Michigan Committee on Governmental Accounting and Auditing Statement 10, as Amended

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ACCOUNTING AND REPORTING INFRASTRUCTURE ASSETS LOCAL WATER AND SEWER SYSTEMS AND COUNTY DRAINS

Water and Sewer Systems:

A county issues debt in its name (generally under Act 185 and 342; sometimes Chapter 20 is used for sanitary sewage systems). There is a lease with the local unit whereby the local unit agrees to lease the asset over the life of the bonds (often the lease payment is equal to debt service requirements of the county bonds). Common variations of this scenario are as follows:

1. The county issues the debt and turns the proceeds over to the local unit; the local unit constructs and operates the system.

2. The county issues the debt and constructs the system; the local unit operates the system.

3. The county issues the debt, constructs the system, and operates it on behalf of the local unit.

The lease agreement constitutes a capital lease under FASB 13 (which is applicable to governmental units because it was written before November 30, 1989). For the full-accrual government-wide statements, the accounting treatment would be as follows:

Accounting by the County: The county would establish an enterprise fund. This fund would record the temporary holding of the bond proceeds as a cash asset, and the outstanding bonds as a liability. In scenario 1, the transfer of the cash to the local unit would result in the recording of a lease receivable. In scenarios 2 and 3, the construction would reduce cash and create construction in process (another asset); upon substantial completion, the capital lease would be recognized by recording the transfer of the capital asset to the local unit, and recognizing a lease receivable.

If the county operates the system (scenario 3), the enterprise fund would record the billed revenue and the costs of operating the system. This information must be transmitted to the local unit, so that it may complete the accounting as discussed below.

Accounting by the Local Unit: The local unit would establish an enterprise fund to account for the water or sewer system. The enterprise fund would record the lease payable and either cash (Scenario 1) or cash with county (Scenarios 2 and 3). Cash with county would be reduced as the county constructs the asset, and the capital asset would be recognized.

The local unit's enterprise fund would record the operations of the system; if the county is operating the system on behalf of the local unit, the local unit would still record this information in the enterprise fund (but may need to communicate with the county to obtain this information).

Drains and Drainage Districts

Various chapters of the Drain Code are used to authorize issuance of debt to construct or maintain storm drains, including Chapters 4, 8, 20 and 21. The county drain commissioner (either directly or through a drainage district, which is a separate legal entity) is responsible for constructing and maintaining the drains, and for allocating those costs. In general, the costs are apportioned between the following four parties: the State, the county (to the extent that the improvement benefits roads), the local unit (to the extent that the improvement benefits the general health and welfare) and specific benefited property owners.

In general, any written agreements by the local unit to pay some or all of the drain debt is not viewed as leases to the local units, because the agreements do not transfer any ownership benefits to the local unit (for instance, they do not have the right to determine the nature or timing of the maintenance).

Accounting by the Drainage Districts: Drainage districts are separate legal entities that are reported as discretely presented component units of the county. When the drainage districts present the full accrual government-wide statements, they should record the capital asset and the outstanding debt. They should also record any contributions from third parties (the state, county, local unit and special assessment property owners) as an asset (cash or receivable) and a ”program” revenue (capital grants and contributions).

Accounting by the County: To the extent that the county has been assessed, it should record a liability (or reduce cash, if appropriate). If the amounts are immaterial, the cost may be recognized in the current period (i.e., directly expensed). If the costs are considered to be material, the costs should be allocated over the useful life of the improvement, by recognizing a noncurrent asset (“flowage rights”), and amortizing the asset over future years.

Accounting by Local Units: To the extent that the local unit has been assessed, it should record a liability (or reduce cash, if appropriate). If the amounts are immaterial, the cost may be recognized in the current period (i.e., directly expensed). If the costs are considered to be material, the costs should be allocated over the useful life of the improvement, by recognizing a noncurrent asset (“flowage rights”), and amortizing the asset over future years.

This amended statement was adopted in June 2002 by the members of the Michigan Committee on Governmental Accounting and Auditing.

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