GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

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To: Board Members and Alan Skelton
From: Scott Reeser, Becca Kiser, Ryan McDonough, Lauren Maier, Toni McFarland, and Bharvi Patel
c: GASB Technical Staff and Meeting Observers
Date: February 7, 2023
Re: Capstone Research Memorandum—Capital Assets Pre-Agenda Research

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INTRODUCTION AND BACKGROUND

The objective of this pre-agenda research is to review the existing standards applicable to capital asset accounting and financial reporting to evaluate whether the information reported about capital assets could: (1) be more comparable across governments and more consistent over time; (2) be more useful for making decisions and assessing government accountability; (3) be more relevant to assessments of a government's economic condition, including its financial position, fiscal capacity, and service capacity; and (4) better reflect the capacity of those assets to provide service and how that capacity may change over time.

The basic capital asset standards reside in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraphs 18–29, as amended. However, capital assets are the primary focus of (or are significantly addressed in) multiple pronouncements, including:

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- Statement No. 44, *Economic Condition Reporting: The Statistical Section*
- Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 87, *Leases*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*.

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Paragraph 19 of Statement 34, as amended, defines capital assets as including the following (footnotes omitted):

> ...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.

In general, governments are required to report capital assets at their historical cost and to depreciate that historical cost in a systematic and rational manner over the estimated useful lives of the assets. Capital assets are reported at their historical cost net of accumulated depreciation in financial statements using the economic resources measurement focus and the accrual basis of accounting. The primary exceptions to the depreciation requirement are land (which is considered inexhaustible), construction in progress, and infrastructure assets reported using the *modified approach*.

The modified approach is an optional reporting method available to governments that meet certain criteria demonstrating that the qualifying infrastructure assets are being maintained over time at a consistent physical condition level determined in advance by the government. Instead of depreciation, governments employing the modified approach report annual expenses for the cost of maintaining and preserving the assets at the predetermined condition level. Those governments are required to present required supplementary information (RSI) that includes (1) assessed physical condition for the past three condition assessments, (2) a comparison of needed maintenance and preservation spending with actual spending for the past five fiscal years, and (3) notes to RSI describing the system of condition assessment used, the condition level at which the government intends to preserve its infrastructure, and changes in the system and other factors affecting the reported trends.

During the development of Statement 34, the Board considered other alternatives to reporting depreciation expense for infrastructure assets. One such alternative was the *preservation method,* which proposed reporting a capital use charge in the statement of activities based on changes in an asset's condition level. The Board heard from engineers and transportation finance officers at that time that although those approaches are of great value in managing infrastructure assets, they had not developed to the point at which consistent measurement methods or scales could be used to assess condition sufficiently for recognition in financial statements. The Board

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tabled the preservation method and did not include the option in Statement 34 due to measurement and other issues.

Since the advent of comprehensive capital asset reporting under Statement 34, relatively limited research has been conducted regarding state and local government reporting of capital assets within the scope of audited annual financial statements. Some research has been conducted, however, on the modified approach, suggesting that its use is not widespread beyond state governments and varies significantly from government to government.

Three sections follow in this research memorandum. The first presents the basic research questions and the second describes the activities conducted for each of the phases of the research. The final section presents the results of the research, including a summary and analysis of the data collected and includes subsections for each of the major capital asset reporting requirements and for other topics explored in the research. The major capital asset reporting requirements and other topics examined included:

RESEARCH QUESTIONS

- What choices do governments make with respect to their capital asset-related accounting policies, such as capitalization thresholds, depreciation methods, and estimated useful lives? Why do governments select those policies?
- How do governments determine when outflows enhance the service capacity or extend the useful life of an asset?
- How do governments report transactions that include one capital asset being "exchanged" for another capital asset, regardless of whether the transactions include additional compensation?
- How does the reduction in net book value over time and the estimated useful lives of capital assets compare with the actual diminution of service capacity and their actual useful lives, respectively?
- How has the incidence of reporting infrastructure assets using the modified approach changed since prior studies were conducted, if at all (see the next section)? Which networks or subsystems is it being applied to? What methods are used to assess condition? What condition levels are set?
- Why did governments using the modified approach choose to do so in lieu of depreciation? If governments have ceased to use the modified approach, why did they change their reporting method?
- How do users utilize capital asset information? How do they use the modified approach RSI?
- How has the optional use of the modified approach affected the comparability of net position, expenses, and other financial statement information between governments that use it and those that do not?

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- How has state and local government usage of asset management systems that meet the criteria in Statement 34, paragraph 23, changed since the issuance of Statement 34?
- Should a change in condition of capital assets have an impact on resource flows in the statement of activities and other resource flows statements? How would it be measured?
- What information do governments collect and report about deferred maintenance? How is deferred maintenance estimated and do those estimates possess the characteristics of information reported in general purpose external financial reports?

RESEARCH ACTIVITIES

The phases of the research consisted of a literature review; archival research; interviews with capital asset management system providers and consultants and industry associations; research roundtables with users and with preparers and auditors; surveys of preparers, auditors, and users of financial statements; and joint research roundtables with users, preparers, and auditors. This capstone memorandum summarizes and synthesizes the results of all phases of the research.

Literature Review

The literature review included the review of capital asset concepts and frameworks from GASB and from other standards setters, articles from academic journals and professional publications, several research reports prepared for the GASB under a Gil Crain Memorial Research Grant, and other sources identified through general monitoring of capital asset accounting and reporting requirements. The articles and research reports relevant to the capital assets pre-agenda research focused on three broad areas—(1) capital asset accounting and financial reporting policies adopted by governments, (2) impairments of capital assets, and (3) the modified approach for reporting certain infrastructure assets. The objectives of the literature review were to determine whether publications and other literature provide evidence as to the nature of governments' capital asset accounting policies and the effectiveness of the existing standards applicable to capital asset accounting and financial reporting and to inform the development of the other research phases.

Archival Research

The objective of the archival research was to determine, through reviewing a random sample of annual financial reports, the prevalence and length of capital asset note disclosures in government financial reports. The examination was not intended to determine if a given capital asset note disclosure should have been provided by a government. Rather, the examination was meant to determine prevalence—whether

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each of the capital asset note disclosures existed in the sample governments' financial statements. The research also accumulated data regarding the length of capital asset note disclosures.

The staff reviewed the fiscal year 2015 annual financial reports of 493 randomly selected states, counties, localities, school districts, and special-purpose governments (including colleges and universities). The special purpose governments and colleges and universities government types were re-categorized as either taxing districts or business-type entities. Table 1 presents the number of annual financial reports examined by type and size of government. Size was assessed using the revenue thresholds for implementation of Statement 34.

Table 1
Number of Governments in the Archival Research Sample, by Type and Size

Type of Government	Phase 1	Phase 2	Phase 3	Total
Business-type entity	17	12	7	36
County	50	50	25	125
Locality	50	50	25	125
School district	50	25	26	101
State	48	–	–	48
Taxing district	18	18	22	58
Total	**233**	**155**	**105**	**493**

Interviews with Capital Asset Management System Providers and Consultants and Industry Associations

The interviews of capital asset management system providers and consultants and industry associations were the initial interaction with stakeholders early in the research process. The objectives of the interviews were to gain an understanding of capital asset management systems that are used by state and local governments and how those systems have changed since the implementation of Statement 34 major groups of disclosures. Participants were asked:

- How prevalent the use of capital asset management systems by state and local governments are and what types of governments are most likely to use capital asset management systems
- What the primary purposes for which governments use their capital asset management systems

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- Whether governments use separate information systems for infrastructure from other capital assets
- What the biggest changes in capital asset management systems that have occurred since Statement 34 was issued and percentage of governments by type have incorporated those changes into their capital asset management systems
- What factors governments consider in selecting information systems for capital assets and why do some governments that are comparable to governments with capital asset management systems choose not to acquire and use a system
- How governments establish capital asset policies related to capitalization thresholds, salvage value, estimated useful life, and methods of depreciation
- How the presence of an existing system, of lack thereof, affect governments' decisions about whether to use the modified approach of depreciation for infrastructure and whether interviewees were aware of governments' initial decisions about whether to use the modified approach for infrastructure have changed.

Five participants were interviewed. One participant represented an industry association, three participants were capital asset management system consultants, and one participant was a capital asset management system provider and consultant.

Research Roundtables-Users

The objectives of the user research roundtables were to gather information on how capital asset information is used in analyses, decision making, and assessments of accountability and to gauge the effectiveness of current information related to capital assets provided in government financial statements. User participants were asked:

- What do you think are the positive and negative aspects of the information reported about capital assets in financial statements and notes?
- What do you think are the positive and negative aspects of the information reported about depreciation in financial statements and notes?
- What do you think are the positive and negative aspects of the modified approach and the related information reported about infrastructure assets?
- What do you think are the positive and negative aspects of the provisions for reporting impairments of capital assets?
- What information about deferred maintenance, if any, do you use at present or would use, if it were available? How do you or would you use that information for performing analyses, making decisions, or assessing accountability?
- Should the GASB consider requiring governments to report that information? Why or why not?
- What other topics not discussed already, if any, should the GASB consider regarding capital asset accounting and financial reporting?

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Table 2 presents the types of user participants for the six user research roundtables that were held. Due to rounding, the percentages in the table below and all other tables in this paper may not add to the total.

Table 2
User Research Roundtable Participants, by User Type

	Number	Percentage
Academic		
Accounting	4	10%
Nonaccounting	7	18%
Citizen and advocacy		
Advocacy group	1	3%
Citizen group	3	8%
Research organization	3	8%
Government oversight	5	13%
Muni bond industry		
Bank	1	3%
Bond insurer	1	3%
Financial firm	4	10%
Insurance investor	2	5%
Mutual fund	5	13%
Rating agency	2	5%
Professional group	1	3%
Total participants	39	100%

Research Roundtables-Preparers and Auditors

The objectives of the preparer and auditor roundtables were to gather information on how governments select and apply capital asset related accounting policies and difficulties in applying and auditing current financial reporting standards related to capital assets. Preparers and auditors were asked:

- What are the positive and negative aspects of the definition of capital assets?
- What are the positive and negative aspects of the provisions for initial recognition of capital assets?
- What are the positive and negative aspects of the provisions for reporting impairments of capital assets?
- What are the positive and negative aspects of the provisions for reporting depreciation of capital assets?
- What are the positive and negative aspects of the modified approach to reporting infrastructure assets?

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- What are the positive and negative aspects of the requirements related to information about capital assets in note disclosures, RSI, and the statistical section?
- What other topics not discussed already, if any, should the GASB consider regarding capital asset accounting and financial reporting?

Table 3 presents the types of preparer and auditor participants for the six preparer and auditor roundtables that were held.

Table 3
Research Roundtable Participants, by Preparer and Auditor Type

	Number	Percentage
Auditor		
National audit firm	14	23%
Local audit firm	4	7%
State auditor	4	7%
City auditor	1	2%
Preparer		
City/town/village	7	11%
County	5	8%
Other business-type activity	5	8%
Other taxing district	1	2%
Public college/university	4	7%
Public hospital/healthcare	1	2%
Public power utility	1	2%
Public water/sewer utility	2	3%
State	10	16%
Professional group	2	3%
Total Participants	61	100%

User Surveys

The objective of the user survey was to further explore issues identified during the user research roundtable and to gather information on the value of capital asset information currently presented in financial statements. The user survey posed questions about the value of information related to capital assets for analysis, decision making, and assessments of accountability. The survey also asked questions about users obtain information related to deferred maintenance and the value of that information for

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analysis, decision making, and assessments of accountability. Table 4 presents the types of respondents who completed the user survey.

Table 4
User Survey Respondents, by Type of User

Type of User	Number	Percentage
Academics:		
Accounting	3	16%
Other than accounting	2	11%
Subtotal, academics	5	26%
Financial community:		
Rating agency	2	11%
Sell-side	1	5%
Commercial banking-direct lending	1	5%
Other buy-side	2	11%
Subtotal, financial community	6	32%
Other users:		
Oversight entity	2	11%
Research organization	1	5%
Citizen/taxpayer group	1	5%
Private citizen	1	5%
Other	3	16%
Subtotal, other users	8	42%
Total	19	100%

Preparer Survey

The preparer survey sought to further assess issues related to the prevalence of difficulties related to providing capital asset information that were raised during the preparer and auditor research roundtables and to gather information related to accounting policies related to capital assets. The preparer survey posed questions about (1) general issues, such as the types of capital assets and various related accounting

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policies and (2) the level of difficulty of preparing capital asset information and how those difficulties are resolved.

