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ACCOUNTING AND REPORTING INFRASTRUCTURE ASSETS
CITIES AND VILLAGES

GASB 34

STREET AND OTHER RELATED INFRASTRUCTURE REPORTING ISSUES

INTRODUCTION

Capital assets are defined by GASB 34 as land and improvements, easements, buildings and improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include streets, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to property

The purpose of this statement is to address issues surrounding reporting of street infrastructure assets (including sidewalks, traffic signals, and bridges) by cities and villages in the State of Michigan. This statement does not apply to private streets. Issues related to infrastructure reporting for drains, water and sewer systems in the State of Michigan are addressed in MCGAA Statement No. 10 entitled, "Accounting and Reporting Infrastructure Assets--Local Water and Sewer Systems and County Drains."

Effective Dates

All governmental entities must adopt the financial statement reporting model and prospective reporting of infrastructure for periods beginning after June 15 of either year 2001, 2002, or 2003 depending upon the size of their annual *revenues* for the base year, with the larger entities adopting first (2001). *Revenues* include all revenues (not other financing sources) of the primary government's governmental and enterprise funds, except for extraordinary items. If a primary government chooses early implementation, all of its component units also should implement this standard early to provide the financial information required for the government wide financial statements. (Please refer to MCGAA Statement No. 7 entitled, "Basic Financial Statements for Counties and Local Governments in Michigan," which was issued in February 2000 to define the required extent of implementation of GASB 34 financial reporting requirements for Michigan counties and local governments.)

Units of government with annual revenues under \$10 million have the option of adopting retroactive capitalization of major general infrastructure dating to 1980. All government entities are required to capitalize newly acquired or constructed infrastructure beginning with their GASB 34 implementation date.

Major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 must be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. This requirement applies to all government entities with \$10 million or more in revenues during their base year, which is the first fiscal year ending after June 15, 1999.

Retroactive Capitalization

Retroactive capitalization means that major infrastructure assets on hand at the date of implementation of GASB Statement No. 34 must be inventoried, recorded as capital assets in the accounts, and reported in the statement of net assets. Prospective capitalization of general infrastructure assets means that from the GASB Statement No. 34 implementation date forward, all such assets must be capitalized in the accounts and reported in the statement of net assets.

INFRASTRUCTURE ASSET REPORTING

GASB 34 allows two approaches for infrastructure asset reporting, the "depreciation method" and the "modified approach." GASB 34 requires the use of depreciation reporting for infrastructure assets where the modified approach can not be used in reporting infrastructure assets.

Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the following two requirements are met:

1. The unit of government must manage the eligible infrastructure assets using an asset management system that has the following characteristics:
 - a) Have an up-to-date inventory of eligible infrastructure assets;
 - b) Perform condition assessments of eligible infrastructure assets and summarize the results using a measurement scale; and
 - c) Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.
2. The unit of government must document that the assets are being preserved at or above a condition level established and disclosed by the unit of government.

Cities and villages in the State of Michigan must meet both criteria noted above to use the modified approach. Cities and villages that do not meet the criteria for the modified approach must use the depreciation method for infrastructure assets with the following guidelines. Please note that these are guidelines that may vary depending on the region of the State, the weather, or other factors. It may also not include all capital assets that apply to your city or village in all circumstances.

Life in Years for Depreciation: (Straight-Line Depreciation)

Bridges:

Timber Bridge	25 years
Timber Redecking	12 years
Metal Structure Bridge	30 years
Concrete Bridge	30-50 years
Concrete Redecking	25 years
Movable Bridge	30-50 years

Streets:

Seal Coat	5 years
Gravel Surface	8 years
Asphalt Surface	20 years
Concrete Surface	30 years

Traffic Signals: 15 years

Sidewalks:

Concrete Surface	30 years
Brick Surface	10 years

Bike Paths/Trailways: 30 years

Initial installation of guardrails and traffic signs will be included with the project cost; all other guardrail and traffic sign work will be included in Routine Maintenance.

Purchase of land for roadway or right-of-way will be set up in a separate capital asset account, by year, which will not be depreciated. This information MUST be included from 1980 to present. Any purchase of land or right-of-way, prior to 1980, for which cities and villages have documentation of purchase price should be included.

