TOWNS**

## ***PART 4: USING THE MODIFIED APPROACH TO TRACKING AND REPORTING INFRASTRUCTURE***

In Part 3 of this series, we noted that GASB 34 allows you to choose the Modified Approach option to avoid having to calculate depreciation for infrastructure. This method requires an assessment of the condition of your infrastructure with condition levels being set by a board-adopted policy. In order to use the Modified Approach, you must:

- Maintain an up-to-date inventory of your infrastructure networks and subsystems of networks. (See Part 3 for an explanation of networks and subsystems.)
- Assess the condition of your infrastructure networks and subsystems in a consistent and replicable way. A uniform assessment process should be in place that allows anyone performing the assessments to come up with the same results; results should be summarized using a measurement scale.
- Project the annual budget amount needed to keep the infrastructure maintained at that level.
- Document that your infrastructure is being maintained at or above the level established by your policy.

### **ESTABLISHING A POLICY**

There are two parts to a conditional assessment policy that must be established in order to give you the guidance you need in “grading” your infrastructure. First, you must come up with a measurement scale. In a GASB 34 Statement example, the following condition index is used: Good or Better Condition is 70- 100; Fair Condition is 50-69; and Substandard Condition is below 50. There should be a consistent documented process for assigning a “grade” to each network or subsystem. The Vermont Local Roads Program, the Federal Agency of Transportation and the Vermont Agency of Transportation are valuable resources for providing guidance in establishing a measurement system.

The second part of your policy is setting a level that must be met in order to adequately maintain and preserve your infrastructure assets. An example of a policy for your bridges would be to maintain at least 85% of them in Good or Better condition (70-100). You should establish a satisfactory level for each category of infrastructure. See sidebar for a list of networks and subsystems.

### **INVENTORY MAINTENANCE**

Your inventory should include the asset’s network category, subsystem category if appropriate, description, location if appropriate, date of new acquisitions, renovations, constructions or other improvements, quantity (number of miles, linear feet, number of structures, etc.), value, and conditional assessment.

Inventory maintenance may be done using a spreadsheet application such as Excel, Quattro or Lotus, a database application such as Access, Paradox or FileMaker. The Federal DOT or Vermont AOT can provide useful guidance in condition assessment and measurement scales. The Vermont Local Roads Program has two applications that can track your infrastructure: RSMS (Road Surface Management System), and the Minor Structures Program. The Town of Richmond has used a Johnson State College intern to develop an Access database that tracks inventory for all capital assets including infrastructure. All of these resources are listed below with contact information.

The valuation of your 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.

### **CONDITIONAL ASSESSMENT**

At least every three years, you should assess each category of infrastructure using the measurement scale established in your policy. Your highway superintendent, road foreman or town engineer should be able to provide these assessments.

Once you’ve determined the condition of all your infrastructure networks and subsystems, you calculate what percentage is in each of your assessment categories, i.e. percentage of the total that is in

Good or Better condition, Fair condition, and Substandard condition. For reporting purposes, you will need to know the conditional assessment of each category of infrastructure asset, and determine if each category meets policy requirements.

For example, if 85% of your Bridges category must be in Good or Better condition (assuming you are using the 70-100 index) and there are four bridges, all four will have to have a grade of between 70 and 100 to meet the policy requirements. If just one bridge is below 70, you only have 75% that meet the level required (3 bridges out of 4, or 75%).

## BUDGET ESTIMATION

For each category of infrastructure you must also estimate what it will cost for the next year to maintain the asset in its current condition or better. You are essentially projecting what you would budget for a maintenance program that will ensure that the condition of your infrastructure will remain satisfactory. What would you budget annually for paving to keep all your roads in their current condition? How much should you budget to ensure that your streetlights are operational? What annual amount is necessary to keep your bridges safe and functional?

At the end of each year, you will compare what was actually spent to what was budgeted to determine if you are meeting your financial obligations in preserving the condition of the infrastructure assets. This analysis is disclosed in your financial statements as part of the schedules necessary to document your assessments.

We should note here that the maintenance costs discussed above are actual expenses for your current year and should not be added to the value of the infrastructure. Any costs that will improve the asset (additions, renovations, construction), rather than just preserve it, should be capitalized (added to the value).

## DOCUMENTATION

There are two tables that must be included in your financial statements as RSI (Required Supplementary Information). The first is a three-year analysis of the Condition Ratings by category:

<b>% in Good or Better Condition</b>			
	2002	2001	2000
Roads Class I	93.2%	91.5%	92.0%
Roads Class II	85.2%	81.6%	84.3%
Bridges	87.2%	84.5%	86.8%
Roads & Bridges	87.0%	85.5%	87.3%

This analysis should be done for all condition levels, in this case, Fair Condition and Substandard Conditions as well. The second table is a Comparison of Needed-to-Actual Maintenance/Preservation Schedule that shows the budgeted and actual expenditures for each category over a five- year period:

<b>Comparison of Needed-to-Actual Maintenance</b>					
	2002	2001	2000	1999	1998
<i>Roads, Class I:</i>					
Budget	2,480	2,452	2,570	2,201	2,245
Actual	2,600	2,520	2,422	2,299	2,171
<i>Roads, Class II:</i>					
Budget	1,490	1,505	1,525	1,418	1,275
Actual	1,550	1,525	1,485	1,328	1,386
etc....					

These schedules will need to be provided to your auditors as part of your financial reporting at the end of your fiscal year.

## RESOURCES

- *GASB Statement 34* (1999) by the Governmental Accounting Standards Board, available through GASB. Phone 800/748-0659 or visit online at <http://www.gasb.org>.

- *GASB Statement 34 Capital Assets & Depreciation Guidance* (2001) available online at <http://www.lla.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 online 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 online at <http://www.gasb.org>.
- *Vermont Local Roads inventory software*: RSMS (Road Surface Management System); Minor Structures Program. Phone 800/462-6555.
- *Online 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](http://www.jsc.nasa.gov/bu2/inflateGDP.html))
  - Mike Gilbar, Director, VLCT Administrative Services (Please contact Mike at [mgilbar@vlct.org](mailto:mgilbar@vlct.org) or 800/649-7915 with any questions.)

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