

4. REPORTING

4.2 Government-Wide Financial Statements 4.2.6 Infrastructure Reporting

4.2.6.10 Governments are required to report all of their capital assets in the statement of net position. Infrastructure assets are a subset of capital assets and should be reported as part of capital assets.

Infrastructure assets are distinguished from other capital assets because they normally:

- a. Can be maintained in a condition that will allow them to be used longer than most other capital assets, and
- b. Are stationary in nature.

Examples of infrastructure assets are bridges, roads, water, sewer systems, tunnels, etc. Buildings are generally not infrastructure unless they are ancillary part of a network of infrastructure assets.

The ownership of infrastructure assets is not always clear. GASB indicates that governments that have the primary responsibility for managing an infrastructure asset should report it. For example, if the county constructed and financed a road, but the road is maintained by the city, that city would be considered the owner for reporting purposes.

The government should report not only infrastructure acquired in year 2002 (and forward), but also infrastructure dating back to 1980. (See the following discussion about retrospective reporting.)

Reporting Major Infrastructure Assets and Their Cost at Transition

4.2.6.20 Major general infrastructure assets are those acquired, significantly reconstructed, or that received significant improvements in fiscal years ending after June 30, 1980. To determine whether a government has major general infrastructure assets, the government needs to apply a capitalization threshold test. This test is applied to networks and subsystems, as defined on the next page.

The capitalization threshold test is applied to the total cost of all general capital assets (excluding unrecorded infrastructure assets) for the fiscal year 1999. The total cost of all general capital assets is the amount reported as general capital assets in the general fixed assets account group in the combined balance sheet for its fiscal year ended December 31, 1999. This amount, for purposes of the test, should not include any previously unrecorded infrastructure, proprietary or fiduciary assets. The capitalization threshold for networks is ten percent and for subsystems five percent of general capital assets reported in the fiscal year 1999.

Governments are not required to divide its networks into subsystems when applying the capitalization threshold test. If they choose not to divide the networks into subsystems, the threshold is only applied to the networks. Also, the categorization into networks and subsystems of networks is not necessary for reporting purposes.

Infrastructure assets should be reported in the statement of net position at the historical cost (if purchased or constructed) or acquisition value (if donated). If historical cost is not available, estimated historical cost can be used. Any reasonable method of determining historical cost can be used but needs to be documented. Some sources of obtaining information regarding historical cost

may be minutes from the legislative meetings, bond or engineering documents, expenditures from capital project funds, or capital budgets.

The government is allowed to deflate current replacement cost to calculate estimated historical cost. Land associated with infrastructure should be reported separately as *land* and its cost should not be included in the cost of infrastructure. Also, right-of-way and easements should be included in land costs.

Infrastructure Asset Classification

4.2.6.30 Governments must define what they consider infrastructure assets for purpose of meeting capitalization thresholds, establishing a useful life and calculating depreciation. The general infrastructure assets can be classified as networks or subsystems of networks.

A network of assets is composed of assets that provide a particular type of service for the government. A network may be only one infrastructure asset composed of many components (e.g., dam composed of a concrete dam, concrete spillway, and series of locks, etc.).

A subsystem of a network is composed of all assets that make up a similar portion or segment of a network of assets (e.g., roads would be considered a network, and the interstate highways, state highways, rural roads, would each be a subsystem of the network, or a network of a sewer system with the catch basins, storm drains, and inlets each a subsystem of the network).

Networks or subsystems of networks may also be made up of dissimilar assets.

4.2.6.40 The following categories of infrastructure assets and their useful lives are suggested for accounting or reporting purposes. The governments may use additional categories and different life spans but they need to be supported and reasonable as estimates.

Useful lives should be based upon the government's own experience and plans for the assets. In determining estimated useful life, a government should consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology demands. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. Examples of internal information include property replacement policies for equipment or vehicles, property disposal records, and budget documents. Useful life for major categories should be periodically reevaluated based on a government's actual experience.

- Roads: The road category includes curbs, gutters, ditches, related storm drainage facilities, railroad crossings, retaining walls that are less than four feet high, and culverts less than four feet in diameter. Retaining walls four feet or larger, and culverts four feet or larger are included in bridges and structures category. For purpose of determining value, the roads are further divided into the following subcategories based on surface type:
 1. Unpaved – Dirt and Gravel
 2. Bituminous Surface Treatment (BST) – estimated useful life of 8 years
 3. Asphalt Concrete Pavement (ACP) – estimated useful life of 20 years
 4. Portland Cement Concrete Pavement (PCCP) – estimated useful life of 40 years¹

¹ Per WSDOT Pavement Notebook - <http://www.wsdot.wa.gov/NR/rdonlyres/4F9926DD-F800-4A99-A695-16F3B691BA20/0/AveragePavementLife2014.pdf>.

The above assumes the road surface is its own capital asset, also referred to as componentization. A complete road (including sublayers) capitalized as one asset would have a service life greater than the values listed above. If the surface is capitalized as part of the complete road construction (including sublayers) then resurfacing costs would be expensed as they allow the road to keep its original service life expectation.