Table 5 presents the type and size of government of the respondents who completed the preparer survey. Size was assessed using the revenue thresholds for implementation of Statement 34.

Table 5
Preparer Survey Respondents, by Type and Size of Government

	Phase 1	Phase 2	Phase 3	Unknown	Total
City/town/village	26	44	11	-	81
County	24	12	3	-	39
Other business-type activity	10	5	3	-	18
Other taxing district	2	6	4	-	12
Postemployment benefit plan/system	7	-	1	-	8
Public college/university	23	5	1	-	29
Public hospital/healthcare	1	1	-	-	2
Public power utility	8	1	1	-	10
Public water/sewer utility	4	6	3	-	13
School district	4	6	-	-	10
State	35	4	5	2	46
Tribal government	2	1	-	-	3
Total	146	91	32	2	271
Percentage	54%	34%	12%	1%	100%

Note on phases of the states: Respondents that are classified as phase 2 or phase 3 states are a result of the participant being a department of the state. They self-selected the amount of annual revenues and, to maintain the perspective from which they were providing responses, staff did not modify their phase.

Auditor Survey

The auditor survey sought to further assess issues related to the prevalence of difficulties related to providing and auditing capital asset information that were raised during the preparer and auditor research roundtables and to gather information related to observance of accounting policies related to capital assets. The auditor survey posed questions about (1) general issues, such as the types of capital assets and various related accounting policies of clients, (2) the level of difficulty clients had in preparing capital asset information and how those difficulties are resolved, and (3) auditing issues.

Table 6 presents the types of respondents who completed the auditor survey.

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Table 6
Auditor Survey Respondents, by Type of Auditor

Type of Auditor	Number	Percentage
City Auditor	4	3%
National Audit Firm	24	21%
Regional Audit Firm	68	58%
State Auditor	21	18%
Total	117	100%

Research Roundtables-User, Preparers, and Auditors

The objective of the research roundtables with users, preparers, and auditors, was to explore potential topics related to capital assets for which potential solutions could be provided through the standard setting process. Most topics were identified through the prior research roundtables and the survey responses. Some topics were identified through prior staff work on other projects.

Participants were asked the research questions with each question having a different participant providing the initial answer to the extent a sufficient number of participants were available at the roundtable to do so. For open ended questions, participants were able to provide more than one reason to support their position. In addition, some participants did not provide specific reasons to support their position. As a result, the number of reasons provided in the analysis below may be greater than or less than the number of participants. In addition, as the discussion was open-ended, some participants provided comments when asked certain questions that were more directly related to other research questions. Such comments have been reported below with the question to which the comment most directly relates.

Participants were asked the following research questions:

- Whether reporting capital assets at net book value is appropriate or what other method(s) should be used to report capital assets?
- Should information related to the measurement of capital assets also be presented using a different measurement method in notes to financial statements, required supplementary information, or supplementary information?
- Do ancillary charges meet the definition of an asset, deferred outflow of resources, or outflow of resources?
- What additional criteria or explanation, if any, would help to improve consistency in the application of the requirements to include ancillary charges in the cost of capital assets?

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- What additional criteria or explanation, if any, would help to improve consistency in reporting improvements to capital assets?
- What additional criteria or explanation, if any, can be added to the calculation of net book value to minimize the likelihood that a capital asset still in use will be reported as fully depreciated?
- Whether the modified approach is an acceptable method to report infrastructure assets or what other alternative approaches other than book value, if any, should be allowed?
- Whether information required to be presented as required supplementary information for infrastructure assets reported using the modified approach should be required for infrastructure assets that are not reported using the modified approach?
- What are the difficulties, if any, associated with determining whether the specified criteria to not capitalize collections of works of art and historical treasurers are met?
- Should information related to deferred maintenance be reported and what information and for what types of capital assets should that information be reported?

Table 7 on the next page presents the types of participants for the four research roundtables that were held for users, preparers, and auditors.

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Table 7
Research Roundtable Participants, by Stakeholder Type

	Number	Percentage
User		
Academic		
Accounting	1	3%
Nonaccounting	1	3%
Citizen and Advocacy-Research Organization	2	6%
Muni Bond Industry		
Financial Firm	3	8%
Insurance Investor	1	3%
Mutual Fund	1	3%
Rating Agency	1	3%
Total users	10	28%
Preparer		
City/town/village	3	8%
County	1	3%
State	1	3%
Public water/sewer utility	1	3%
Consultant	2	6%
Total preparers	8	22%
Auditor		
National audit firm	11	31%
Local audit firm	4	11%
State auditor	3	8%
Total Auditors	18	50%
Total Participants	36	100%

Limitations of the Research

The principal limitation associated with this research relates to the representativeness of the samples to the populations of all preparers, auditors, and users of state and local government financial statements. Efforts were made to select roundtable and interview participants that have experience with different sizes and types of entities, as well as to achieve geographic diversity. The outreach efforts to invite stakeholders to take the surveys could not have reached all constituents, and the constituents that chose to respond were not randomly selected. Consequently, the findings are not generalizable.

RESEARCH RESULTS

Literature Review

Governmental Accounting Standards Board

GASB literature regarding capital assets is derived mostly from Statements 34, 42, and 51 and is included in Section 1400 of the Codification of Governmental Accounting and

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Financial Reporting Standards. Initial measurement of capital assets is historical cost plus ancillary charges necessary to place the asset into its intended location and condition for use. Capital assets are then depreciated over their estimated useful lives unless they are inexhaustible. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly or unexpectedly declined. More detailed requirements related to the detailed topics in the other research results that follow are included as background information on those topics below.

Financial Accounting Standards Board

The FASB provides targeted overall accounting and financial reporting guidance for property, plant, and equipment (PPE) in ASC Topic 360, *Property, Plant, and Equipment*. Additionally, Topic 360 references various other topics that contain industry-specific guidance related to PPE, such as airlines and real estate.

General Guidance

General guidance related to PPE is limited. For example, the FASB does not provide a definition of PPE or general guidance for the recognition of PPE.

Recognition

The FASB provides specific recognition guidance in paragraphs 360-10-25-2 through 4 for the acquisition of the residual value in a leased asset (either the purchase of the asset at the end of the lease term or the right to receive the proceeds from the sale of the asset at the end of the lease term). That guidance states that "[a]n interest in the residual value of a leased asset shall be recorded as an asset at the date the right is acquired." The FASB also prohibits the use of the accrue-in-advance method for planned major maintenance activities for annual and interim financial reporting periods in 360-10-25-5.

Initial Measurement

In paragraph 360-10-30-1, the FASB provides "that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. As indicated in that paragraph, if an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset is a part of the historical cost of acquiring the asset."

Additionally, the glossary of Topic 360 provides further clarification regarding what constitutes the activities to bring PPE to the condition and location necessary for its intended use:

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> The term activities is to be construed broadly. It encompasses physical construction of the asset. In addition, it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during the preconstruction stage, such as the development of plans or the process of obtaining permits from governmental authorities. It also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation.

Subsequent Measurement

Depreciation

The FASB describes depreciation accounting conceptually in paragraphs 360-10-35-3 and 4, as follows:

> Depreciation expense in financial statements for an asset shall be determined based on the asset's useful life.
>
> The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.

The FASB provides specific guidance for the declining balance method of depreciation in paragraph 360-10-35-7:

> The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue-earning power of the asset is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, that produce substantially similar results.

The FASB also explains in paragraph 360-10-35-8 that entities should consider factors such as experience relating to loss or damage, wear and tear, obsolescence, and maintenance and replacement policies in estimating the useful lives of PPE assets. Additionally, in paragraph 360-10-35-9, the FASB prohibits the use of certain depreciation methods, such as annuity methods or the Accelerated Cost Recovery

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System of the Internal Revenue Service if the number of years specified by that system does not fall within a reasonable range of the PPE asset's useful life.

Impairment

The FASB provides measurement guidance for the impairment of PPE assets that are to be held and used. In paragraph 360-10-35-17, the FASB explains the circumstances that give rise to the impairment of PPE:

> An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

In paragraph 360-10-35-20, the FASB explains that after an impairment loss is recognized, the adjusted carrying amount of the PPE asset becomes its new cost basis. For PPE assets subject to depreciation, the new cost basis is required to be depreciated or amortized over the remaining life of the asset. The FASB prohibits the restoration of a previously recognized impairment loss.

FASB also requires certain factors to be considered when given rise to an impairment loss that are similar to GASB requirements.

Disposal

The FASB also provides guidance for expected losses on disposal of PPE assets and assets that are classified as "held for sale" but have not yet been sold.

Derecognition

The FASB provides certain guidance relating to the sale of leased assets; additionally, the FASB clarifies in paragraph 360-10-40-5 that any previously unrecognized gain or loss that results from the sale of a PPE asset is recognized as of the date of the sale.

Other Presentation Matters

The FASB also provides guidance for the presentation of the impairment or disposal of PPE assets that are classified as held and used, held for sale, or to be disposed of other than by sale. In paragraphs 360-10-45-4 and 5, the FASB requires that impairment

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losses recognized on PPE assets held for use or on the sale of PPE assets be recognized in income from continuing operations before income taxes on entities' flows statements.

Disclosure

The FASB provides general disclosure requirements for PPE assets in paragraph 360-10-50-1, as follows:

> Because of the significant effects on financial position and results of operations of the depreciation method or methods used, all of the following disclosures shall be made in the financial statements or in notes thereto:
>
> a. Depreciation expense for the period
> b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
> c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date
> d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

The FASB also requires certain disclosures for impairment losses related to PPE assets classified as *held and used*, as well as for PPE assets classified as *held for sale* or that have been disposed of during the period in paragraphs 360-10-50-2 and 3:

> All of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:
>
> a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment
> b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss
> c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)

If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.

> For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:
>
> a. A description of the facts and circumstances leading to the disposal or the expected disposal.

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b. The expected manner and timing of that disposal.
c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.
d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.
e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.
f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

Finally, the FASB requires certain additional disclosures related to PPE assets that have been disposed of or classified as held for sale and entities that have issued or are conduit bond obligors for publicly traded securities in paragraph 360-10-50-3A. The FASB provides an example for disclosures related to the potential impairment of a PPE asset in paragraphs 360-10-55-50 through 54.

International Accounting Standards Board

The IASB provides guidance for the recognition, measurement, and disclosure of property, plant, and equipment in International Accounting Standard (IAS) 16, *Property, Plant, and Equipment*. The IASB defines PPE in paragraph 6 of IAS 16 as "tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period."

Recognition

The IASB provides guidance for the recognition of PPE in paragraph 7 of IAS 16 as follows:

> The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
>
> a. it is probable that future economic benefits associated with the item will flow to the entity; and
> b. the cost of the item can be measured reliably.

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The IASB explains that a recognition unit of account is not prescribed for PPE, and that professional judgement may be required in applying the recognition criteria. The IASB also explains that in some circumstances, applying the recognition criteria to an aggregation of individually insignificant items may be appropriate.

In paragraph 11 of IAS 16, the IASB provides guidance for the initial costs associated with acquiring PPE that should be included in the measurement of the asset:

Initial costs

> Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IAS 36 Impairment of Assets.

Additionally, in paragraphs 12 through 14, the IASB provides guidance for subsequent costs that should or should not be recognized as part of the carrying value of PPE assets. Specifically, the IASB states that day-to-day maintenance of PPE should not be capitalized, but rather should be recognized as incurred in profit or loss. However, the costs of replacements of parts or major inspections should be recognized as part of the carrying amount of the PPE. In such instances, any remaining carrying value of previous parts or inspections would be derecognized.

Measurement

In paragraph 15, the IASB provides guidance for the initial measurement of PPE as follows:

Measurement at Recognition

> An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

In paragraphs 16 and 17, the IASB provides the conceptual underpinning and examples of the elements of cost that are to be included in the initial measurement of PPE:

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Elements of Cost

16. The cost of an item of property, plant and equipment comprises:

a. its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
b. any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
c. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17. Examples of directly attributable costs are:

a. costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
b. costs of site preparation;
c. initial delivery and handling costs;
d. installation and assembly costs;
e. costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
f. professional fees.

Additionally, the IASB highlights examples of costs that should not be capitalized as PPE in paragraph 19, including:

a. costs of opening a new facility;
b. costs of introducing a new product or service (including costs of advertising and promotional activities);
c. costs of conducting business in a new location or with a new class of customer (including cost training s of staff); and
d. administration and other general overhead costs.

In paragraph 20, the IASB highlights that recognition of costs in the carrying amount of PPE ceases when the PPE is in the location and condition necessary to be capable of operating in the manner intended by management. In paragraphs 21 through 23, the IASB emphasizes that the same measurement principles apply to the construction of

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assets (those costs that are necessary to bring the asset to the location and condition necessary for operations are included in the measurement of the asset).

