Infrastructure Reporting

Objective

To ensure that all capital assets are reported in accordance with Generally Accepted Accounting Principles (GAAP), Minnesota Statutes, including 16A.50 Financial Report to the Legislature (https://www.revisor.mn.gov/statutes/?id=16A.50), and other state and federal laws and reporting requirements.

Policy

Minnesota Statute 16A.50 requires Minnesota Management & Budget (MMB) to report to the legislature on the operation of all state funds during the last fiscal year in accordance with GAAP. This information is reported in the Comprehensive Annual Financial Report (CAFR). This policy and related policies (Statewide Operating Policies 0106-01 through 0106-09) apply to those assets required to be capitalized and reported in the CAFR.

All state agencies are required to maintain up-to-date and complete records of all existing capital assets, including the current status (i.e., In-Service, Retired/Disposed, etc.) and must be recorded in the Asset Management (AM) module of the StateWide Integrated Financial Tools (SWIFT). All purchases integrated from other modules, betterments, improvements, additions, impairments, transfers and retirements must be tracked and verified within the SWIFT system. An annual certification will be required to be completed in the format and according to the instructions established and provided by MMB at the end of the state fiscal year to confirm the completeness and accuracy of the information held in SWIFT. Additional periodic certifications will also occur.

Any asset that benefits more than one reporting period potentially could be classified as a capital asset. As a practical matter, not all items that meet the definition of a capital asset should be capitalized for reporting purposes. A dollar value capitalization threshold has been established by capital asset category. Refer to the asset category (classes) below, and related policies, for specific capitalization thresholds.

The Department of Administration (ADM) is responsible for requirements establishing state property management accountability standards and guidance. Please refer to ADM’s State of Minnesota Property Management Policy and User Guide for additional information on the proper reporting of all assets, sensitive items, consumable inventories and supplies.

Infrastructure

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. Infrastructure with a cost greater than $300,000 must be capitalized. Generally, infrastructure is depreciable. The Minnesota
Department of Transportation (MNDOT) is the only agency that meets the additional GAAP requirements to report non-depreciable infrastructure.

Land associated with an infrastructure asset must be reported separately. Buildings associated with infrastructure should be reported separately unless they are purely ancillary to an infrastructure network or subsystem, e.g., rest area facilities for a state highway. (Refer also to related Statewide Operating Policy 0106-02 Land and Land Improvements Reporting and Statewide Operating Policy 0106-03 Buildings, Structures, and Improvements Reporting.)

Examples of infrastructure include (not inclusive):

- Roads
- Bridges
- Tunnels
- Drainage systems
- Water and sewer systems
- Dams
- Transmission towers
- Curbs, gutters, sidewalks
- Lighting systems

Depreciable infrastructure is reported under the SWIFT category of INFRS. Non-depreciable infrastructure is reported by MNDOT using the modified approach under SWIFT categories INFBD, INFRB, INFRD or INNFRR.

**Reporting Capital Assets**

The reporting of capital assets in the CAFR will vary depending on the fund type through which the asset is acquired. Capital assets acquired through governmental type funds must be reported on the government-wide balance sheet net of accumulated depreciation. Capital assets acquired through proprietary and fiduciary fund types are required to be capitalized and reported in the individual fund, since they are used in the production of goods or services provided and sold, and/or the cost of services is recovered through charges to user departments. The reporting for infrastructure will vary depending on the method and purpose through which the asset is acquired or constructed.

- State maintained public-use highways and bridges (those maintained by MNDOT) are reported under the modified approach.
- All other state owned/maintained infrastructure assets will be depreciated.

**The Modified Approach**

This method assumes that the asset never depreciates but is maintained at a given condition level indefinitely. Only additional lane miles or increased capacity/efficiency would be considered an improvement/betterment under this approach. Increased capacity/efficiency could result from:

- Road widening
- Regrading of road base to allow greater load bearing
- Traffic control change

The modified approach also requires that a condition assessment be performed at least once every three years. The results of the assessment, compared to projected condition levels, estimated costs to maintain
projected condition levels along with actual expenditures, are reported each year as part of the required supplementary information in the state’s CAFR. All costs (except for additions and improvements) are expensed as incurred regardless of completion.

Valuation of Capital Assets

Capital assets may be acquired through various methods including direct purchase, license, development, construction or gift. Capital assets will be accounted for at cost. Donated capital assets will be recorded at their Fair Market Value (FMV) at the time received.

The cost of a capital asset includes not only its purchase price, but also ancillary charges necessary to place the asset in its intended location and condition for use. Estimated costs for assets may be necessary because of a lack of original documents or because establishing original cost is not practicable.

