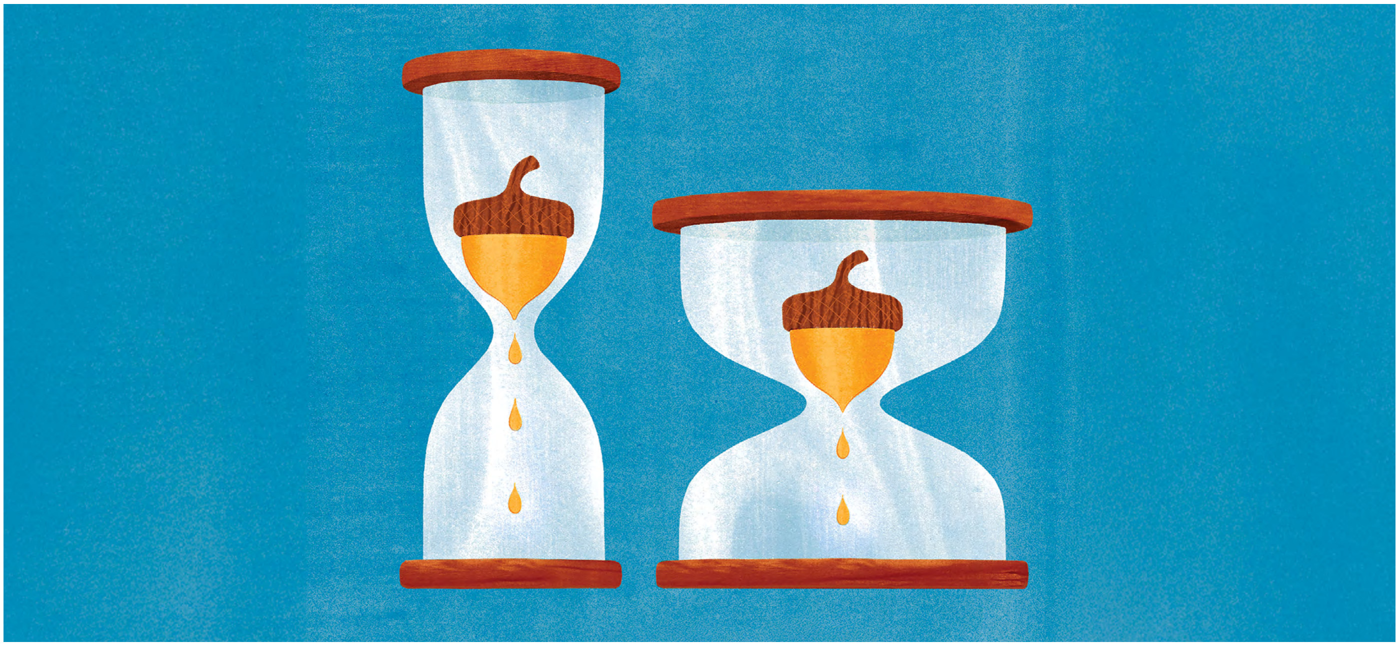


ACCOUNTING

104 and More

GASB Shows Great Interest in Reporting and Disclosures for Capital Assets

BY MICHELE MARK LEVINE

Capital assets are often the largest single dollar value (outside of totals) on governments' statements of net position, but for such giant-sized amounts, they seem to get relatively little attention from accountants. Based on the prevalence of fully depreciated assets still in service, it seems that many governments capitalize costs, establish standardized useful lives and depreciation/amortization methods (and when's the last time you heard of a government using anything other than the straight-line depreciation method?), and then report capital assets on autopilot. Rarely do we see governments reassess the useful lives of individual capital assets (more on this later). This "set it and forget it" approach leaves more time to deal with the annual trials of measuring investments, postemployment benefit, claims and judgements, and leases, just to name a few. Let's face it, accounting and financial reporting for capital assets can seem boring, correct?