The IASB provides further measurement guidance in paragraphs 23 through 28. Specifically, the IASB states that the cost of an item of PPE is the cash price equivalent at the recognition date. Additionally, the IASB requires that in instances wherein payment is deferred beyond credit terms, the difference between the cash equivalent and the total payment be recognized as interest. The IASB also provides measurement guidance for non-monetary transactions that involve the acquisition of PPE (a like-kind exchange). In such circumstances, the cost would be measured at the fair value of the asset acquired, unless the transaction lacks commercial substance or the fair value of neither asset is measurable.

In paragraphs 30 and 31, the IASB presents two alternatives for subsequent measurement for an entity to select as its accounting policy for an entire class PPE.

Cost model

> 30. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

> 31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The IASB explains in paragraph 34 that the frequency of revaluation depends upon the volatility of changes in fair value to the PPE asset. Therefore, annual revaluations may be necessary for assets with volatile fair values, while assets with more stable fair values may be revalued only every three or five years.

Depreciation

The IASB provides guidance for depreciation in paragraphs 43 through 62A. In general, the IASB requires that the depreciable amount of an asset be allocated on a systematic basis over its useful life. The residual value and useful life of the asset are reviewed on at least an annual basis and if expectations differ, the change is accounted for as a change in accounting estimate according to IAS 8, *Accounting policies, Changes in Accounting Estimates and Errors*. Parts of each PPE asset with a significant cost

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relative to the cost of the asset are required to be depreciated separately. Depreciation begins when the asset is in the location and condition necessary for operations and ceases when the asset is held for sale or derecognized. The IASB requires that the depreciation charge for each period be recognized in profit or loss, unless it is included in the carrying amount of another asset.

With regards to the depreciation method employed by entities, the IASB requires that a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed be used. The IASB describes several acceptable depreciation methods in paragraph 62, as follows:

> 62. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

The IASB also emphasizes that the depreciation method employed should be reviewed at least annually, and the method should be changed if significant changes in the expected pattern of usage of the asset occur. Those changes should be accounted for as a change in accounting estimate according to IAS 8. Lastly, the IASB emphasizes that a revenue-based depreciation method is not acceptable.

Impairment

Guidance for the impairment of PPE assets is provided in IAS 36, *Impairment of Assets*. Accordingly, paragraph references related to impairment refer to IAS 36. Given that IAS 36 applies to all assets (not just PPE), the project staff has only included excerpts from the standard that are relevant to PPE. That standard explains that an asset is impaired if its carrying amount exceeds its recoverable amount (the higher of its fair value less disposal costs and its value in use). The IASB requires that entities test assets for impairment at the end of each reporting period, and that entities estimate the recoverable amount of the asset if an indication of impairment exists. In testing for impairment, an entity would consider external and internal sources of information.

The IASB also provides guidance for how entities should estimate the recoverable amount for assets that have been impaired (fair value less disposal costs or value in

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use). Specifically, the IASB provides examples of disposal costs, such as legal costs, costs of removing the asset, and stamp duties in paragraph 28. Additionally, the IASB provides certain elements that entities should consider in estimating an asset's value in use in paragraph 30.

Recognition

The IASB explains in paragraphs 59 and 60 that once an entity determines an asset's recoverable amount, if the recoverable amount is less than the carrying amount, the asset's carrying amount should be reduced to the recoverable amount. That reduction is recognized as an impairment loss in profit or loss. Additionally, subsequent to the recognition of an impairment loss, the IASB requires that the depreciation for an asset be adjusted to the asset's new revised carrying amount (paragraph 63). In paragraph 117, the IASB allows for the reversal of a previously recognized impairment loss if there is an indication that the asset's recoverable amount is greater than the carrying amount. The reversed impairment loss is recognized in profit or loss; however, a reversal of an impairment loss only can be recognized to the extent of the original carrying amount.

Disclosure

In paragraph 126 of IAS 36, the IASB requires that entities disclose certain items for each class of assets, such as the amount of impairment losses and reversals recognized during the period, for both cost-basis and revalued assets. The IASB also requires disclosures related to individual assets in paragraph 130, including the events and circumstances that led to the recognition or reversal of the impairment loss; the amount of loss recognized or reversed; the nature of the asset; and information about the recoverable amount and carrying amount of the asset. In paragraph 131, the IASB requires certain disclosures about the aggregate impairment losses and aggregate reversals recognized during the period, including the main classes of assets affected and the main events and circumstances that gave rise to the impairment or reversal.

Derecognition

Paragraphs 67 through 72 of IAS 16 provide guidance for the derecognition of PPE assets. Specifically, PPE assets are derecognized upon disposal of the asset or when there are no expected future economic benefits from the use or disposal of the asset. The IASB requires that the gain or loss resulting from the derecognition of PPE be included in profit or loss but prohibits the classification of such gains as revenue (unless the entity routinely sells PPE assets as the ordinary course of business

Disclosure

The IASB requires certain disclosures related to each class of PPE assets. Those disclosure requirements are found in paragraph 73 if IAS 16, as follows:

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a. the measurement bases used for determining the gross carrying amount;
b. the depreciation methods used;
c. the useful lives or the depreciation rates used;
d. the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
e. a reconciliation of the carrying amount at the beginning and end of the period showing:
    i. additions;
    ii. assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
    iii. acquisitions through business combinations;
    iv. increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with IAS 36;
    v. impairment losses recognised in profit or loss in accordance with IAS 36;
    vi. impairment losses reversed in profit or loss in accordance with IAS 36;
    vii. depreciation;
    viii. the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
    ix. other changes.

Additionally, in paragraph 74, the IASB requires other disclosures related to PPE assets, including:

a. the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
b. the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
c. the amount of contractual commitments for the acquisition of property, plant and equipment; and
d. if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

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Finally, for assets measured under the revaluation method, the IASB requires the following disclosures as presented in paragraph 77:

a. the effective date of the revaluation;
b. whether an independent valuer was involved;
c. for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
d. the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders

International Public Sector Accounting Standards Board

The IPSASB provides guidance for accounting and financial reporting for PPE in IPSAS 17, *Property, Plant and Equipment*. IPSAS 17 is drawn primarily from IAS 16. At the time of the current Standard's issuance, the IPSASB had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore, IPSASB 17 does not reflect amendments made to IAS 16 as a result of IFRS 5.

A key difference between IAS 16 and IPSAS 17 is the relevance of infrastructure assets to public sector entities. The IPSASB provides characteristics of infrastructure assets instead of a single definition. In paragraph 21 of IPSAS 17, the IPSASB provides the following guidance for identifying infrastructure assets:

Infrastructure Assets

> Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:
> (a) They are part of a system or network;
> (b) They are specialized in nature and do not have alternative uses;
> (c) They are immovable; and
> (d) They may be subject to constraints on disposal.

With respect to the other key differences between IAS 16 and IPSAS 17, the IPSASB provides a comparison of the two standards and describes the following main differences related to initial measurement, revaluation increases and decreases, definitions, and terminology:

> IAS 16 requires items of property, plant and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired. IAS 16 requires, where an enterprise adopts the revaluation model and carries items of property,

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plant and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.

Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases are offset on a class of asset basis.

IPSAS 17 contains definitions of "impairment loss of a non-cash-generating asset" and "recoverable service amount." IAS 16 does not contain these definitions. Commentary additional to that in IAS 16 has been included in IPSAS 17 to clarify the applicability of the standards to accounting by public sector entities.

IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms "statement of financial performance," "statement of financial position" and "net assets/equity" in IPSAS 17. The equivalent terms in IAS 16 are "income statement," "balance sheet" and "equity."

IPSAS 17 does not use the term "income," which in IAS 16 has a broader meaning than the term "revenue".

Federal Accounting Standards Advisory Board

The FASAB provides guidance related to the accounting and financial reporting of general PPE in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*. FASAB divides PP&E into three categories: general PPE, heritage assets, and stewardship land. The FASAB provides guidance for heritage assets, multi-use heritage assets, and stewardship land in SFFAS 29: *Heritage Assets and Stewardship Land*. The FASAB defines PP&E in paragraph 17 of SFFAS 6 as consisting of:

a. tangible assets, including land, that meet the following criteria:
b. they have estimated useful lives of 2 years or more;
c. they are not intended for sale in the ordinary course of operations; and
d. they have been acquired or constructed with the intention of being used, or being available for use by the entity.

In paragraph 18, the FASAB also includes the following in its definition of PP&E:

a. assets acquired through capital leases, including leasehold improvements;

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b. property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and
c. land rights.

The FASAB specifically excludes the following items from its PP&E definition in paragraph 19:

a. held in anticipation of physical consumption such as operating materials and supplies and
b. the Federal entity has a reversionary interest in.

The FASAB addresses capitalization thresholds by requiring thresholds to be established by Federal entities considering their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds."

Recognition and Measurement

The FASAB's guidance related to asset recognition in paragraph 26 is as follows:

> All general PP&E shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:
>
> a. amounts paid to vendors;
> b. transportation charges to the point of initial use;
> c. handling and storage costs;
> d. labor and other direct or indirect production costs (for assets produced or constructed);
> e. engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
> f. acquisition and preparation costs of buildings and other facilities;
> g. an appropriate share of the cost of the equipment and facilities used in construction work;
> h. fixed equipment and related installation costs required for activities in a building or facility;
> i. direct costs of inspection, supervision, and administration of construction contracts and construction work;
> j. legal and recording fees and damage claims;
> k. fair value of facilities and equipment donated to the government; and
> l. material amounts of interest costs paid.

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The FASAB then prescribes guidance for measuring general PP&E acquired through donation, devise, or judicial process at its fair value in paragraphs 31-33, accordingly:

> 31. The cost of general PP&E transferred from other Federal entities shall be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred.
>
> 32. The cost of general PP&E acquired through exchange shall be the fair value of the PP&E surrendered at the time of exchange.38 If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair value of PP&E acquired. If neither fair value is determinable the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.
>
> 33. The cost of general PP&E acquired through forfeiture shall be determined in accordance with Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property (SFFAS 3). Amounts recorded for forfeited assets based on SFFAS 3 shall be recognized as the cost of general PP&E when placed into official use.

In paragraph 34, the FASAB requires that PP&E be recognized "when the title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, it should be recorded as construction in progress until it is placed in service, at which time the balance should be transferred to general PP&E."

Depreciation

The FASAB provides guidance for depreciation in paragraphs 35 through 39. The FASAB specifies that "depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the PP&E." The FASAB emphasizes that all general PP&E is to be depreciated, except for land and land rights of unlimited duration. The FASAB also lists the following characteristics to consider in calculating depreciation expense in paragraph 35:

- Estimates of useful life of general PP&E must consider factors such as physical wear and tear and technological change (e.g., obsolescence).

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- Various methods can be used to compute periodic depreciation expense so long as the method is systematic, rational, and best reflects the use of the PP&E.
- Any changes in estimated useful life or salvage/residual value shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization.
- A composite or group depreciation methodology, whereby the costs of PP&E are allocated using the same allocation rate, is permissible.

The FASAB requires depreciation expense and amortization expense to be recognized in accumulated depreciation and accumulated amortization accounts, respectively, in paragraph 36. Additionally, the FASAB states in paragraph 37 that "Costs which either extend the useful life of existing general PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated general PP&E."

Derecognition

In paragraphs 38 and 39, the FASAB provides guidance for the derecognition of general PP&E. In general, in the period of disposal, retirement, or removal from service, general PP&E and its associated asset accounts are to be derecognized. Additionally, any difference between the book value of the PP&E and the amounts realized must be recognized as a gain or loss in the period of disposal, retirement, or removal. The FASAB also requires entities to remove general PP&E if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. The FASAB clarifies that this circumstance could arise because the PP&E has suffered damage, becomes obsolete, or is identified as excess. The FASAB requires PP&E in this circumstance to be recorded at its expected net realizable value with any difference in the book value and expected net realizable value as a gain or loss. The FASAB then states "no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service."

Disclosure

Paragraph 45, the FASAB lists the minimum disclosure requirements for general PP&E:

- the cost, associated accumulated depreciation, and book value by major class;
- the use and general basis of any estimates used;
- the estimated useful lives for each major class;
- the method(s) of depreciation for each major class;

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- capitalization threshold(s) including any changes in threshold(s) during the period; and
- restrictions on the use or convertability of G-PP&E.