- Signs, signals and illumination signs – estimated useful life of 7-10 years.
- Landscaping and vegetation².
- Drainage systems – include drainage facilities that are not part of road systems, such as regional retention ponds, etc.
- Sidewalks – include both sidewalks and pedestrian walkways that function as or take the place of sidewalks, whether abutting the road or separated from it.
- Bridges and structures – bridges are defined as being 20 feet in length or longer and used by public vehicles, four-wheeled traffic. Structures include shorter facilities that function as bridges, culverts four feet or larger, retaining walls four feet or higher, and docks. Estimated useful life of bridges and structures is 25-40 years.
- Tunnels.
- Trails, paths, and bicycle paths (may be included as part of a road category if not separate from the roadway).
- Coastal and riverine structure: except dikes and levees, which have a separate category.
- Dikes and levees.
- Parking lots³.

Depreciation Approach vs. Modified Approach

4.2.6.50 Infrastructure assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net position. Accumulated depreciation may be reported on the face of the financial statements or disclosed in the notes to financial statements. The accumulated depreciation does not have to be retroactively calculated for inexhaustible assets or assets reported using the modified approach. The modified approach has been created to allow governments the option of not depreciating infrastructure. However, there are certain requirements government must meet when using that method.

4.2.6.60 Before choosing either the depreciation approach or the modified approach for infrastructure, a government should carefully assess the pros and cons of each method when making a decision. Either method is acceptable and governments may use the depreciation approach for one class of

² Landscaping and vegetation costs are considered infrastructure if the costs are incidental to the construction of the related infrastructure. Often this is evident by reviewing the project's budget and determining if the initial project cost included landscaping and vegetation. Otherwise they may be considered land improvements.

³ Parking lots may be considered either infrastructure or land improvements, depending on whether they are incidental to the building. However, there is no difference between both approaches if the government depreciates infrastructure. In both cases, a parking lot would be capitalized and depreciated.

infrastructure and the modified approach for another. They may also start with the depreciation and convert to the modified approach later.

- 4.2.6.70 For governments that do not currently have an asset management system, which is required under the modified approach, it may be easier to calculate the depreciation expense. Since the composite method of depreciation is acceptable, this approach may reduce the time and cost of calculation.

Also, governments need to consider the definitions of preservation and maintenance before they choose either the depreciation approach or the modified approach.

Preservation

- 4.2.6.80 For purposes of accounting and reporting under BARS, the costs of performing those specialized maintenance activities that serve to extend the originally estimated life of each type of roadway, roadway structure, and facility but do not increase its traffic flow capacity or efficiency.

Maintenance

- 4.2.6.90 For purpose of accounting and reporting under BARS, the costs of performing those activities that ensure that the right-of-way and each type of roadway, roadway structure, and facilities remain, as nearly as practical, in its original, as constructed condition or its subsequently improved condition, and the operation of roadway facilities and services to provide satisfactory and safe motor vehicle transportation.

Depreciation Approach

- 4.2.6.100 Using this approach, calculate the depreciation expense the same way as for any other assets. The historical cost (or acquisition value for the assets donated) should include the ancillary cost. This amount may be decreased by the salvage or residual value. Typically infrastructure assets will not have a salvage or residual value because of the cost of demolition or removal of those assets at the end of their useful lives, so the calculation will be limited to the historical cost or the fair market value only.

The composite method may also be used to calculate depreciation. This method refers to calculating depreciation for a collection of similar assets or dissimilar assets of the same class using composite depreciation rate.

The depreciation expense of general infrastructure assets should not be allocated to different functions. It should be reported as a direct expense of the function that the government normally associates with capital outlays (e.g., public works, transportation, etc.). Also, the government has an option to report the depreciation expense as a separate line on the statement of activities. If a government chooses this option, it should clearly indicate that this line excludes direct depreciation expenses reported in other functions/programs.

Under this approach, governments capitalize expenditures made for additions, improvements, and also preservation costs which extend the life of the capital assets. The maintenance cost is expensed in the period incurred.

Modified Approach

- 4.2.6.110 Governments are allowed to report infrastructure assets using the modified approach, provided certain requirements are met. The modified approach may be used for both the general and enterprise fund

infrastructure assets. The government may use the modified approach for all of its infrastructure assets or only a portion of its infrastructure assets either at the network or subsystem level.

There are two requirements for using the modified approach:

- The government must maintain the eligible infrastructure assets using an asset management system (requirements below), and
- There must be documentation that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

Under this approach only expenditures for additions and improvements to eligible infrastructure assets should be capitalized on the statement of net position. The maintenance and preservation cost (preservation extends the useful life of an asset beyond the originally estimated, but does not increase its capacity or efficiency) of eligible infrastructure is expensed.

Depreciation is not calculated and reported for the eligible infrastructure assets using modified approach.

An asset management system must possess at minimum the following features:

1. Have an up-to-date inventory of eligible infrastructure assets,
2. Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale,
3. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed in the financial statements.