



OFFICE OF THE  
**STATE AUDITOR**

## **Auditor Alert 2022-02**

**Date:** August 8, 2022

**Subject:** Reporting Infrastructure Assets Using the Modified Approach

### **Introduction**

The Office of the State Auditor (“Office”) has received numerous local government inquiries regarding how to appropriately report infrastructure assets. [GASB Statement No. 34](#), issued June 1999, required local governments to use accrual accounting and depreciate capital assets (“the depreciation method”) or use the “modified approach,” where infrastructure is treated as an inexhaustible capital asset, eliminating the need for depreciation accounting. Depreciation reporting is required for infrastructure assets where the modified approach cannot be used. See also GASB Codification 1400.

### **Modified Approach Requirements (GASB Codification 1400.105-109)**

Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the entity:

1. Manages 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.
  - 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. Documents that the assets are being preserved at or above a condition level established and disclosed by the entity.

### **Conclusion**

GASB Statement No. 34 requires governments to depreciate infrastructure assets or use the modified approach (for qualifying assets). For an entity to qualify to use the modified approach the entity’s asset management system must be sufficiently robust to meet GASB requirements and evaluate road conditions annually (see GASB Codification 1400.105(b) and footnotes 7 and 8). If an entity does not 1) have an asset management system that meets GASB requirements and 2) does not perform an annual evaluation of road conditions sufficient that the evaluation can be replicated, it should not use the modified approach and should simply depreciate infrastructure assets.