Academic and Professional Literature

The staff reviewed academic and professional literature to provide additional insights as to (1) whether currently required note disclosures sufficiently meet user needs and (2) whether governments face challenges preparing their disclosures. Although not all cited in this section, the staff retrieved and reviewed dozens of articles. The reviewed literature is organized thematically.

Capital Asset Accounting and Financial Reporting Policies

Several studies have examined state and local governments' capital asset accounting and financial reporting policies following the implementation of Statement 34. One study examined the 50 state governments for their fiscal years ending in 2009 and found that the states were in compliance with GAAP reporting requirements, despite some differences in presentation on the face of the financial statements and the structure of note disclosures (Kamnikar et al. 2010).

Although other studies did not explicitly examine compliance with GAAP, such compliance was implied by the fact that researchers were able to collect the required data for their studies. For example, two studies conducted under Gil Crain Memorial Research Grants examined state and local governments' capital asset accounting policy choices. One study analyzed 40 large U.S. counties' annual financial reports generally for the fiscal year ended in 2017 (Ebdon and Kim, 2019). The authors documented the choices counties make with respect to their capital asset accounting policies (e.g., depreciation methods, capitalization thresholds, and estimated useful lives), the factors associated with those choices, the use of asset management systems, and the usefulness of capital asset information in decision making. The study found that the straight-line method of depreciation was widely used (with the limited exception of the modified approach for certain infrastructure assets); however, the authors observed considerable variation in capitalization thresholds and estimated useful lives, making it difficult to compare recognized amounts across governments. Through interviews, the authors were unable to obtain compelling evidence related to the factors associated with counties' capital asset accounting policy choices, the use of asset management systems, and the usefulness of capital asset information in decision making.

A related study examined capital asset accounting policies adopted by states and cities (McDonough and Yan, 2020). The sample period began with each governments' initial adoption of Statement 34 and ended with the fiscal year ending in 2016, allowing the authors to assess capital asset accounting policies across governments and over time. In aggregate, the states (cities) in the sample reported approximately $1 to $1.2 trillion

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($2 to $4 billion) of capital assets, net of depreciation, on their books, which accounted for 55% to 57% (66% to 73%) of their total assets during the sample period. As with Ebdon and Kim (2019), the authors documented significant variation in capitalization thresholds and estimated useful lives. For example, some states and cities capitalized all capital assets—i.e., the government adopted a $0 capitalization threshold—while other states (cities) adopted a threshold of $1 million ($250,000) or more. While most governments' capitalization thresholds were persistent over time, some governments increased capitalization thresholds substantially (e.g., 10, 20, or even 100 times the initial threshold amount). Overall, the authors observed substantial variation in capitalization thresholds and estimated useful lives—including among similarly sized governments—that potentially affects the comparability of governments' financial information.

Impairments of Capital Assets

One study, which was prepared under a Gil Crain Memorial Research Grant, explored how state and local governments identify, measure, and report the impairment of capital assets in conformity with the requirements of Statement 42, and evaluated the usefulness of information about capital asset impairments (Chen and Ebdon, 2021). The authors examined the annual financial reports of 166 "larger" governments (e.g., all states and the largest counties, cities, and business-type entities, by revenue) and 99 "smaller" governments (e.g., counties, local governments, and business-type entities with annual revenues between $10 million and $100 million) during the 2017-2019 fiscal years. The authors found that 32 of the governments—15 out of 50 state governments, five out of 89 county governments, seven out 89 city governments, and five out 37 special districts—reported a total of 52 capital asset impairments during the sample period. These impairments ranged from $2,539 to $143.8 million, with an average capital asset ratio ranging from about 0.31% for states to about 0.68% for local governments (measured as the impairment amount divided by the total net book value of assets for either the governmental activities, business-type activities, or component units, depending on where the impairment was reported).

The authors also conducted interviews with governments reporting an impairment. In addition to discussing the common process for identifying impairments, government personnel indicated reasons for *not* reporting impairments, including: full insurance recovery was received, asset useful lives were reduced instead, full restoration was expected, the values were not material, the assets were not considered prominent, or they simply did not think about reporting the impairment at the time.

Finally, through a survey, the authors found that respondents expected capital asset impairment information to be useful for assessing accountability (29%), transparency (26%), fiscal decision-making (20%), fiscal condition analysis (14%), and credit analysis (11%).

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Modified Approach for Reporting Infrastructure Assets

A number of studies have examined the implementation and consequences of the modified approach for reporting certain infrastructure assets--namely, roads and bridges. This research has generally focused on state governments because states are far more likely to adopt the modified approach. For example, at least a half a dozen studies have confirmed that nearly half the states adopted the modified approach for certain infrastructure assets, whereas other studies have found only a very small percentage of local governments that adopted the modified approach, making it difficult to generate a large enough sample of local governments for a comprehensive analysis.

Benson et al. (2009) provide evidence on the determinants of states' choice to adopt the modified approach. States with higher population growth, better infrastructure management grades, and higher voter support of the current state governor were *more likely* to adopt the modified approach for reporting eligible infrastructure assets. States with more lane miles per capita and states that issued revenue bonds backed by motor fuel and vehicle taxes were *less likely* to adopt the modified approach for reporting eligible infrastructure assets.

Vermeer at al. (2011) found that governments that used the modified approach had more investments in infrastructure assets, both in total dollar value and in the ratio of infrastructure assets to total assets. The governments that used the modified approach also were larger governments in terms of total assets, total revenues, and population than governments that used depreciation accounting. The presence of an adequate asset management system was reported to be the key determinant in governments choosing the modified approach over the depreciation method. Governments that used the modified approach had a statistically smaller percentage of structurally deficient bridges (6 percent versus 11 percent) and had a significantly greater ratio of miles of very good roads to miles of total roads (65 percent versus 50 percent). Importantly, the authors observed considerable variation in the methods of assessment used to determine the condition of infrastructure assets and the baselines for condition (the established and disclosed condition level). The study recommends that the GASB consider the feasibility of providing a list of acceptable measurement scales and condition levels for infrastructure assets accounted for using the modified approach.

In terms of local governments, Pryor (2013) reviewed the annual financial reports of 204 cities and found 9 that used the modified approach—8 using it for roads and 3 using it for bridges. The study noted that a variety of methods were used to assess condition and that it is difficult to compare information from one government to another. The study also noted that some governments that appeared to not be meeting their established condition level addressed the situation by lowering the established condition level rather than changing to the depreciation method of accounting for the

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infrastructure. Schwabe (2013), which was a research report prepared under a Gil Crain Memorial Research Grant, reviewed the financial statements of 620 large and medium-sized cities and counties, this research identified 8 cities, 27 counties, and a metro government that reported infrastructure using the modified approach (again, generally for roads and bridges). The study found, as with other studies, that governments whose assets already had high condition levels were more likely to use the modified approach than those with deteriorating infrastructure and that governments that already had asset management systems in place prior to Statement 34 were more likely to use the modified approach. This study also documented a variety of methods for assessing the condition of roads and bridges. The author concluded that it is rather difficult to compare governments' infrastructure maintenance because there are enough differences (different target condition levels, slightly different measurement scales, etc.) to make government-to-government comparisons very difficult.

Several studies have also examined the association of the modified approach on various outcomes, including secondary market spreads on state government bonds (Bloch et al., 2016), state bond ratings (Benson and Marks, 2017), and capital and maintenance spending on state highway roads and bridges (Kim and Edbon, 2017; Kim et al., 2018; McDonough and Yan, 2020).

Other Research Results

This section summarizes the results from the research roundtables and surveys. The following discussion of research results is summarized by the following topics:

- Recognition and measurement of capital assets
- Note disclosure
- Reporting of infrastructure using the modified approach
- Management's discussion and analysis and statistical section
- Deferred maintenance.

Recognition and Measurement of Capital Assets

Background

Governments are required to report capital assets in their accrual-basis financial statements of net position—the government-wide statement of net position, proprietary funds statement of net position, and fiduciary funds statement of fiduciary net position. (Capital assets are not reported in the governmental funds balance sheet.) Capital assets generally are reported at their historical cost—what it originally cost to purchase, construct, or upgrade the capital assets, including ancillary charges necessary to place them into their intended location and condition for use. This process of reporting that cost as a capital asset in the financial statements, rather than as an expense, is called capitalization.

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At a minimum, governments are required to display on the face of the financial statements the total net book value of their capital assets—their historical cost minus accumulated depreciation. Some governments also display total historical cost and total accumulated depreciation in addition to total net book value. Other governments display the net book value by major type of capital asset (for example, land, buildings, infrastructure, and so on) in addition to total net book value. The only guidance GASB prescribes regarding the level of detail on the face of the statements is that governments with a significant amount of nondepreciated capital assets (such as land and construction in progress) should show them separately from capital assets that are depreciated.

The historical cost of capital assets should be depreciated over their estimated useful lives unless they are (1) inexhaustible (such as land), (2) not yet placed in use (construction in progress), (3) intangible assets with indefinite useful lives, or (4) infrastructure assets reported using the modified approach. Depreciation expense for capital assets that can specifically be identified with a function (such as public safety or public works) should be included in direct expenses of that function in the government-wide statement of activities. In the proprietary funds financial statements and the financial statements of business-type activities (such as universities and hospitals), depreciation expense is displayed as a separate operating expense.

The historical cost of a capital asset should include 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.

Improvements to capital assets generally increase the capacity or efficiency of capital assets or extend their useful lives. Maintenance and repairs generally preserve the useful life of the capital asset but do not extend its life or increase its capacity or efficiency.

If a government has a collection of works of art or historical treasures, it generally is required to report them as capital assets. However, a government may choose not to capitalize the collection if it is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
- Protected, kept unencumbered, cared for, and preserved
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

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Summary of Results

The most significant findings or issues raised in the various stages of the pre-agenda research related to recognition and measurement included the following:

- Some participants in the research believe:
  - Capital assets should be reported at other than net book value or information related to the fair value of capital assets or replacement value of capital assets should be presented in financial statements.
- Some participants have difficulties in determining:
  - Whether certain costs are ancillary charges necessary to place the asset into its intended location and use.
  - Whether certain costs are improvements or are repair and maintenance costs.
- Few participants noted difficulties in accounting for:
  - Exchanges for capital assets
  - Impairments
  - Collections of works of art and historical treasures.

Definition

Preparer and auditor research roundtable

Participants in the preparer and auditor research roundtable were asked to provide the positive and negative aspects of the definition of capital assets. Participants that replied with positive aspects of the definition cited that it is a concise, appropriate, workable definition (six preparers and three auditors). Other positive aspects cited were that the definition (1) only includes assets used in operations (two preparers), (2) only includes assets with estimated useful lives greater than one reporting period (one preparer), and (3) is distinguishable from financial assets (one preparer).

Eleven participants (five preparers and six auditors) that provided negative aspects of the definition believed the definition should include guidance to determine whether internally generated assets such as administrative costs related to construction-in-progress are included. In addition, eleven participants (six preparers and five auditors) believed the definition should include guidance to determine whether an improvement is a capital asset. Also, six participants (three preparers and three auditors) stated that definition should include minimum thresholds because tracking capital assets is burdensome for governments. Five participants (three preparers and two auditors) noted that the definition includes too many intangible assets.

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Display on the face of statements

User survey

The user asked respondents how valuable the information about capital assets displayed on the face of the financial statements of net position is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.4. (See Table 7.) Ten respondents (53 percent) answered 4 or 5, and 13 respondents (68 percent) answered 3–5.

Table 7
How Valuable is the Information about Capital Assets that is Displayed on the Face of Statements of Net Position

	Average User Value of Information	% of Responses Very Valuable
Academics	3.2	20%
Financial Community	3.5	33%
Others	3.4	38%
Total	3.4	32%

The six respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Two respondents answered it would be beneficial to use an alternative method to value capital assets. In addition, two respondents answered that they do not currently use capital assets in their evaluation, and they do not foresee adding it to their analysis in the future.

The 13 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Respondents were permitted to provide more than one response. Respondents identified three primary uses for capital assets information. Four respondents (30.8 percent) answered they use the information to gauge the age of capital assets and to see if the government is routinely investing in capital assets. In addition, four respondents (30.8 percent) replied they use the information to perform a leverage analysis. Three respondents (23.1 percent) answered they use the information to assess how much capital spending the government has each year.

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Depreciation

Preparer and auditor research roundtables

Participants in the preparer and auditor research roundtables were asked to provide the positive and negative aspects of the provisions for reporting depreciation of capital assets. Thirteen participants (eleven preparers and two auditors) stated that the guidance was straightforward. Four participants (auditors) noted that the requirements were easy to implement, and two participants (preparers) answered that the requirements work well. In addition, five participants (four preparers and one auditor) like the flexibility for governments to establish policies related to reporting depreciation.