Generally, land improvements (including excavation, ditching, grading, tree removal, and subgrade preparation) are to be recorded as capital assets, by year, and will not be depreciated.

Cities and villages should use 1999 or 2000 project data to arrive at a percentage of projects normally included as land improvements and apply this percentage to all years prior to current year. Use actual data from date of implementation forward.

All Bridges MUST be included in the capital asset schedule.

All Traffic Signals MUST be included in the capital asset schedule or in the aggregate.

All streets under the jurisdiction of cities and villages constructed by a developer or under special assessment must have the cost included in the capital asset group and the offsetting revenue account will be "Other Contributions." These streets are to be split the same as streets constructed by cities and villages separating land/right-of-way purchase, land improvements, and depreciable street costs. This process is to commence with 1980 streets.

Shared Street Improvements (Intangible Asset)

All payments for streets that will be owned by others should be evaluated for inclusion on the balance sheet. For instance, a city may pay a portion of a county road or a state trunk-line because the street goes through its jurisdiction and benefits its residents. Or, a township may fund a portion of a street improvement in its jurisdiction. If such costs are not significant in amount, or represent maintenance (e.g., chlorination or patching), then the costs should be expensed in the current year. However, if the costs are significant and represent a benefit to the community for years into the future, then the costs should be capitalized and amortized over the future periods expected to be benefited. This is an intangible asset, and should be reported as “shared street (and/or road) improvements.” (Note: The same accounting treatment would apply in the case of shared improvements on bridges.)

CLARIFICATION OF DEFINITIONS TO BE USED IN INFRASTRUCTURE REPORTING

1. Land/Right-of-Way Purchase. (Capitalized)
 - a) Actual cash expenditure for acquisition of land or right-of-way for street (and/or road) purposes.
 - b) Actual cost of work-in-kind exchange for acquisition of land or right-of-way for street (and/or road) purposes.
2. Land Improvements (construction and/or reconstruction projects). (Capitalized)
 - a) Excavation, ditching, grading (lane widened portion and/or elevation change only), tree removal, subgrade preparation of land for street or roadway.
3. Construction/Capacity Improvements. (Capitalized)
 - a) New construction of highways, roads, streets, or bridges.
 - b) A project that increases the capacity of a highway facility to accommodate that part of traffic having neither an origin nor destination within the local area.
 - c) Widening of a lane width or more.
 - d) Or adding turn lanes of more than ½ mile in length.
4. Preservation/Structural Improvements. (Capitalized)
 - a) An activity undertaken to preserve the integrity of the existing roadway system. Preservation includes, but is not limited to, 1 or more of the following:
 - Maintenance
 - Capital preventive treatments
 - Safety projects
 - Reconstruction
 - Resurfacing
 - Restoration
 - Rehabilitation
 - Widening of less than the width of 1 lane
 - Adding auxiliary weaving, climbing, or speed change lanes
 - Modernizing intersections
 - Adding auxiliary turning lanes of ½ mile or less.

5. Routine and Preventive Maintenance. (Expensed)
 - a) Maintenance means routine maintenance or preventive maintenance, or both. Routine maintenance means actions performed on a regular or controllable basis or in response to uncontrollable events upon a highway, road, street, or bridge. Routine maintenance includes, but is not limited to, 1 or more of the following:
 - 1) Snow and ice removal
 - 2) Pothole patching
 - 3) Unplugging drain facilities
 - 4) Replacing damage sign and pavement markings
 - 5) Replacing damaged guardrails
 - 6) Repairing storm damage
 - 7) Repair, replacement, or operation of traffic signal systems
 - 8) Emergency environmental cleanup, emergency repairs, emergency management of road closures that result from uncontrollable events
 - 9) Cleaning streets and associated drainage
 - 10) Installing traffic signs and signal devices
 - 11) Mowing roadside, control of roadside brush and vegetation, cleaning roadside
 - 12) Repairing lighting
 - 13) Grading.
6. Timber Bridge. (Capitalized)
 - a) Bridges constructed from timber with a 20' or more clear span length crossing a drain, stream, or dry gully.
7. Metal Structure Bridge. (Capitalized)
 - a) Metal culvert or multi-plate arch structure with a 20' or more clear span length allowing for water to cross a drain, stream, or dry gully.
8. Concrete Bridge. (Capitalized)
 - a) Concrete constructed structure with a 20' or more clear span length crossing a drain, stream, or dry gully. This includes concrete I-beam with concrete deck, steel I-beam with concrete deck, Jack arch (steel I-beam with metal arches and concrete deck), concrete slab on metal sheeting, pre-case concrete arch, concrete box beam with concrete deck, and concrete box beam with bituminous deck.
9. Movable Bridge. (Capitalized)
 - a) Bascule, lift, or rotating structure with a 20' or more clear span length crossing a drain, stream, or dry gully.