Well...maybe it's not *so* boring. Over the past few years, we've seen the introduction of many new intangible capital assets in the form of the greatly expanded category of right-to-use intangible capital assets (lease, subscription, and public-private and public-public partnership assets, in particular) into generally accepted accounting principles (GAAP), established by the Governmental Accounting Standards Board (GASB). After many years of rising concerns about aging infrastructure, we've seen a slew of recent federal government programs support infrastructure projects—the Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law (BIL); the American Rescue Plan Act (ARPA); and the Inflation Reduction Act (IRA)—to name some of the largest).[1] GASB has heeded the call from some users to provide more information about aspects of capital assets, in particular about intangible capital assets and infrastructure, with the issuance of its most recent pronouncement, GASB Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104) and a Preliminary Views (PV) related to *Infrastructure Assets*. Let's look at what's in store for us, and what's proposed, in these two recent documents.

GASB 104

This newest GASB pronouncement requires governments to provide more detailed information in note disclosures about intangible capital assets within the so-called "roll-forward" table included in the capital asset note disclosure. Specifically, governments will need to separately show the beginning balances, additions, deductions, and ending balances for the cost and related accumulated amortization for:

- Lease assets, detailed by major class of underlying capital assets.
- Operators' intangible right-to-use public-private and public-public partnership (PPP) assets, detailed by major class of underlying PPP assets.
- Subscription assets.
- Other intangible assets, detailed by major class of assets.

See Exhibit 1 for an annotated illustration of the roll-forward table that was included as nonauthoritative content with GASB 104. The presentation of this table is also proposed to be affected by the PV, as discussed further below.

GASB 104 provides a new definition of *capital assets held for sale*, a term sometimes used in financial statements and capital asset note disclosures under current guidance without the benefit of a generally accepted definition. The statement requires disclosure of capital assets meeting the new definition, detailed by major class of capital assets, separately for capital assets of each governmental and business type activities; however, unlike the original proposal in the exposure draft that preceded this statement, capital assets held for sale are not required to be, and should not be, reported in their own line(s) in the roll-forward table. Instead, governments should separately disclose the cost and accumulated depreciation and/or amortization for capital assets held for sale by major class(es) of capital assets, and those assets should continue to be reported as part of the appropriate major class(es) of capital assets in the roll-forward table. If there is debt outstanding for which the capital assets held for sale are pledged as collateral, the amount of that debt should also be disclosed for each major class of asset.

Capital assets held for sale are defined as those that (1) the government has decided to pursue the sale of, and (2) for which it is probable that the sale will be finalized within one year of the financial statement date. GASB 104 provides a non-exhaustive list of factors to consider when assessing the likelihood of sale within that timeframe, specifically whether the asset can be sold in its present condition, whether the government is actively seeking a buyer, the present market conditions, and the regulatory approvals needed for the sale. The evaluation and determination of which, if any, capital assets are held for sale should be made for each reporting period.

GASB 104 is effective for fiscal years beginning after June 15, 2025, and for all reporting periods thereafter, with early implementation encouraged. While this is a disclosure-only statement, there will be some governments that have reported capital assets held for sale as a major classification of capital assets on the face of their statements (less common) or that have shown them as a separate line in their note disclosure roll-forward table (somewhat more common), and so will need to restate those. While the guidance on changes in accounting principles in GASB Statement No. 100, *Accounting Changes and Error Corrections*, is not directly referenced in the transition guidance in GASB 104, the requirement for retroactive restatement is. All prior periods, if practicable, should be restated, and governments are required to disclose the financial statement line items affected (other than totals and subtotals) and the reason that it was not practicable to restate prior periods in comparative statements, if applicable, in the period of implementation.

> Over the past few years, we've seen the introduction of many new intangible capital assets in the form of the greatly expanded category of right-to-use intangible capital assets into generally accepted accounting principles.

PV on infrastructure assets

As is generally the case with GASB's preliminary views documents, the PV is written in chapters, providing background and then the proposed guidance, followed immediately by the reasoning behind it, making the PV easier to read than final statements and exposure drafts. For the latter documents, readers must flip back and forth between standards section and basis for conclusion to tie GAAP rules and the thinking behind them together. (Yes, I am suggesting you read this!)

GASB's deliberations during the project that led to the PV included considering (albeit briefly) having governments report "deferred maintenance" on infrastructure assets as liabilities. While this approach was rejected (deferred maintenance does not meet GASB's conceptual framework definition of a liability), the consideration reflects GASB's recognition of many users' interests in the state of good repair of infrastructure assets. The concern, of course, is that costs may have to be incurred in the foreseeable future to rescue or replace those infrastructure elements that have not been well maintained, perhaps on an emergency basis.

