



# State of North Carolina

## Office of the State Controller

James B. Hunt, Jr., Governor

Edward Renfrow, State Controller  
Gwen Canady, Chief Deputy

November 1, 1999

### MEMORANDUM SAD 00-41

**To:** Chief Fiscal Officers  
Vice Chancellors  
Community College Business Officers

**From:** Don Waugh  
Assistant State Controller

**Subject:** Fixed Asset/Infrastructure Reporting Under GASB Statement No. 34

On June 30, 1999, the Governmental Accounting Standards Board issued *GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which will significantly change the way state and local governments report their finances to the public. In addition to the State's general government agencies, the accounting and financial reporting for the State's Community College System, and the University of North Carolina System will also be affected by this new GASB standard. GASB Statement No. 34 will be effective beginning with the fiscal year ending June 30, 2002.

An important aspect of the new standard is that agencies will have to report in their financial statements all fixed assets meeting the capitalization threshold, including **infrastructure assets**<sup>(1)</sup>. In addition, agencies will have to report depreciation expense and accumulated depreciation on all fixed assets.

*<sup>(1)</sup>Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, curbs and gutters, sidewalks, parking lots, dams, and lighting systems.*

In planning for this upcoming standard, we need to gather certain information about your infrastructure assets. Please complete the attached survey and return it to OSC by **December 3, 1999**. We have also attached the applicable sections from GASB Statement No. 34 on capital assets. If you have any questions, please call Clayton Murphy at (919) 981-5474 or John Barfield at (919) 981-5470. Thank you for your assistance.

MAILING ADDRESS  
1410 Mail Service Center  
Raleigh, NC 27699-1410

Statewide Accounting Division • Don Waugh, Assistant State Controller

Telephone: (919) 981-5465  
Fax Number: (919) 981-5560  
State Courier: 56-50-10

Website: [www.osc.state.nc.us/OSC/](http://www.osc.state.nc.us/OSC/)

An Equal Opportunity/Affirmative Action/Americans With Disabilities Employer

LOCATION  
3512 Bush Street  
Raleigh, NC

**INFRASTRUCTURE SURVEY - RETURN TO OSC BY DECEMBER 3, 1999**

Agency FRU No.: \_\_\_\_\_ Unit Name: \_\_\_\_\_

Preparer: \_\_\_\_\_ Phone Number: \_\_\_\_\_

1) Complete the following information:

Mark "X" if Owned	Description	Best Estimate Of Historical Cost	Recorded in Accounting System? (Y/N)	Indicator	Units
	Roads (include signage, markings, etc.)			Lane miles	
	Bridges			Number of bridges	
	Tunnels			Number of tunnels	
	Drainage systems				
	Water & sewer systems			Miles of water mains	
				Miles of sanitary sewers	
	Dams			Number of dams	
	Lighting systems				
	Curbs and gutters				
	Sidewalks				
	Parking lots				
	Other (describe):				

2) The new standard will require agencies to report the historical costs of major infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements since July 1, 1980 (i.e., fiscal year 1980-81).

a) Do you have documentation to support historical cost calculations and depreciation for your infrastructure assets back to the fiscal year 1980-81? (Circle) Yes No

If no, for which fiscal years is documentation not available? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

b) In your opinion, are your infrastructure records auditable by the State Auditor? Please provide comments.

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

3) Other comments? \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Please FAX (919/981-5560) a copy of your survey to OSC addressed to: **Infrastructure Survey-Financial Reporting Section**. Or, you may email your survey to [cmurphy@mail.osc.state.nc.us](mailto:cmurphy@mail.osc.state.nc.us) (with "Infrastructure Survey" in your subject line). We need to receive your survey by **December 3, 1999**.

# **GASB Statement No. 34**

## **Paragraphs Related to Capital Assets**

- Reporting Capital Assets (18-22)
- Modified Approach (23-26)
- Depreciation (44-45)
- Effective Date and Transition (148-166)

### ***Reporting Capital Assets***

#### [GASBS34, Par. 18](#)

18. Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

#### [GASBS34, Par. 19](#)

19. As used in this Statement, the term *capital assets* includes land, improvements to land, easements, buildings, building 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 normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this Statement.