CAPITAL ASSET ACCOUNT

- 130 Land
 - .01 Land owned by the city (or village)
 - .02 Land/right-of-way purchases (nondepreciating) to be recorded by year (roadway or street preparation)
- 131 Land Improvements (nondepreciating) to be recorded by year (road/or street preparation)
- 132 Land Improvements (depreciable)
 - .01 Structure (i.e., parking lots, sidewalks, pavements)
 - .02 Ground work (i.e., park landscaping, golf course, bike paths, trailways, or ballfield)
- 150 Open
- 151 Open
- 152 Water Systems
- 153 Accumulated Depreciation -- Water Systems
- 154 Sewer Systems
- 155 Accumulated Depreciation -- Sewer Systems
- 156 Bridges (depreciating) to be recorded by year and subaccount by type
 - .01 Timber -- 25 years -- 4% per year
 - .02 Metal -- 30 years -- 3.3% per year
 - .03 Concrete -- 30-50 years -- 3.3% to 2% per year
 - .04 Movable -- 30-50 years -- 3.3% to 2% per year
- 157 Accumulated Depreciation -- Bridges
 - .01 Timber
 - .02 Metal
 - .03 Concrete
 - .04 Movable
- 158 Construction in Progress
- 159 Streets (depreciating) to be recorded by year and subaccount by type
 - .01 Seal Coat -- 5 years -- 20% per year
 - .02 Gravel -- 8 years -- 12.5% per year
 - .03 Asphalt -- 20 years -- 5% per year
 - .04 Concrete -- 30 years -- 3.3% per year
- 160 Accumulated Depreciation -- Streets
 - .01 Seal Coat
 - .02 Gravel
 - .03 Asphalt
 - .04 Concrete
- 161 Traffic Signals (depreciating) to be recorded by signal (or by year installed in the aggregate) -- 15 years -- 6.7% per year
- 162 Accumulated Depreciation -- Traffic Signals

All depreciated street capital assets are to be removed from capital assets at the time the individually recorded fixed asset item has been fully depreciated. For example, a 1980 Seal Coat street fixed asset would be removed from fixed assets accounts along with the accumulated depreciation account in 1986, as it would be fully depreciated. However, all remaining 1980 recorded infrastructure assets would remain because they would not be fully depreciated. Depreciated bridges and traffic signals are to be removed from the capital asset group only when they have been replaced or removed from the street system.

IMPLEMENTATION

1. Cities and villages should look up all recorded deeds for purchase of land and/or right-of-way to record as capital asset expense.
2. Calculate land improvement cost percentage from 1999 or 2000 projects using actual data. Apply this percentage to construction expenditures listed in the 1980 to present Act 51 Financial Report data and record as fixed assets by year. From the current year forward, use actual expenditures for land improvements on construction projects.
3. Street construction expenditures (less land improvement costs), as taken from the Act 51 Financial Reports, should be recorded as capital assets by year. This number is to be split into categories, by percentage, using actual miles for each year or using actual data, if available. Once the capital asset by year and subaccount has been determined, the depreciation factor must be applied up to the implementation date.
4. Traffic signals are to be recorded at original placement cost, by signal, and the depreciation factor is to be applied up to the implementation date. Signals are to remain as capital assets until they are removed or replaced. If they are removed or replaced prior to being fully depreciated, they are to be considered as equipment capital assets recording gain or loss on disposal.
5. Bridges are to be taken from the bridge inventory in your Engineering Department and recorded individually by bridge and subaccounts. Original costs for construction and year of construction can be obtained from the bridge inventory data. These are to be recorded at their original cost and depreciated up to current year. Bridges are to remain as capital assets until they are removed or replaced. If they are removed or replaced prior to being fully depreciated, they are to be considered as equipment capital assets while recording gain or loss on disposal.

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