GASB had also considered requiring the use of its modified approach for reporting infrastructure assets (hereafter referred to as the "modified approach") by all governments, or requiring all governments to provide the extensive note disclosure and required supplementary information (RSI) content now required only for infrastructure reported using the modified approach.[2] Thankfully, GASB recognized the extent of the cost and burden that path would have created for preparers and chose not to follow it, retaining as options both the modified approach and the traditional historical cost less accumulated depreciation or amortization approach (when infrastructure is "being depreciated"). Nonetheless, for infrastructure being depreciated, a new requirement that governments disclose (1) the amount estimated at the beginning of each year to maintain infrastructure and (2) the actual maintenance expense for the year, by major category of infrastructure, is proposed in the PV. Moreover, the same information for the past ten years is proposed to be a new RSI schedule, the first that would be required for infrastructure being depreciated.

See Exhibit 2 for a list of the major proposed provisions of the PV, with references to help you find the details in the PV, if you choose.

The proposed definition of infrastructure assets is:

> *[A]ssets that may consist of multiple components that are part of a network of long-lived capital assets utilized to provide a particular type of public service, that are stationary in nature, and that can be maintained or preserved for a significant number of years.*

Accompanying the current GAAP definition of infrastructure assets is a list of examples to which the PV proposes to add communication networks, explicitly including information technology infrastructure and bringing the literature up to date.[3] The proposed language surrounding the definition would also explicitly include buildings that are part of an infrastructure network used to provide a particular type of public services, which is a clearer criterion than that which currently applies to determining when buildings are part of infrastructure.[4]

The PV proposes a requirement, applicable to infrastructure being depreciated, to separately depreciate components of infrastructure assets when their useful lives are different, and the cost of the component is significantly relative to the total cost of the infrastructure asset. Componentization makes for more up-front work for governments, but it does ease the accounting for replacements of components going forward, and GFOA's *Accounting and Financial Reporting for Capital Assets* urges governments to consider this approach.[5]

Other important definitions proposed in the PV are for maintenance and preservation expenses, one or the other of which is proposed to be required note disclosure. *Maintenance expenses* are proposed to be defined as:

> *[E]xpenses that allow infrastructure assets to continue to be used throughout their estimated useful lives but do not extend the estimated useful lives of those infrastructure assets or increase the capacity or efficiency of those infrastructure assets.*

This definition makes maintenance expense the appropriate term for period costs applicable to infrastructure that is being depreciated.

Preservation expenses, applicable to infrastructure reported using the modified approach, are proposed to be defined as:

> *[E]xpenses that are intended to keep those infrastructure assets at (or above) the condition level established and disclosed by the government ["target condition"] but do not increase the capacity or efficiency of those infrastructure assets.*

EXHIBIT 1 | Capital asset "roll-forward" table note disclosure illustration from GASB 104

Capital assets separated by governmental and business-type activities

Infrastructure assets by major class of infrastructure assets

Intangible assets, with intangible right-to-use assets separated and lease assets by major class of underlaying capital assets

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 2,020	$ 29,484	$ (4,358)	$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	32,399	15,240	(19,204)	28,435
Capital assets being depreciated:				
Buildings and improvements	40,861	334	–	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	–	83,104
Bridge network	18,775	4,627	–	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	–	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	218,431	20,480	(5,363)	233,548
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	–	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	–	(13,228)
Bridge network	(2,896)	(197)	–	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	–	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	(49,778)	(7,325)	2,097	(55,006)
Governmental activities capital assets, net	$ 29,484	$ 29,484	$ 29,484	$ 29,484