Some participants commented on the allocation of depreciation expense to functions. Five participants (two preparers and three auditors) stated that a negative aspect of reporting depreciation was the option to not allocate depreciation to specific functions. Two participants (auditors) recommended not allocating depreciation to specific functions because it is difficult to allocate depreciation of capital assets used by internal service funds and to reduce audit procedures. In addition, three participants (preparers) answered allocating to specific function was difficult.

Some participants commented on the establishment of estimated useful lives for capital assets. Three participants (one preparer and two auditors) stated that governments have issues in determining estimated useful lives to use for depreciation with another participant (auditor) noting that estimating useful lives for improvements is difficult. Two participants (preparers) answered that the determination of estimated useful lives is the most difficult part of the process of reporting depreciation. Three participants (two preparers and one auditor) stated that better guidance needs to be provided to establish estimated useful lives with one participant (preparer) recommending GASB provide ranges of estimated useful lives that can be used. Conversely, four participants (three preparers and one auditor) noted that estimated useful lives are unique to each individual government. Two participants (auditors) stated that governments should periodically reassess estimated useful lives which does not occur currently. However, one participant (preparer) replied that the benefit of reassessing estimated useful lives is not justified by the costs that would be incurred.

Five participants (three preparers and two auditors) stated that a negative aspect of reporting guidance related to depreciation was the use of group composite methods because of the difficulty in determining the value of disposals for the group. Four participants (two preparers and two auditors) noted that governments do not estimate salvage value to be used in the determination of depreciation expense. Three participants (one preparer and two auditors) stated that the determination of when a depreciable asset was placed into service to being depreciating was difficult.

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Preparer survey

The survey asked respondents if they use a depreciation method other than straight-line to depreciate capital assets. Fourteen respondents (five percent) replied they use the following methods other than straight-line:

- Modified approach (nine respondents)
- Composite method (two respondents)
- Sinking fund method (one respondent)
- Group depreciation (one respondent)
- Consumption-based depreciation (one respondent).

Auditor survey

The survey asked respondents if they have any governmental clients that use a depreciation method other than straight-line to depreciation capital assets. Nine respondents (7.7 percent) had clients that used a method other than straight-line. The respondents that had seen other methods identified the following methods: composite, double declining, daily, and modified method for infrastructure. Five respondents have seen clients using the composite method. Two respondents have seen clients using the double declining method.

Method of measuring capital assets

User research roundtables

Participants in the user research roundtables were asked to provide the positive and negative aspects of information related to capital assets and depreciation in the financial statements. Three participants stated that they did not believe reporting capital assets at net book value provided useful information. Those participants believe that long-lived assets or inexhaustible assets such as infrastructure and land should be recognized and measured using fair value. One of those participants noted that buildings should not be included as infrastructure assets. Nine respondents expressed concerns that the lack of standardized capitalization thresholds causes comparability issues. Also, five participants stated that the lack of standardized useful lives for capital assets caused comparability issues. In addition, three participants answered that straight-line depreciation is not always representative of the use of an asset.

Preparer and auditor research roundtables

Participants in the preparer and auditor research roundtables were asked to provide the positive and negative aspects of the provisions for initial recognition of capital assets. Ten participants (six preparers and four auditors) stated that the provisions were practical, straightforward, and easy to gather the information needed. Six participants (four preparers and two auditors) replied that a positive aspect is that

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governments are allowed to establish capitalization policies. Four participants (preparers) noted a positive aspect was the flexibility to determine whether components of systems should be capitalized individually or a part of the system. In addition, one participant (preparer) expressed that the provisions provide a comparability of costs incurred for capital purposes by governments.

Eight participants (four preparers and four auditors) answered that the determination of whether to include costs as components of a system or subsystem was difficult to track when governments elect to use account for capital assets using group composite methods was a negative aspect of the initial recognition of capital assets. In addition, eight participants (five preparers and three auditors) stated that the determination as to which costs to include as ancillary charges was difficult. Six participants (four preparers and two auditors) expressed that additional guidance is needed for sales and exchanges of capital assets. Four participants (preparers) stated that the lack of capitalization thresholds established by GASB was a negative aspect of the definition. In addition, four participants (three auditors and one preparer) answered that guidance is needed for recognition of donated assets that previously were not reported. Also, three participants noted that the determination of whether costs were improvements was difficult (two preparers and one auditor).

User survey

The user survey asked respondents to rank the following ways that the amounts for capital assets in financial statements could be measured in the order of their value for their analysis, decision making, or assessments of accountability with 1 being the most valuable and 4 being the least valuable. (See Table 8.)

- Fair value (the amount that would be received if the asset were sold)
- Historical cost
- Replacement cost (the cost to replace the asset with a similar asset)
- Other

Table 8
Ranking of Capital Asset Measurement Methods

	Average	% of Responses Most Valuable
Fair Value	2.1	21%
Historical Cost	2.1	42%
Replacement Cost	1.9	37%
Other	3.3	0%
Total	2.1	31%

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For the measurement they ranked as 1, the respondents were asked to provide the reason it was most valuable to their analyses, decision making, or assessments of accountability. Respondents were able to provide more than one response.

Respondents that Ranked Fair Value First

One respondent answered that it would be relied on to predict future capital needs. Another respondent replied that it would be consistent with how they value other assets. Another respondent answered that it would be beneficial for collateral calculations. Another respondent stated that they want the assets recorded on the cash basis rather than fair market value. Representative comments are shown below.

Respondents that Ranked Historical Cost First

Five respondents answered that historical cost was valuable because it was derived from non-subjective data that was readily available. Each of the following reasons was mentioned by one respondent:

- Historical cost is an indication that the asset exists
- Assets are tied to their funding source, which is often debt, and historical cost allows users to assess how leveraged the assets are
- Assessments of interperiod equity.

Respondents that Ranked Replacement Cost First

Five respondents selected replacement cost because it best informs on future needs to maintain service levels. Each of the following reasons was mentioned by one respondent.

- Provides a value for fully depreciated assets as governments often use assets past their useful life
- Provides insight into potential deferred maintenance costs
- Indicates governments are utilizing their assets efficiently.

Respondents that Ranked Other First

The 4 respondents that ranked other as the most important valuation method identified the following reasons:

- Incremental change due to new assets
- Deferred maintenance
- Economic importance
- Additional information for donations.

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Preparer survey

The preparer survey asked respondents if they believed that net book value of capital assets is an appropriate measurement for financial reporting. If they answered that it was, they were asked why. Two hundred twenty-eight respondents (84.1 percent) stated that it was appropriate. (See Table 9.)

Table 9
Governments that Believe Net Book Value of Capital Assets is Appropriate, by Type and Size of Government

	Yes	No
City/town/village	68	13
County	33	6
Other business-type activity	15	3
Other taxing district	9	3
Postemployment benefit plan/system	7	1
Public college/university	26	3
Public hospital/healthcare	2	-
Public power utility	10	-
Public water/sewer utility	7	6
School district	8	2
State	41	5
Tribal government	2	1
Total	228	43
Phase 1	121	25
Phase 2	78	13
Phase 3	27	5
Unknown	2	-
Total	228	43
Percentage	84%	16%

These respondents gave three primary reasons why net book value is the most appropriate measure for financial reporting. Seventy-two respondents (31.7 percent) stated net book value is the best estimate of value. Forty-five respondents (19.8 percent) stated net book value is the most appropriate measure because it is the most cost-effective method. Forty-four respondents (19.4 percent) stated net book value was the most appropriate measure because it removes subjectivity and is the most consistent method.

The survey asked respondents what measurement(s) of capital assets they believe is a more appropriate measurement than net book value for financial reporting, if any, and why that method is more appropriate. Two hundred forty-three respondents (90.0 percent) did not identify a more appropriate measure. Of the 29 respondents (10.7

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percent) that did identify a more appropriate method, the following were the methods identified the most and why:

- Seven responded replacement cost generally because it allows users to more accurately forecast cash flows and the long-term nature of the assets
- Six responded fair market value generally because assets increase in value over time and the method provides relevant information about the value of the capital assets
- Five responded historical costs with the caveat that other categories would be better represented by alternative measures such as land, roads, and buildings that have been fully depreciated
- Five responded many categories of capital assets should be expensed as purchased.

Auditor survey

The auditor survey asked respondents if they believed that net book value of capital assets (historical cost less accumulated depreciation, if applicable) is an appropriate measurement for financial reporting.

Net Book Value Appropriate

One hundred and seven (91.5 percent) respondents answered that it was appropriate. If they answered that it was, they were asked why.

These respondents gave three primary reasons why net book value was the most appropriate measurement for financial reporting: (1) 40 respondents (34.2 percent) replied that other alternative measurement methods are too complex or cost prohibitive, (2) 28 respondents (23.9 percent) replied that net book value is a practical, consistent and systematic method, and (3) 23 respondents (19.7 percent) replied that net book value conveys utilization and approximates a value for the assets.

Respondents identified several other reasons why net book value is appropriate. Some respondents gave multiple reasons or did not provide responses. Therefore, the total number of responses does not add up to the total number who answered that net book value was appropriate.

- NBV is easy to understand (nine respondents)
- It spreads the cost over the useful life and allocates cost to the appropriate period (nine respondents)
- NBV gives an approximate age of the assets (six respondents)
- Other methods may be beneficial in certain circumstances, but NBV is appropriate in most scenarios (six respondents)

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- Most governments do not intend to sell their assets or fair market value is not useful because there is not an active market (five respondents)
- NBV is how assets have always been recognized (four respondents)
- NBV is the most accurate method (four respondents)
- Capital assets are not that important to users (three respondents)
- NBV tells the potential level of maintenance that may be required (two respondents).

Net Book Value Not Appropriate

The survey asked respondents what measurement(s) of capital assets they believe is a more appropriate measurement than net book value for financial reporting, if any. The 10 respondents who responded identified three primary methods: (1) three respondents stated fair market value because once purchased net book value is meaningless and land should be valued at fair value, (2) two respondents stated replacement cost because some assets increase in value over time and cannot easily be replaced, and (3) two respondents stated it depended on the type of asset because nondepreciable assets include land that should be valued at other than historical cost. Respondents also identified several other methods for recognizing capital assets. Each of the methods below was identified by one respondent:

- Recognized at net book value, but the note disclosures should include replacement cost because it provides current operational needs for fully depreciated assets
- Modified approach is more meaningful because it provides the cost to maintain assets
- Insured value because it provides risk information
- Property tax assessment because they are more meaningful
- Capital assets are not that important to users.

Joint research roundtables

Prior feedback as part of the capital assets pre-agenda research included some requests by users for more information related to fair value or replacement cost of capital assets. The research questions related to recognition asked participants whether (1) reporting capital assets at net book value in financial statements was appropriate and (2) whether capital assets measured using another measurement method should be presented in financial statements and what method should be used to present that measurement.

Financial Statement Presentation

Participants were asked whether they believed that reporting capital assets at net book value in financial statements was appropriate or what other method of reporting should be used. All but one user agreed that net book value was an appropriate measurement

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method. However, of the participants that stated that net book value was appropriate, four participants (two users and two auditors) stated they did not believe net book value was appropriate for infrastructure assets or were open to the use of other methods to report infrastructure.

The participants that believed that net book value was appropriate provided a variety of reasons for their response. Specifically, six participants (two users, one preparer, and three auditors) stated that it was the reporting method that struck the best balance between costs of providing the information and the benefits received from the information. Further, four participants (one preparer and three auditors) noted that net book value provides information as to the cost of providing services. In addition, two participants (one preparer and one auditor) noted that governments rarely sell capital assets, and two participants (one user and one auditor) stated their support was due to the fact that there was no better method.

Participants that supported net book value also commented on why they did not believe that fair value was an appropriate method to report capital assets. Two participants (auditors) noted the subjectivity involved in measuring fair value for capital assets as reasons they did not support fair value.

The user that did not believe that net book value was appropriate expressed a belief that fair value should be used to report capital assets. That user believes that net book value can provide large errors compared to the actual resale value of capital assets and that fair value is an important measurement for governments that are considering privatizing their capital assets.

Three participants (auditors) suggested that the use of composite methods for groups of assets not be allowed in reporting capital assets. Those participants noted that it makes the determination and measurement of disposals difficult.

Possible Presentation of Other Methods of Reporting

Participants were asked whether information related to the measurement of capital assets also should be reported using a different measurement method than book value and what form of communication in financial statements should be used for that measurement. Table 10 summarizes the answers provided.