#### [GASBS34, Par. 20](#)

20. Capital assets that are being or have been depreciated (◊ paragraph 22) should be reported net of accumulated depreciation in the statement of net assets. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach (◊ paragraphs 23 through 25), should be reported separately if the government has a significant amount of these assets. Capital assets also may be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment). Required disclosures are discussed in ◊ paragraphs 116 and 117.

#### [GASBS34, Par. 21](#)

21. Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in ◊ paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated.

#### [GASBS34, Par. 22](#)

22. Depreciation expense should be reported in the statement of activities as discussed in ◊ paragraphs 44 and 45. Depreciation expense should be measured by allocating the net cost of

depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets,<sup>14(1)</sup> (c) a subsystem of a network,<sup>15(2)</sup> or (d) individual assets. (Composite methods may be used to calculate depreciation expense. See paragraphs 161 through 166 for a more complete discussion of depreciation.)

### **Modified approach**

[GASBS34, Par. 23](#)

23. Infrastructure assets that are part of a network or subsystem of a network<sup>16(3)</sup> (hereafter, eligible infrastructure assets) are not required to be depreciated as long as two requirements are met. First, the government manages the eligible infrastructure assets using an asset management system that has the characteristics set forth below; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.<sup>17(4)</sup> To meet the first requirement, the asset management system should:

- a. Have an up-to-date inventory of eligible infrastructure assets
- b. Perform condition assessments<sup>18(5)</sup> of the eligible infrastructure assets and summarize the results using a measurement scale
- 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.

[GASBS34, Par. 24](#)

24. Determining what constitutes adequate documentary evidence to meet the second requirement in paragraph 23 for using the modified approach requires professional judgment because of variations among governments' asset management systems and condition assessment methods. These factors also may vary within governments for different eligible infrastructure assets. However, governments should document that:

- a. Complete condition assessments of eligible infrastructure assets are performed in a consistent manner at least every three years.<sup>19(6)</sup>
- b. The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved approximately at (or above) the condition level <sup>20(7)</sup> established and disclosed by the government.

[GASBS34, Par. 25](#)

25. If eligible infrastructure assets meet the requirements of paragraphs 23 and 24 and are not depreciated, all expenditures made for those assets (except for additions and improvements)

should be expensed in the period incurred. Additions and improvements to eligible infrastructure assets should be capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

[GASBS34, Par. 26](#)

26. If the requirements of paragraphs 23 and 24 are no longer met, the depreciation requirements of paragraphs 21 and 22 should be applied for subsequent reporting periods.<sup>21(8)</sup>

## Endnotes

### 1 (Popup)

GASBS34, Footnote 14—A network of assets is composed of all assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure *asset* that is composed of many *components*. For example, a network of infrastructure assets may be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

### 2 (Popup)

GASBS34, Footnote 15—A subsystem of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets. For example, all the roads of a government could be considered a network of infrastructure assets. Interstate highways, state highways, and rural roads could each be considered a subsystem of that network.

### 3 (Popup)

GASBS34, Footnote 16—If a government chooses not to depreciate a subsystem of infrastructure assets based on the provisions of this paragraph, the characteristics of the asset management system required by this paragraph and the documentary evidence required by paragraph 24 should be for that *subsystem* of infrastructure assets.

### 4 (Popup)

GASBS34, Footnote 17—The condition level should be established and documented by administrative or executive policy, or by legislative action.

### 5 (Popup)

GASBS34, Footnote 18—Condition assessments should be documented in such a manner that they can be replicated. Replicable condition assessments are those that are based on sufficiently understandable and complete measurement methods such that different measurers using the same methods would reach substantially similar results. Condition assessments may be performed by the government itself or by contract.

### 6 (Popup)

GASBS34, Footnote 19—Condition assessments may be performed using statistical samples that are representative of the eligible infrastructure assets being preserved. Governments may choose to assess their eligible infrastructure assets on a cyclical basis. For example, one-third may be assessed each year. If a cyclical basis is used, a condition assessment is considered *complete* for a network or subsystem only when condition assessments have been performed for all (or statistical samples of) eligible infrastructure assets in that network or subsystem.

### 7 (Popup)

GASBS34, Footnote 20—For example, condition could be measured either by a condition index or as the percentage of a network of infrastructure assets in good or poor condition.

**8 (Popup)**

GASBS34, Footnote 21—This change should be reported as a change in accounting estimate.

44. Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for “shared” capital assets (for example, a facility that houses the police department, the building inspection office, and the water utility office) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets such as a city hall or a state office building that essentially serves all functions is not required to be included in the *direct* expenses of the various functions. This depreciation expense may be included as a separate line in the statement of activities or as part of the “general government” (or its counterpart) function (and in either case, may be allocated to other functions as discussed in ¶ paragraph 42). If a government uses a separate line in the statement of activities to report *unallocated* depreciation expense, it should clearly indicate on the face of the statement that this line item excludes *direct* depreciation expenses of the various programs. Required disclosures about depreciation expense are discussed in ¶ paragraph 117.

[GASBS34, Par. 45](#)

45. Depreciation expense for general infrastructure assets should not be allocated to the various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities.

## **Reporting General Infrastructure Assets at Transition**

[GASBS34, Par. 148](#)

148. Prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective dates of this Statement. Retroactive reporting of all *major* general infrastructure assets<sup>66(1)</sup> is encouraged at that date. Phase 1 governments as described in [paragraph 143](#) should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005. Phase 2 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006. Phase 3 governments are encouraged but are not required to report major general infrastructure assets retroactively.

[GASBS34, Par. 149](#)

149. If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, governments should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. (See [paragraphs 155 through 166](#) for a more complete discussion of methods of estimating the cost of infrastructure assets and, if appropriate, accumulated depreciation on infrastructure assets.)

[GASBS34, Par. 150](#)

150. If, during the transition period, information is not available for all networks of infrastructure assets, those networks for which information is available may be reported.

[GASBS34, Par. 151](#)

151. While governments are applying the transition provisions, they should make these disclosures:

- a. A description of the infrastructure assets being reported and of those that are not
- b. A description of any eligible infrastructure assets that the government has decided to report using the modified approach ([paragraphs 23–25](#)).

## **Modified Approach for Reporting Infrastructure Assets**

[GASBS34, Par. 152](#)

152. Governments may begin to use the modified approach for reporting eligible infrastructure assets (as described in [paragraphs 23–25](#)) as long as at least one complete condition assessment is available and the government documents that the eligible infrastructure assets are being preserved approximately at (or above) the condition level the government has established and disclosed.

[GASBS34, Par. 153](#)

153. The three most recent complete condition assessments and the estimated and actual amounts to maintain and preserve the infrastructure assets for the previous five reporting periods required by [paragraph 132](#) may not be available initially. In these cases, the information required

by that paragraph should be presented for as many complete condition assessments and years of estimated and actual expenses as are available.

## **Initial Capitalization of General Infrastructure Assets**

### ***Determining Major General Infrastructure Assets***

[GASBS34, Par. 154](#)

154. At the applicable general infrastructure transition date, phase 1 and 2 governments are required to capitalize and report major general infrastructure assets that were acquired (purchased, constructed, or donated)<sup>67(2)</sup> in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

[GASBS34, Par. 155](#)

155. The approaches in paragraphs 158 through 160 may be used to estimate the costs of existing general infrastructure assets when actual historical cost data are not available. These approaches are examples only; governments may use any approach that complies with the intent of this Statement. General infrastructure assets acquired after the effective dates of this Statement should be reported using historical costs.

[GASBS34, Par. 156](#)

156. The determination of major general infrastructure assets should be at the network or subsystem level and should be based on these criteria:

- a. The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, *or*
- b. The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

Reporting of nonmajor networks is encouraged but not required.

### ***Establishing Capitalization at Transition***

[GASBS34, Par. 157](#)

157. The initial capitalization amount should be based on historical cost. If determining historical cost is not practical because of inadequate records, estimated historical cost may be used.

### ***Estimated Historical Cost—Current Replacement Cost***

[GASBS34, Par. 158](#)

158. A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown). There are a number of price-level indexes that may be used, both private- and

public-sector, to remove the effects of price-level changes from current prices. Accumulated depreciation would be calculated based on the deflated amount, except for general infrastructure assets reported according to the modified approach.