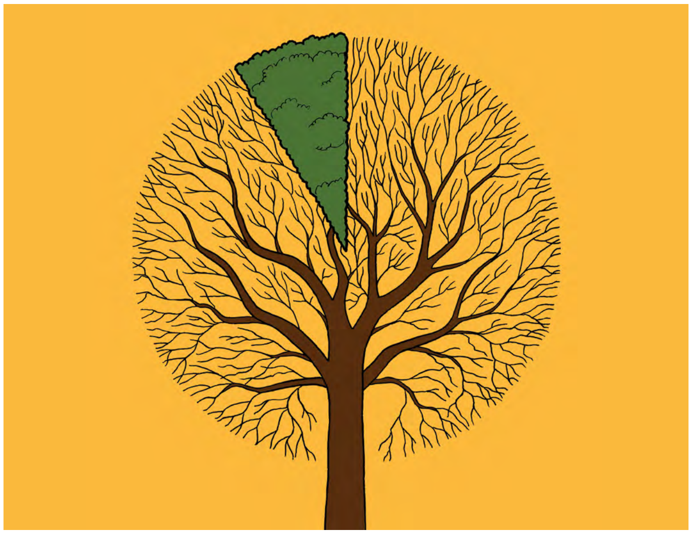
Like GASB 104, which requires additional detail in the capital asset roll-forward, the PV proposes that all infrastructure assets be disclosed by major class of infrastructure assets (for example, roads, water and sewer, communication systems) in the capital asset roll-forward. Many governments already report infrastructure broken out, and that is how it is shown in the (nonauthoritative) illustration of that roll-forward disclosure in GASB 104 (Exhibit 1).

Regarding infrastructure assets reported using the modified approach, notwithstanding proposed requirements to provide disclosures and RSI by major classes of infrastructure mentioned above, there are no significant changes being proposed. Requirements for establishing target condition levels, performing and disclosing results of condition assessments, and the need to change over to depreciating infrastructure assets when they are not being maintained "approximately" at their target levels, would remain mostly unchanged.

For infrastructure being depreciated, the PV proposes to have governments separately disclose the value of infrastructure assets that have exceeded 80 percent of their estimated useful lives broken into two pieces: those that have been in service for between 80 percent and 100 percent of their estimated useful lives, and those that have been in service for longer than their estimated useful lives (for example, over 100 percent). This is an interesting attempt to help users identify when infrastructure may need replacement in the short term, but it may instead just highlight the fact that governments often use assets much longer than initially expected without adjusting estimated useful lives appropriately, resulting in what some have called "zombie assets". GASB's proposal in the PV to elevate to level A GAAP the existing level B GAAP requirement to periodically reassess useful lives, together with a proposal to add a requirement for periodic reassessment of salvage values, is intended to remedy this.[6]

EXHIBIT 2 | Listing of key proposals in infrastructure PV

- A revised definition of infrastructure assets [Chapter 2, paragraph 2]
- Continuation of both the historical cost net of accumulated depreciation ("historical cost") and modified approach (no depreciation) options [Chapter 3, paragraph 2]
- For infrastructure reported using historical cost less accumulated depreciation
  - Emphasis of need for periodic reassessment of estimated useful lives and salvage values [Chapter 4, paragraph 2]
  - Separate depreciation of significant components of an infrastructure asset with different estimated useful lives [Chapter 4, paragraph 6]
- For infrastructure reported using the modified approach
  - Replacing the requirement for an asset management system with a requirement that governments have in place the processes necessary to meet requirements of modified approach [Chapter 5, paragraph 3]
  - Continuing the requirement for complete condition assessments, at least once every three years, that provide reasonable assurance that assets are being preserved approximately at or above the condition level established and disclosed by the government for those infrastructure assets [Chapter 5, paragraph 6]
  - Continuing the requirement that if criteria for use of modified approach are not met the government should report the subject assets using the historical cost approach going forward [Chapter 5, paragraph 12]
- Changes to note disclosures requirements for infrastructure assets
  - Eliminating
    - Description of modified approach [Chapter 6, paragraph 9]
    - Discussion of infrastructure assets not retroactively capitalized upon adoption of the current reporting model (GASB 34) [Chapter 6, paragraph 12]
    - Disclosure of impaired infrastructure assets idle at year-end [Chapter 6, paragraph 14]
  - Adding
    - In summary of significant accounting policies,
      - Changes in policies for infrastructure capitalization and for estimating useful lives of infrastructure assets that are reported using historical cost less accumulated depreciation [Chapter 6, paragraph 16]
      - Policy for monitoring and maintaining (for infrastructure reported using historical cost less accumulated depreciation or preserving (for infrastructure reported using the modified approach) infrastructure assets [Chapter 6, paragraph 25]
    - Requirement that note disclosures such as the roll-forward table should separate infrastructure assets by major classes of infrastructure assets [Chapter 6, paragraph 7]
    - For infrastructure reported using historical cost less accumulated depreciation, separately disclosing cost of infrastructure assets that
      - Have exceeded their estimated useful lives and
      - Have exceeded 80 percent but not yet 100 percent of their useful lives but not [Chapter 6, paragraph 19]
    - Maintenance or preservation expenses by major class of infrastructure assets [Chapter 6, paragraph 22]
- Changes to required supplementary information (RSI) regarding infrastructure assets
  - For infrastructure reported using historical cost, addition of an RSI schedule of annual amount to maintain infrastructure assets (a) as estimated at the beginning of each year and (b) amount actually expensed each year, for the past ten years [Chapter 7, paragraph 5]
  - For infrastructure reported using the modified approach,
    - Continuation of existing RSI schedule of the annual amount to maintain infrastructure at or above the condition established and disclosed by the government, by major class of infrastructure assets, (a) as estimated at the beginning of each year and (b) amount actually expensed each year, for the past ten years [Chapter 7, paragraph 11]
    - Continuation of existing RSI schedules of assessed condition of infrastructure reported using the modified approach for the three most recent condition assessments (discussed above) [Chapter 7, paragraph 7]
    - Continuation of existing notes to RSI of
      - The basis for the condition measurement
      - The scale used to assess and report the condition level
      - The condition level at which the government intends to preserve those assets. [Chapter 7 paragraph 14]