Capitalizable Costs Associated With Acquisitions

Capitalizable costs associated with infrastructure construction that should be included in the original capitalizable cost of the asset include (not all-inclusive):

- Original contract price of construction
- Signage, mobility and landscaping
- Excavation, grading or filling land
- Design and supervision costs
- Legal and architectural fees
- Insurance costs during construction phase

Not all expenditures incurred while placing an asset in its intended use should be capitalized. (Refer also to related Statewide Operating Policy 0106-02 Land and Land Improvement Reporting and Statewide Operating Policy 0106-03 Buildings, Structures, and Improvements Reporting.) The following are types of expenditures that should not be capitalized (not all-inclusive):

- Costs relating to the removal or demolition of buildings, structures, equipment, or other facilities. Two exceptions are as follows: (1) Cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention of removal or demolition to accommodate its intended use (such cost is considered part of the land). (2) Cost to remove or demolish a building or other structure with the intention of replacing the old asset (such costs are considered part of the cost of the new asset).
- Costs incurred on assets that are not purchased, e.g., surveying, title searches, legal fees, and other expert services on properties not purchased.
- Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire or other casualties.
- Costs of abandoned construction.

Determining Capitalizable Costs in Multiple-Element Contracts

Contracts that include both capitalizable and non-capitalizable costs must be reviewed to determine whether the capitalizable costs meet or exceed the established thresholds. If so, the purchase price must be allocated between these two components. If not, all costs must be expensed as incurred. The State’s Authorized Representative or other staff, as assigned, is responsible for determining the appropriate allocation of costs based on objective evidence of the fair value of each element, whether or not the contract breaks down the purchase price by individual elements.
Interest Capitalization

Interest costs associated with governmental fund capital assets will not be capitalized. Proprietary funds should follow the guidance of Governmental Accounting Standards Board (GASB) Statement No. 34 or GASB Statement No. 62 in determining whether or not to capitalize such costs. In proprietary funds and those trust funds whose measurement focus is on income determination or capital maintenance, the preferred accounting practice is to capitalize interest costs.

<table>
<thead>
<tr>
<th>Interest Capitalization Decision Model – for Proprietary Funds Only</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Are the proceeds of the debt externally restricted to finance this particular asset?</strong></td>
</tr>
<tr>
<td>If NO, then: Interest capitalization period begins when:</td>
</tr>
<tr>
<td>• Expenditures for the asset are made, and</td>
</tr>
<tr>
<td>• Interest cost is being incurred, and</td>
</tr>
<tr>
<td>• Activities necessary to get the asset ready for its intended use are in progress</td>
</tr>
<tr>
<td>The capitalization period ends when the asset is ready for its intended use.</td>
</tr>
<tr>
<td>The amount of interest capitalized will equal the average expenditures accumulated for the asset during the reporting period times the interest rate used in the borrowing.</td>
</tr>
<tr>
<td>If YES, then: Interest determined under GASB 62 is reduced by any interest revenue earned on the investment of the proceeds from the date of the borrowing until the asset is ready for its intended use.</td>
</tr>
</tbody>
</table>

Costs Subsequent to Acquisition (Improvements or Betterments)

*Infrastructure Using the Modified Approach*

Under the modified approach only the cost of true additions or modifications that increase capacity/efficiency are capitalized.

Additions and improvements should be capitalized since a new asset has been created. Examples of additions include:

- Adding lane miles to an existing roadway
- Constructing a new bridge

Repairs are expenditures made to maintain assets in operating condition and are not capitalized. Preventive maintenance i.e., normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment adjustments, that is needed to maintain the asset so it continues to provide normal services is expensed. Examples include (not inclusive):

- Repaving or overlaying an existing roadway
- Redecking a bridge
- Replacing portions of a dam
Infrastructure Using the Depreciation Approach

Costs incurred to achieve greater future benefits (e.g., improves efficiency, or materially extends the useful life of the asset, etc.) are capitalized. Expenditures that simply maintain a given level of service or condition are expensed. Generally, four major types of costs subsequent to original acquisition or construction are incurred relative to existing assets.

1. Additions (Extensions, Enlargements or Expansions): Any addition to an asset should be capitalized. Examples of additions include (not all-inclusive):
   - Campgrounds
   - Retaining walls
   - Curbs, gutters and pavement

2. Improvements and replacements: The distinguishing feature between an improvement and a replacement is that an improvement is the substitution of a better asset – having superior performance capabilities (e.g., a concrete walkway for a wooden walkway) -- for the one currently used. A replacement is the substitution of a similar asset (e.g., a wooden walkway for a wooden walkway).

In both of these instances, agencies should determine whether the expenditure increases the future service potential of the capital asset, or merely maintains the existing level of service. When the future service level has been increased, the new cost is capitalized regardless of cost. The carrying amount of the replaced components of the asset and associated accumulated depreciation, if applicable, should be removed from the accounting records if the amount is known, or estimated if material.

3. Reinstallations and Rearrangements: These are costs that will benefit future periods but do not represent additions, replacements or improvements. If the original installation cost can be estimated, along with the accumulated depreciation to date, the cost may be handled as a replacement and Paragraph 2, above, should be followed. Where the original cost is not known, the reinstallation or rearrangement cost should be capitalized regardless of cost.