[GASBS34, Par. 159](#)

159. The following example illustrates the calculation of estimated historical cost. In 1998, a government has sixty-five lane-miles of roads in a secondary road subsystem, and the current construction cost of similar roads is \$1 million per lane-mile. The estimated total current replacement cost of the secondary road subsystem of a highway network, therefore, is \$65 million ( $\$1 \text{ million} \times 65$ ). The roads have an estimated weighted-average age of fifteen years; therefore, 1983 is considered to be the acquisition year. Based on the U.S. Department of Transportation, Federal Highway Administration's *Price Trend Information for Federal-Aid Highway Construction* (publication number FHWA-IF-99-001) for 1983 and 1998, 1983 construction costs were 69.03 percent of 1998 costs. The estimated historical cost of the subsystem, therefore, is \$44,869,500 ( $\$65 \text{ million} \times 0.6903$ ). In 1998, the government would have reported the subsystem in its financial statements at an estimated historical cost of \$44,869,500 less accumulated depreciation for fifteen years based on that deflated amount.

#### ***Estimated Historical Cost from Existing Information***

[GASBS34, Par. 160](#)

160. Other information may provide sufficient support for establishing initial capitalization. This information includes bond documents used to obtain financing for construction or acquisition of infrastructure assets, expenditures reported in capital project funds or capital outlays in governmental funds, and engineering documents.

#### **Methods for Calculating Depreciation**

[GASBS34, Par. 161](#)

161. Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. 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. In determining estimated useful life, a government also should consider an asset's present condition and how long it is expected to meet service demands.

[GASBS34, Par. 162](#)

162. Continuing the example from [paragraph 159](#), assume that, in 1998, the road subsystem had a total estimated useful life of twenty-five years from 1983 and therefore has an estimated remaining useful life of ten years. Assuming no residual value at the end of that time, straight-line depreciation expense would be \$1,794,780 per year ( $\$44,869,500 \div 25$ ), and accumulated

depreciation in 1998 would be \$26,921,700 (\$1,794,780 × 15).

### ***Composite Methods***

[GASBS34, Par. 163](#)

163. Governments also may use composite methods to calculate depreciation expense. Composite methods refer to depreciating a grouping of similar assets (for example, interstate highways in a state) or dissimilar assets of the same class (for example, all the roads and bridges of a state) using the same depreciation rate. Initially, a depreciation rate for the composite is determined. Annually, the determined rate is multiplied by the cost of the grouping of assets to calculate depreciation expense.

[GASBS34, Par. 164](#)

164. A composite depreciation rate can be calculated in different ways. The rate could be calculated based on a weighted average or on an unweighted-average estimate of useful lives of assets in the composite. For example, the composite depreciation rate of three interstate highways with estimated remaining useful lives of sixteen, twenty, and twenty-four years could be calculated using an unweighted average estimated as follows:

$$\frac{1}{(16 + 20 + 24)/3} = 5\% \text{ annual depreciation rate}$$

A composite depreciation rate may also be calculated based on an assessment of the useful lives of the grouping of assets. This assessment could be based on condition assessments or experience with the useful lives of the grouping of assets. For example, based on experience, engineers may determine that interstate highways generally have estimated remaining useful lives of approximately twenty years. In this case, the annual depreciation rate would be 5 percent.

[GASBS34, Par. 165](#)

165. The composite depreciation rate is generally used throughout the life of the grouping of assets. However, it should be recalculated if the composition of the assets or the estimate of average useful lives changes significantly. The average useful lives of assets may change as assets are capitalized or taken out of service.

[GASBS34, Par. 166](#)

166. The annual depreciation expense is calculated by multiplying the annual depreciation rate by the cost of the assets. For example, if the interstate highway subsystem cost \$100 million and the annual depreciation rate was 10 percent, then the annual depreciation charge would be \$10 million. Accumulated depreciation should not exceed the reported cost of the assets.

[GASBS34, Board Vote](#)

The provisions of this Statement need not be
--

applied to immaterial items.

## Endnotes

### 1 (Popup)

GASBS34, Footnote 66—*Major* general infrastructure assets are assets that (a) meet the definition of a major asset as described in paragraph 156, (b) are associated with and generally arise from governmental activities, and (c) are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets, as described in paragraph 19. The transition period does not apply to proprietary funds and special-purpose governments engaged in business-type activities.

### 2 (Popup)

GASBS34, Footnote 67—For purposes of this Statement, governments that have the primary responsibility for managing an infrastructure asset should report the asset. A government should report an asset even if it has contracted with a third party to maintain the asset.