For infrastructure being depreciated, the PV proposes to have governments separately disclose the value of infrastructure assets that have exceeded 80 percent of their estimated useful lives broken into two pieces: those that have been in service for between 80–100 percent of their estimated useful lives, and those that have been in service for longer than their estimated useful lives.

There's also a proposal to add to governments' summaries of significant accounting policies descriptions of their (1) policies for monitoring and maintaining infrastructure assets, (2) changes in policies for capitalizing infrastructure, and (3) for infrastructure reported using historical cost, changes to policies for estimating useful lives.

The good news for preparers is that the PV also proposes to drop three currently required disclosures, specifically (1) to explain the modified approach if used, (2) to mention older infrastructure not capitalized upon transition to the current financial reporting model (GASB Statement No. 34), and (3) impaired infrastructure idle at year end. The PV discusses the proposals to discontinue these disclosures before addressing the additions, emphasizing the application of tests for essentiality of disclosures put into place following the issuance GASB Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements* (GASB Cons. 7) in the decision to propose their removal. For more information on GASB Cons. 7, please see the October 2022 *GFR* article, "Theory in Practice? GASB's New Concepts Statement on Note Disclosures ... and a Proposal for More Notes!"

Comments on the PV are due to GASB by January 17, 2025. GFOA will submit comments (developed by our standing committees) to GASB on behalf of our members, but we also encourage our members to submit comments directly. GASB has also scheduled public hearings and user forums on the PV, to take place both virtually and at GASB's Norwalk, Connecticut, offices in February 2025.

1 The Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, authorized $1.2 trillion for transportation and infrastructure spending. The American Rescue Plan Act, which included the $350 billion State and Local Fiscal Recovery Funds, much of which can be allocated to infrastructure projects. The Inflation Reduction Act includes tax credits for certain capital investments, and elective payments are available for state and local governments that invest in them.

2 The modified approach is an existing option in generally accepted accounting principles to expense, each period, all preservation costs needed to keep infrastructure so accounted for at a target condition level, while not recognizing any depreciation expense, for some or all a government's infrastructure. This approach was introduced by GASB Statement No. 34 but has not been widely adopted, likely because of (1) the budgetary inflexibility for preservation costs it creates, (2) the regular condition assessments required, (3) the extensive note disclosure and RSI requirements, or (4) the prospect of very high annual depreciation expense ("catch-up" depreciation) if a government fails to maintain target condition levels or otherwise chooses to discontinue using the approach in the future.

3 The current generally accepted accounting standards definition of infrastructure assets, introduced by GASB 34 and found in GASB Cod. Sec. 1400.103, is: "... 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."

4 GASB Cod. Sec. 1400.103 says, "Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this section."

5 *Accounting for Capital Assets: A Guide for State and Local Governments 2nd Edition*, GFOA, 2023, Page 4-7.

6 The GAAP hierarchy requires preparers to follow level A GAAP, such as GASB Statements, rather than level B GAAP, such as implementation guidance, in cases of conflict. However, since the same GASB staff work on all GASB pronouncements, the possibility of conflict is primarily theoretical.

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