4. Repairs (Ordinary, Necessary and Major): Repairs maintain the capital asset in its original operating condition. Ordinary repairs are expenditures made to maintain the capital asset in its original operating condition. Ordinary repairs are expenditures made to maintain plant assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment and adjustments that are needed to maintain the asset so that it continues to provide normal services should not be capitalized but rather charged to an expense account. Ordinary repairs should be expensed when incurred. Examples of ordinary repairs include:
   - Roof and/or flashing repairs
   - Window repairs and glass replacement
   - Tuck pointing
   - Painting
   - Masonry repairs
   - Floor repairs

Major repairs are relatively large expenditures that benefit more than one operating cycle or period. If a major repair, e.g., an overhaul, benefits several periods and/or extends the useful life of the asset, the cost of the repair should be handled as an addition, improvement, or replacement, depending upon the type of repair made.
Transfer of Capital Assets between Fund Types

Capital assets reported in the governmental fund type and subsequently transferred to a proprietary or fiduciary fund type must be removed from the governmental fund type through a transfer-out and reported as a capital contribution in the proprietary or fiduciary fund type. Conversely, capital assets reported in a proprietary or fiduciary fund type and subsequently transferred to the governmental fund type must be reported as a transfer-out in the proprietary or fiduciary fund type and reported as a transfer-in in the governmental fund type. Cost and accumulated depreciation will follow this transfer in SWIFT.

Transfer of Capital Assets between Business Units

These transactions are processed through the InterUnit Transfer process on the Cost Adjust/Transfer Assets page in SWIFT. This is not a retirement on the part of the originating business unit; there should never be a gain or loss on this type of transaction. It is the responsibility of the agencies involved to communicate with each other regarding the transfer of the asset.

Depreciation

Depreciation is the allocation of the cost of assets having a useful life of more than two accounting periods over the benefited accounting periods. The principle underlying the concept of depreciation is the matching of costs with revenues. The allocation of costs to relate the expenses with revenues emphasizes an income determination objective.

The straight-line depreciation method will be used for all capital assets. Agencies must assign the anticipated useful life of an asset depending upon specific circumstances. The ideal basis should be based on the agency’s experience. This may differ greatly from agency to agency. SWIFT contains an average useful life for all Asset Profiles. This value can and should be revised according to the agency’s experience.

Impairment of Capital Assets

A capital asset is considered to be impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset and construction stoppage.

Generally an asset would be considered impaired if both:

- The decline in service utility of the asset was large in magnitude; and,
- The event or change in circumstances was outside the normal life cycle of the asset.

In the event a reportable capital asset is impaired, there are two options for reporting the impairment:

- If the asset will no longer be used, the asset should be written down to the lower of carrying value or FMV.
- If the asset will continue to be used, the asset should be written down by the estimated impairment loss, as defined in GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."
Accounting for the Removal of Capital Assets

Agencies must verify net book value and accumulated depreciation at time of disposition.

Retirement transactions related to IT capital assets must be requested through a Property Disposition Request which is routed to MN.IT Services and ADM for authorization of the approved disposition method. All other asset retirements are routed to ADM for authorization of the approved disposition method.

Definitions

Asset Category: Major asset classes defined by GAAP are used for CAFR purposes, in SWIFT, Asset Category defaults from the selected Asset Profile ID (see below).

Asset ID: This 12 character number is automatically generated within SWIFT or may be created manually. Duplicate asset numbers are not allowed within SWIFT for a Business Unit.

Asset Profile ID: Sets the depreciation criteria, Asset Category, and Asset Type associated with an asset. It also determines if an asset is Capitalized, Non Capitalized, or Sensitive.

Asset Tag Number: An asset tag number may be assigned to aid the physical inventory process. This is often the number affixed to an asset. Duplicate tag numbers are not allowed within SWIFT for a Business Unit.

Capital Asset: Has useful life greater than two years and a cost greater than established capitalization threshold. Capital versus Non-Capital is determined by the Asset Profile assigned.

Non-Capital Asset: Has a cost less than established capitalization threshold and is tracked in the AM module. Capital versus Non-Capital is determined by the Asset Profile assigned.

Capital Lease: Is treated as a financial asset. It is carried on the state’s financial statements and is depreciated. The lease agreement will generally contain a buy-out or transfer of title provision. Profile IDs are required for capital leases.

In-Service/Not In-Service: The date that the asset started/stopped being used. The depreciation calculation begins on the date in-service. Depreciation will stop if the asset is not in-service.

Recategorize: Changing the Asset Category (above). This may change depreciation.

Reinstate: Assets added back into SWIFT. If an asset has been mistakenly retired or disposed, it must be reinstated in SWIFT.

Sensitive Items: Are items that generally cost less than the established capitalization threshold, are generally for individual use, or could be easily sold, and are most often subject to pilferage or misuse.

Related Policies and Procedures

See also

Minnesota Department of Administration, State of Minnesota Property Management Policy and User Guide


GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets


SWIFT Asset Management Quick Reference Guides