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Table 10
Roundtable Responses to Whether Information Related to the Measurement of Capital Assets Using a Method Other Than Historical Cost Should be Reported, by Stakeholder Type

	Yes	Yes, for Infrastructure	No	No Opinion	Total
User					
Academic					
Accounting	1	-	-	-	1
Nonaccounting	-	-	1	-	1
Citizen and Advocacy-Research organization	1	-	-	1	2
Muni Bond Industry					
Financial Firm	-	1	2	-	3
Insurance Investor	-	1	-	-	1
Mutual Fund	-	-	1	-	1
Rating Agency	-	-	1	-	1
Total	2	2	5	1	10
Preparer					
City/town/village	-	-	3	-	3
County	-	-	1	-	1
State	-	-	1	-	1
Public water/sewer utility	-	-	1	-	1
Consultant	-	-	1	1	2
Total	0	0	7	1	8
Auditor					
National audit firm	-	1	8	2	11
Local audit firm	-	-	4	-	4
State auditor	1	-	2	-	3
Total	1	1	14	2	18
Total	3	3	26	4	36
Percentage	8%	8%	72%	11%	100%

One participant (user) that supported presenting capital assets measured differently than net book value recommended that both fair value and replacement cost should be used. That participant also noted that governments could voluntarily present such information. The other two participants (one user and one preparer) that supported presenting this information did not specify a specific measurement method.

One participant (preparer) that supported presenting capital assets measured differently than net book value for only infrastructure assets recommended replacement cost be used. That participant also noted that better guidance differentiating infrastructure assets from other capital assets is needed. The other two participants (users) that supported presenting this information for infrastructure did not provide a specific measurement method. Those two participants noted the information would provide information related to deferred maintenance.

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Participants that did not believe additional measurement methods should be used generally cited the costs that would be necessary to obtain such information (two users, three preparers, and five auditors). Two participants (auditors) replied that they do not believe that different measurements should be presented in financial statements.

Ancillary Charges.

Preparer survey

The preparer survey asked respondents how often they encounter difficulties in determining which ancillary charges to include in the cost of a capital asset. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.1. (See Table 11.) One hundred and forty-one respondents (52 percent) answered 2, and 223 respondents (83 percent) answered 1–3.

Table 11
Frequency of Difficulties in Determining which Ancillary Charges to Include in the Cost of a Capital Asset, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	2.2	7%
County	2.3	8%
Other business-type activity	2.0	6%
Other taxing district	2.0	0%
Postemployment benefit plan/system	1.5	0%
Public college/university	2.3	7%
Public hospital/healthcare	2.0	0%
Public power utility	1.9	0%
Public water/sewer utility	2.5	15%
School district	2.0	0%
State	2.1	0%
Tribal government	3.0	0%
Total	2.1	5%
Phase 1	2.1	5%
Phase 2	2.3	7%
Phase 3	1.8	0%
Unknown	1.0	0%
Total	2.1	5%

Fifty-two respondents (19.2 percent) answered a 3 or greater. Those respondents were asked what the nature of the difficulties they encounter is, and how they resolve those difficulties. Twelve respondents (23.1 percent) stated that the non-accounting

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department's knowledge of ancillary charges were a source of difficulty. These difficulties were normally resolved by training non-accounting staff and consulting them in the determination of capitalizing ancillary charges. Ten respondents (19.2 percent) stated that a lack of detail on invoices is also a source of the difficulties identified with ancillary charges. These difficulties were often resolved by reaching out to vendors or suppliers and the use of professional judgment. Other difficulties encountered by several respondents were lack of examples in the guidance (nine respondents), unsure of inclusion related to internal labor (seven respondents), and capital projects are vast in scope (six respondents).

Auditor survey

The auditor survey asked respondents how often their clients encounter difficulties in determining which ancillary charges to include in the cost of a capital asset. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.4. (See Table 12.) Seventy-four respondents (64 percent) answered 2 or less, and 93 respondents (80 percent) answered 1–3.

Table 12
Frequency of Clients' Difficulties in Determining which Ancillary Charges to Include in the Cost of a Capital Asset

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	2.3	25%
National Auditor	2.6	8%
Regional Auditor	2.4	9%
State Auditor	2.2	5%
Total	2.4	9%

The 36 respondents that answered 3 or greater were asked the nature of the difficulties encountered, and how they resolve those difficulties. Twenty-six respondents stated their clients have trouble identifying what costs should be capitalized as an ancillary charge. These difficulties were normally resolved by talking to the client and through review of supporting invoices.

Respondents identified several other difficulties they have encountered with ancillary charges. These responses are listed. Respondents mentioned multiple reasons causing the total to be greater than the number of respondents that answered 3 or greater.

- Capital asset software has limitations that make recording ancillary charges challenging (four respondents)
- Difficult to obtain adequate documentation (three respondents)

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- Difficult to communicate with all the necessary departments (two respondents)
- Not all the projects they start may be completed and it is too burdensome to capitalize all the costs (one respondent)
- For airports, the ancillary charges can be quite large and distort the presentation of the condition of the assets (one respondent)
- These charges are normally immaterial, and their clients may expense them for efficiency (one respondent).

These difficulties were resolved through client education, review of invoices, and discussions with experts according to the respondents.

All respondents were asked what auditing issues, if any, they have had with ancillary charges, and 54 respondents (46.6 percent) identified auditing issues. There were three primary issues that were mentioned. Thirteen respondents (11.2 percent) stated that, while their clients may have issues, it is often immaterial. Eleven respondents (9.5 percent) stated that the primary audit issue was understanding and identifying the appropriate costs to be included in general. Ten respondents (8.6 percent) stated there is significant judgement in what indirect costs such as payroll, professional fees, or training are included in the asset.

Joint research roundtable

Prior feedback as part of the capital assets pre-agenda research noted some difficulty in determining ancillary charges. In addition, stakeholder feedback to the Exposure Draft, *Reporting Items Previously Recognized as Assets and Liabilities,* which led to Statement No. 65, *Items Previously reported as Assets and Liabilities,* noted some stakeholders considered ancillary charges similar to debt issuance costs. Statement 65 changed the reporting of debt issuance costs from being an asset to being an outflow of resources. The research questions related to ancillary costs asked participants (1) which financial statement element ancillary costs should be reported as and (2) whether there was criteria or explanations that could improve consistency in reporting ancillary costs.

Element in Financial Statements

Participants were asked whether they believed that ancillary charges meet the definition of an asset, deferred outflow of resources, or outflow of resources. Table 13 summarizes those responses. One participant (auditor) also expressed that ancillary costs need to be better defined in the GASB literature.

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Table 13
Which Element of Financial Statements are Appropriate for Ancillary Costs, by Stakeholder Type

	Assets	Outflows	Depends	No Opinion	Total
User					
Academic					
Accounting	1	-	-	-	1
Nonaccounting	-	-	-	1	1
Citizen and Advocacy-Research organization	1	1	-	-	2
Muni Bond Industry					
Financial Firm	2	-	-	1	3
Insurance Investor	1	-	-	-	1
Mutual Fund	-	-	-	1	1
Rating Agency	1	-	-	-	1
Total	6	1	0	3	10
Preparer					
City/town/village	3	-	-	-	3
County	1	-	-	-	1
State	1	-	-	-	1
Public water/sewer utility	1	-	-	-	1
Consultant	2	-	-	-	2
Total	8	0	0	0	8
Auditor					
National audit firm	8	1	1	1	11
Local audit firm	4	-	-	-	4
State auditor	3	-	-	-	3
Total	15	1	1	1	18
Total	29	2	1	4	36
Percentage	81%	6%	3%	11%	100%

In addition, what present service capacity do ancillary charges have, why ancillary charges are applicable to a future reporting period, and why ancillary charges are applicable to the current period also were asked for those responding asset, deferred outflow of resources, and outflow of resources, respectively.

Of the participants that responded that ancillary costs meet the definition of an asset, nine participants (one preparer and eight auditors) noted that it met the definition because the costs were necessary to place the asset into use. In addition, four participants (one preparer and three auditors) noted the capital asset would not have service capacity without the ancillary costs.

Two participants (one user and one preparer) responded that they believed ancillary costs meet the definition of an outflow of resources. Those participants stated that ancillary costs have no service capacity on their own.

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Additional Criteria or Explanations to Improve Application

Participants were asked what additional criteria or explanations, if any, would improve consistency in the application of the requirements to include ancillary costs in reporting the cost of capital assets. One participant (user) stated that they were not concerned with ancillary costs as they did not believe those costs are material. Six participants (one preparer and six auditors) suggested that additional examples or implementation guidance be developed related to ancillary costs. Further, four participants (auditors) suggested similar criteria that has been developed for internally generated computer software and outlays other than subscription payments for subscription-based information technology arrangements in Statement 51 and Statement 96, respectively. In addition, two participants (auditors) noted that ancillary costs are a part of a concept that does not need further development. In addition, two participants (one user and one auditor) suggested developing definitions of ancillary costs by major asset class.

Improvements

Preparer survey

The preparer survey asked respondents how often they encounter difficulties in distinguishing between improvements to capital assets and *maintenance/repairs*. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.6. (See Table 14.) One hundred and twenty-six respondents (46 percent) answered 2, and 200 respondents (73 percent) answered 1–3.

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Table 14
Frequency of Difficulties in Distinguishing Between Improvements to Capital Assets and Maintenance/Repairs, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	2.8	21%
County	2.6	18%
Other business-type activity	2.6	6%
Other taxing district	2.3	8%
Postemployment benefit plan/system	1.8	0%
Public college/university	2.7	10%
Public hospital/healthcare	3.0	0%
Public power utility	2.6	0%
Public water/sewer utility	2.9	23%
School district	2.1	0%
State	2.3	7%
Tribal government	4.0	67%
Total	2.6	14%
Phase 1	2.6	12%
Phase 2	2.8	18%
Phase 3	2.1	9%
Unknown	1.0	0%
Total	2.6	14%

Ninety-six respondents (35.4 percent) answered a 3 or greater. Those respondents were asked what the nature of the difficulties they encounter are, and how they resolve those difficulties. Forty-five respondents stated that the primary difficulty they encounter is determining when the activity extends the useful life of the asset. These difficulties were normally resolved by adhering to a clear policy, consulting subject matter experts, or use of professional judgment. Other difficulties commonly cited included educating departments (13 respondents), infrastructure specific issues (eight respondents), and lack of communication between the accounting department and other departments (seven respondents).

Auditor Survey

The auditor survey asked respondents how often their clients encounter difficulties in distinguishing between *improvements* to capital assets and *maintenance/repairs*. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 3.1. (See Table 15.) Seventy-four respondents (62 percent) of all respondents answered 1-3.

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Table 15
Frequency of Clients' Difficulties in Distinguishing Between Improvements to Capital Assets and Maintenance/Repairs

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	2.0	0%
National Auditor	3.0	8%
Regional Auditor	3.3	25%
State Auditor	2.4	0%
Total	3.1	16%

The 75 respondents that answered 3 or greater were asked the nature of the difficulties encountered, and how they resolved those difficulties. Each respondent was able to provide more than one answer. Forty-five respondents (60 percent) replied that it can be difficult to distinguish between a repair and an improvement or cost that extends the life of the asset in general. This was resolved through one of four methods: (1) communication with subject matter experts, (2) review of past transactions for reasonableness and consistency, (3) review of existing guidance in GASB standards and the Government Accounting, Auditing, and Financial Reporting (GAAFR), (4) make the determination based on materiality, and (5) reliance on the client policy. One respondent stated that no true resolution was reached. Due to the lack of guidance on what it means to extend the life of the asset, the auditor normally must accept the client's choice if they have reasonable documentation.

Respondents identified several other difficulties in distinguishing between *improvements* to capital assets and *maintenance/repairs*. The most common difficulties were:

- It can be difficult to determine if an expenditure is extending the useful life of the asset if that asset is part of a larger asset (nine respondents)
- They see more difficulties in determining when repairs for infrastructure assets should be capitalized (seven respondents)
- They primarily have difficulties when their client does not have a clear capital asset policy (five respondents)
- This is a difficult area due to how subjective it is (five respondents).

All respondents were asked what auditing issues, if any, they have had with distinguishing between *improvements* to capital assets and *maintenance/repairs*. Eighty-one respondents (69.8 percent) identified auditing issues. The subjectivity of distinguishing between a repair and a cost that lengthened the life of the asset or improves the asset (35 respondents) was most often cited as an auditing issue. Respondents identified several other auditing issues they have had with distinguishing

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between *improvements* to capital assets and *maintenance/repairs*. The most commonly cited auditing issues are listed below.

- Asset aggregation (nine respondents)
- Lack of understanding of guidance (six respondents)
- It is a trouble area, but they did not identify a specific issue (six respondents)
- Proper documentation (five respondents)
- Understanding what the costs represent (five respondents).

Joint research roundtables

Prior feedback as part of the capital assets pre-agenda research noted that the determination of whether outflows of resources should be recognized as improvements to capital assets (an asset) or as maintenance or repair expense is a difficult decision that is made by preparers using criteria and judgments that some perceive as not being consistent among governments. Participants were asked what additional criteria or explanation, if any, would improve consistency in reporting improvements to capital assets. In the preparatory materials, participants were told that there currently is not a definition of capital asset improvements but paragraph 25 of Statement 34, as amended, defines additions or improvements to infrastructure assets reported using the modified approach as increasing the capacity or efficiency of the infrastructure assets rather than preserving the useful lives of the infrastructure assets.

Twelve participants (three users, three preparers, and six auditors) responded that an increase in service capacity, efficiency, or functionality of the capital asset should be a criterion for an improvement to a capital asset. Twelve participants (three users, three preparers, and six auditors) suggested that additional service capacity or additional functionality should be a criterion for an improvement to a capital asset.

Exchange of Capital Assets

Preparer survey

The preparer survey asked respondents how often they encounter difficulties in accounting for capital assets that are obtained in exchange for other capital assets. On a scale of 1 to 5 with 1 being “never” and 5 being “frequently”, the average response was 1.6. (See Table 16.) Two hundred and twenty respondents (81.2 percent) answered 1 or 2.

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Table 16
Frequency of Difficulties in Accounting for Capital Assets that are Obtained in Exchange for Other Capital Assets, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	1.6	0%
County	1.7	0%
Other business-type activity	1.6	0%
Other taxing district	1.8	0%
Postemployment benefit plan/system	1.0	0%
Public college/university	1.9	0%
Public hospital/healthcare	3.0	50%
Public power utility	1.1	0%
Public water/sewer utility	1.3	0%
School district	1.4	0%
State	1.8	0%
Tribal government	2.0	0%
Total	1.6	0%
Phase 1	1.7	0%
Phase 2	1.6	1%
Phase 3	1.6	0%
Unknown	1.0	0%
Total	1.6	0%

Twenty-one respondents (7.7 percent) answered 3 or greater. The respondents that answered 3 or greater were asked what the nature of the difficulties encountered are and how they resolve those difficulties. Each respondent was permitted to provide more than one comment. There were three responses that occurred more frequently about the nature of difficulties encountered. Eight respondents (38 percent) reported it could be difficult to determine the value of the asset. The preparers primarily address this issue through using third-party resources, professional judgment, and more communication and training with the staff. Eight responses (38 percent) reported the process of recording the asset was a difficulty they encountered. The preparers primarily address this issue through more communication and training with staff and using third-party resources. Five responses (24 percent) reported departmental communication was a difficulty they encountered. The preparers primarily address this issue through more communication and training with the staff.

Auditor survey

The auditor survey asked respondents how often their clients encounter difficulties in accounting for capital assets that are obtained in exchange for other capital assets. On a

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scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.9. (See Table 17.) Eighty-one respondents (69.8 percent) answered 1 or 2, and 93 respondents (80.2percent) answered 1–3.

Table 17
Frequency of Clients' Difficulties in Accounting for Capital Assets that are Obtained in Exchange for Other Capital Assets

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	1.5	0%
National Auditor	1.7	0%
Regional Auditor	2.0	9%
State Auditor	1.9	0%
Total	1.9	5%

The 21 respondents that answered 3 or greater were asked the nature of the difficulties encountered, and how they resolved those difficulties. Two responses appeared frequently. Six respondents answered that exchange transactions are often not recorded as there is no cash consideration. Five respondents answered their clients have issues with calculating the value of the exchange. This is primarily resolved through estimates, discussions with experts, and review of the applicable guidance. Representative comments are shown below.

All respondents were asked what auditing issues, if any, they have had with exchanges of capital assets. Twenty-six respondents identified auditing issues. There were two primary issues identified. Thirteen respondents answered that a frequent error they encountered was the failure to determine there was an exchange. Ten respondents identified determining the value to use for the exchange as an audit issue. Representative comments are shown below.

Impairment of capital assets

User research roundtable

Participants in the user research roundtables were asked to provide the positive and negative aspects of the provisions for reporting impairments of capital assets. Four participants expressed that the note disclosures required for impaired capital assets are valuable information. Three participants stated that it appears governments apply the provisions inconsistently.

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Preparer and auditor research roundtable

Participants in the preparer and auditor research roundtables were asked to provide the positive and negative aspects of the provisions for reporting impairments of capital assets. Six participants (four preparers and two auditors) answered that the guidance was clear, and three participants (two preparers and one auditor) stated the guidance was easy to apply. Four participants (three preparers and one auditor) liked that there were different measurement methods depending on the type of impairment. Also, four preparers (three preparers and one auditor) liked that the indicator of impairment had to be prominent. Four participants (one preparer and three auditors) liked that a triggering event had to be met before recognition. Three participants (preparers) liked that it should not be considered temporary. Other positive aspects of the provisions were that annual evaluations are not required (one preparer and one auditor), and that there are requirements for partial impairments (preparer).

Five participants (three preparers and two auditors) noted difficulties in applying the guidance to determine whether an event caused an impairment or a change in the estimated useful life of the assets. Three participants (two preparers and one auditor) stated that it if difficult to determine whether service capacity has been diminished to trigger an impairment. Two participants (auditors) replied that local governments were not aware of the reporting requirements related to impairments.

Preparer survey

The preparer survey asked respondents if they have reported an impairment of capital assets in accordance with Statement 42 during the past five years. (See Table 18.) Forty respondents (15 percent) had reported an impairment.

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Table 18
Governments that have Reported an Impairment of Capital Assets in Accordance with GASB 42 in the Past Five Fiscal Years, by Type and Size of Government

	Yes	No
City/town/village	8	73
County	3	36
Other business-type activity	4	14
Other taxing district	1	11
Postemployment benefit plan/system	-	8
Public college/university	6	23
Public hospital/healthcare	-	2
Public power utility	1	9
Public water/sewer utility	1	12
School district	-	10
State	15	31
Tribal government	1	2
Total	40	231
Phase 1	29	117
Phase 2	8	83
Phase 3	3	29
Unknown	-	2
Total	40	231
Percentage	15%	85%

The survey asked the 40 respondents that had reported an impairment in accordance with Statement 42 in the past five years how often they encounter difficulties in identifying prominent events or changes in circumstances that suggest that the service utility of the capital asset may have been significantly and unexpectedly declined or testing that the decline in service utility is significant and unexpected. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.0. (See Table 19.) Thirty respondents (75 percent) answered 2, and 34 respondents (85 percent) answered 1–2.

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Table 19
Frequency of Difficulties in Identifying Prominent Events or Changes in Circumstances that Suggest the Service Utility of the Capital Asset may have Significantly and Unexpectedly Declined or Testing that the Decline in Service Utility is Significant and Unexpected, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	2.0	0%
County	1.7	0%
Other business-type activity	1.7	0%
Other taxing district	2.0	0%
Postemployment benefit plan/system	N/A	N/A
Public college/university	1.7	0%
Public hospital/healthcare	N/A	N/A
Public power utility	N/A	N/A
Public water/sewer utility	2.0	0%
School district	N/A	N/A
State	2.3	7%
Tribal government	2.0	0%
Total	2.0	3%
Phase 1	2.0	3%
Phase 2	1.9	0%
Phase 3	2.0	0%
Unknown	N/A	N/A
Total	2.0	3%

The survey also asked the 40 respondents that had reported an impairment in accordance with Statement 42 in the past 5 years how often they encounter difficulties in the *amount* of the impairment. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.9. (See Table 20.) Twenty-six respondents (65 percent) answered 2, and 33 respondents (83 percent) answered 1–2.

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Table 20
Frequency of Difficulties in Measuring the Amount of the Impairment

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	1.8	0%
County	2.5	0%
Other business-type activity	1.7	0%
Other taxing district	2.0	0%
Postemployment benefit plan/system	N/A	N/A
Public college/university	1.7	0%
Public hospital/healthcare	N/A	N/A
Public power utility	N/A	N/A
Public water/sewer utility	2.0	0%
School district	N/A	N/A
State	1.9	0%
Tribal government	2.0	0%
Total	1.9	0%
Phase 1	1.9	0%
Phase 2	1.7	0%
Phase 3	1.5	0%
Unknown	N/A	N/A
Total	1.9	0%

Auditor survey

The auditor survey asked respondents if they have any governmental clients that reported an impairment of capital assets in accordance with Statement 42 during the past five years. (See Table 21.) Fifty-five respondents (47 percent) of the respondents had clients that reported an impairment.

Table 21
Auditors with Clients that Reported an Impairment of Capital Assets in Accordance with GASB Statement 42

	Yes	No
City Auditor	1	3
National Auditor	13	11
Regional Auditor	29	38
State Auditor	12	9
Total	55	61
Percentage	47%	53%

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The survey asked respondents that had a client that reported an impairment in accordance with Statement 42 in the past five years how often their clients encounter difficulties in identifying prominent events or changes in circumstances that suggest that the service utility of the capital asset may have been significantly and unexpectedly declined or testing that the decline in service utility is significant and unexpected. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.5. (See Table 22.) Thirty-five respondents (64 percent) answered 1 or 2, and 44 respondents (80 percent) answered 1–3.

Table 22
Frequency of Clients' Difficulties, with Respect to Assessing Impairment, in Identifying Prominent Events or Changes in Circumstances that Suggest that the Service Utility of the Capital Asset May Have Significantly and Unexpectedly Declined or Testing that the Decline in Service Utility is Significant and Unexpected

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	3.0	0%
National Auditor	2.2	0%
Regional Auditor	2.7	17%
State Auditor	2.2	0%
Total	2.5	9%

The 18 respondents that answered 3 or greater were asked the nature of the difficulties encountered, and how they resolved those difficulties. Nine respondents answered that their clients may not be familiar with the guidance which causes clients to forget to evaluate for impairment or to not know what to look for while performing the evaluation. This is primarily resolved through discussions between the auditor and their client and review of the applicable guidance.

All respondents were asked what auditing issues, if any, they have had with assessing impairments, and 38 respondents (32.5 percent) answered that they had identified audit issues. Seven respondents (six percent) replied ensuring the completeness of identified impairments was an audit issue. Seven respondents (six percent) identified determining the completeness and accuracy of the components of the calculation as a common audit issue. Other responses included that the subjective nature of the assessment was an issue (five respondents) and lack of understanding of the guidance of clients (four respondents)

The survey asked respondents how often their clients encounter difficulties in determining the amount of the impairment. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.4. (See Table 23.) Thirty-three

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respondents (60 percent) answered 1 or 2, and 41 respondents (75 percent) answered 1–3.

Table 23
Frequency of Clients' Difficulties in Measuring the Amount of the Impairment

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	1.0	0%
National Auditor	2.3	0%
Regional Auditor	2.7	21%
State Auditor	2.0	0%
Total	2.4	11%

The 17 respondents that answered 3 or greater were asked the nature of the difficulties encountered, and how they resolve those difficulties. Five respondents (29.4 percent) answered that it can be difficult to determine what the remaining value of the asset is. To resolve this, the auditors primarily review other, similar property sales, or consult a third party including GASB and subject matter experts. Four respondents (23.5 percent) replied that determining the impairment amount is very subjective in nature. To resolve this, the auditors primarily perform substantive procedures on the calculation and have detailed discussions with the client and subject matter experts.

All respondents were asked what auditing issues, if any, they have had with measuring the amount of the impairment, and 19 respondents (16.4 percent) answered that they had encountered audit issues. Eight respondents (6.9 percent) of the respondents who had identified an issue noted it was difficult to determine the completeness and accuracy of the calculation.

Works of Art and Historical Treasurers

Preparer survey

The preparer survey asked respondents if they report collections of works of art and historical treasures. (See Table 24) Seventy-two respondents (27 percent) reported collections.

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Table 24
Governments that Report Collections of Works of Art and Historical Treasures, by Type and Size of Government

	Yes	No
City/town/village	18	63
County	11	28
Other business-type activity	3	15
Other taxing district	1	11
Postemployment benefit plan/system	-	8
Public college/university	19	10
Public hospital/healthcare	-	2
Public power utility	-	10
Public water/sewer utility	-	13
School district	-	10
State	19	27
Tribal government	1	2
Total	72	199
Phase 1	50	96
Phase 2	14	77
Phase 3	8	24
Unknown	-	2
Total	72	199
Percentage	27%	73%

The respondents that answered yes, were then asked if they elect not to capitalize collections of works of art and historical treasures because the collections meet the specified criteria. (See Table 25). Twenty-four (33 percent) answered they elect not to capitalize collections of works of art and historical treasures.

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Table 25
Governments that Elect not to Capitalize Collections of Works of Art and Historical Treasures Because the Collections Meet the Specified Criteria, by Type and Size of Government

	Yes	No
City/town/village	5	13
County	1	10
Other business-type activity	-	3
Other taxing district	-	1
Postemployment benefit plan/system	-	-
Public college/university	6	13
Public hospital/healthcare	-	-
Public power utility	-	-
Public water/sewer utility	-	-
School district	-	-
State	12	7
Tribal government	-	1
Total	24	48
Phase 1	17	33
Phase 2	5	9
Phase 3	2	6
Unknown	-	-
Total	24	48
Percentage	33%	67%

The survey asked the 24 respondents that have collections of works of art and historical treasures but elect to not capitalize them because the collection meets the specified criteria how often they encounter difficulties in determining whether the specified criteria to not capitalize collections of works of art and historical treasures are met. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.9. (See Table 26.) Seventeen respondents (71 percent) answered 1–2.

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Table 26
Frequency of Difficulties in Determining Whether the Specified Criteria not to Capitalize Collections of Works of Art and Historical Treasures are Met, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	2.4	0%
County	1.0	0%
Other business-type activity	N/A	N/A
Other taxing district	N/A	N/A
Postemployment benefit plan/system	N/A	N/A
Public college/university	1.8	0%
Public hospital/healthcare	N/A	N/A
Public power utility	N/A	N/A
Public water/sewer utility	N/A	N/A
School district	N/A	N/A
State	1.7	0%
Tribal government	N/A	N/A
Total	1.9	0%
Phase 1	1.9	0%
Phase 2	1.8	0%
Phase 3	2.0	0%
Unknown	N/A	N/A
Total	1.9	0%

The respondents that answered 3 or greater were asked what the nature of the difficulties encountered is and how they resolve those difficulties. Two respondents answered 3 or greater.

Auditor survey

The survey asked respondents if they have any governmental clients that have collections of works of art and historical treasures, and 40 respondents (34 percent) had clients that have collections (see Table 27). The survey then asked those respondents if their clients elected to not capitalize the collection because the collections met certain criteria, and 24 respondents (60 percent) of the government's collections elected to not capitalize them (see Table 28).

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Table 27
Auditors with Clients who Have collections of Works of Art and Historical Treasurers

	Yes	No
City Auditor	1	3
National Auditor	7	17
Regional Auditor	16	51
State Auditor	16	5
Total	40	76
Percentage	34%	66%

Table 28
Auditors with Clients that Elect not to Capitalize Collections of Works of Art and Historical Treasurers Because the Collections Meet the Specified Criteria

	Yes	No
City Auditor	-	1
National Auditor	4	3
Regional Auditor	7	9
State Auditor	13	3
Total	24	16
Percentage	60%	40%

The survey then asked respondents that had clients that have collections of works of art and historical treasures that they elected to not capitalize how often their clients encounter difficulties in determining whether the specified criteria to not capitalize collections of works of art and historical treasures are met. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.7. (See Table 29.) More than half of all respondents answered 1 or 2, and 85 percent answered 1–3

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Table 29
Frequency of Clients' Difficulties in Determining whether the Specified Criteria to not Capitalize Collections of Works of Art and Historical Treasurers are Met

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	N/A	N/A
National Auditor	2.8	0%
Regional Auditor	1.4	0%
State Auditor	1.5	0%
Total	1.7	0%

The three respondents that answered 3 or greater were asked what the nature of the difficulties is they encountered, and how do they resolve those difficulties. Each of those respondents discussed areas of the guidance they felt should be revisited, but they did not identify difficulties in applying the current guidance.

Note Disclosures

Background

Governments are required to disclose their capital asset-related accounting policies in the first note, the summary of significant accounting policies, including their capitalization policies, estimated useful life assumptions, and depreciation method:

- A capitalization policy sets a threshold for capitalization—in other words, if the cost is above this level, a capital asset should be reported; if the cost is below that level, it is reported as an expense.
- The estimated useful life is the number of years over which a capital asset will be depreciated.
- The depreciation method most governments use is straight-line depreciation—the historical cost (minus salvage value) is depreciated in equal amounts each year of a capital asset's useful life.

Those policies and assumptions generally vary depending on the type of capital assets. For example, the capitalization threshold is likely to be higher and the estimated useful lives longer for roads and bridges than they are for vehicles and equipment. The GASB does not prescribe capitalization thresholds.

Governments are required to provide detail in notes to the financial statements about the capital asset amounts because those amounts tend to be highly aggregated in the financial statements. The information should be disclosed separately for capital assets associated with governmental activities and those associated with business-type

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activities. Within each group, information should be disaggregated by major classes of capital assets. Capital assets that are not being depreciated are shown separately from those that are being depreciated. The information reported for each major class of capital assets includes:

- Historical cost: beginning balances, increases during the year (such as for newly acquired assets or assets put into operation that previously were in construction in progress), decreases during the year (such as for disposals of assets and impairments), and ending balances
- Accumulated depreciation: beginning balances, increases during the year (the amount of depreciation expense for the year), decreases during the year (such as for disposals of assets and impairments), and ending balances
- Net book value: beginning balances, increases during the year, decreases during the year, and ending balances
- Disaggregation of the depreciation expense for the year by the programs and functions in the government-wide statement of activities.

For collections of works of art and historical treasures that are not capitalized, a government should disclose in notes to financial statements a description of the collection and the reasons those assets are not capitalized.

Summary of Results

The most significant findings or issues raised in the various stages of the pre-agenda research related to disclosures related to capital assets included the following:

- Some participants in the research have concerns related to capital asset policies related to capitalization thresholds and estimated useful lives.
- Some governments report a significant percentage of certain major capital asset types as fully depreciated.

User research roundtables

Participants in the user research roundtables were asked to provide the positive and negative aspects of information related to capital assets and depreciation in the notes to the financial statements. Four participants stated that the major categories used to report capital assets are too broad. In addition, three participants requested that a five-year capital plan be disclosed in notes to financial statements.

Preparer and auditor research roundtables

Participants in the preparer and auditor research roundtables were asked to provide the positive and negative aspects of the provisions of the requirements related to information about capital assets in note to the financial statements, required

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supplementary information, and the statistical section. Four participants (two preparers and two auditors) answered that the information is informative, and four participants (three preparers and one auditor) noted that the information is concise and easy to provide.

One participant (preparer) stated that the note disclosure related to capital assets was their favorite footnote. Five participants (four preparers and one auditor) answered that the disclosures are important because the information is rolled forward (preparer), presented by major assets class (preparer), presented separately for depreciable and nondepreciable assets (preparer), and provides depreciation expense (one preparer and one auditor).

Some participants stated that the roll-forward schedule of capital asset amounts was a negative aspect of disclosure requirements. Seven participants (two preparers and five auditors) stated that a transfer column should be added to the schedule to report the placement of service of internally constructed assets such as construction in progress. Three participants (two preparers and one auditor) questioned whether users use the information. In addition, two participants (auditors) stated that the schedule should distinguish between tangible and intangible assets.

Three participants (two preparers and one auditor) stated the information presented in management's discussion and analysis was difficult to prepare. In addition, two participants (preparers) stated that the discussion of significant additions in management's discussion and analysis was subjective.

One participant each suggested that the following be included as notes disclosures: major changes to capital projects during the year (auditor), deferred maintenance information (auditor), average age of capital assets (auditor), and a comparison of net book value to fair value (preparer). One participant (preparer) recommended eliminating the requirement to disclose capitalization thresholds because that is a materiality assessment and one participant (preparer) stated that information about deferred maintenance should not be required because it is discretionary.

Three participants (two preparers and one auditor) stated the information presented in management's discussion and analysis was difficult to prepare. In addition, two participants (preparers) stated that the discussion of significant additions in management's discussion and analysis was subjective.

Five participants (two preparers and three auditors) questioned the value of providing information in the statistical section related to capital assets. Two participants (preparers) disagreed with providing 10 years of information in the statistical section with one of those participants stating the management generally only considers only three or five year projections. Another participant (preparer) noted that 10 years appeared to be an arbitrary amount of time to provide information.

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Selection of Capital Asset Policies

Interviews

Capital asset management system providers and consultants and industry associations were asked how governments establish certain capital asset policies. The first policy participants were asked about was the establishment of capitalization thresholds. One participant stated they were unaware of how capitalization policies were established. Two participants noted that the recommended best practices recommended by the Government Finance Officers Association was the guidance generally used to establish capitalization policies. One participant noted that the decisions probably are related to purchasing authority. The other participant noted the United States Office of Management and Budget has uniform guidance that establishes maximum thresholds that are typically used by colleges and universities for moveable equipment.

The participants next were asked about capitalization policies related to salvage value. Two participants stated few governments establish salvage value for capital assets. Another participant stated there is a lot of variability but the most common is the estimated value of the asset after it has service its useful live to the government. Another participant answered that if a salvage value is used, it is usually a flat five and ten percent of the acquisition amount. The other participant did not provide an answer.

The participants next were asked about capitalization policies related to estimated useful life. One participant stated that governments with infrastructure have been collecting this data for years and have used it to better estimate the life of those assets. Another participant commented that estimated useful lives generally are established by looking at information that is not necessarily reflective of the life of capital assets used by governments causing the estimated useful lives to be less than the actual useful life and the reporting of fully depreciated capital assets in the financial statements. Another participant believes that industry standards, especially for business-type activities, are followed. Two participants stated they were unaware about how estimated useful lives were developed.

The participants also were asked about whether depreciation methods other than straight-line were prevalent. None of the five participants were aware of governments using method of depreciation other than straight-line.

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Capitalization threshold

User survey

The user survey asked respondents how valuable the policy for capitalizing assets (capitalization threshold) as disclosed in the notes to the financial statements is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.2. (See Table 30.) Eight respondents (42 percent) answered 4 or 5, and 15 respondents (79 percent) answered 3–5.

Table 30
How Valuable is the Disclosures Information About the Policy for Capitalizing Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	2.8	0%
Financial Community	3.7	17%
Others	3.1	25%
Total	3.2	16%

The four respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Two respondents answered they did not use capital asset information. One respondent replied that governments should just record the total of these expenditures. Another respondent answered that the information is not valuable due to the diversity in policies.

The 15 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Respondents were permitted to provide more than one response. One respondent answered that it is not important. There were four other responses that were more common than others. Three respondents replied that it is useful to be aware of the policies. Two respondents answered that it is a useful reference point for depreciation expense. Two respondents replied that they like to look at the variance in policies between governments. Two respondents answered it provides insight into the degree to which governments expense or capitalize their assets

Preparer survey

The preparer survey asked respondents to list capitalization thresholds by major type of capital asset. Table 31 displays capitalization thresholds that were reported with the lowest capitalization thresholds being amounts reported that were greater than zero.

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Table 31
Capitalization Thresholds Used, by Type of Capital Asset

Asset Type	Number of Respondents	Lowest Capitalization Threshold	Highest Capitalization Threshold
Land	295	$ 100	$ 4,000,000
Construction in Progress	149	1,000	50,000
Non-depreciable assets	4	5,000	5,000
Art	40	5,000	100,000
Buildings	247	100	4,000,000
Equipment & Vehicles & Furniture	332	500	1,000,000
Improvements	65	1,000	1,000,000
Infrastructure	226	100	5,000,000
Intangible Assets	97	1,000	500,000
Library Books and Resources	16	250	100,000
Right to Use Assets	19	1,000	250,000
Software	39	1,000	1,000,000
Other Depreciable Assets	5	5,000	1,000,000
Other	51	500	1,000,000

Useful lives

User survey

The user survey asked respondents how valuable the useful lives of capital assets for calculating depreciation expense as disclosed in the notes to the financial statements is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.1. (See Table 32.) Nine respondents (47 percent) answered 4 or 5, and 11 respondents (58 percent) answered 3–5.

Table 32
How Valuable is the Disclosure Information About the Useful Lives of Capital Assets for Calculating Depreciation Expense

	Average User Value of Information	% of Responses Very Valuable
Academics	3.0	0%
Financial Community	3.7	33%
Others	2.6	25%
Total	3.1	21%

For the eight respondents that answered 1 or 2, they were asked how the information could be more valuable, if at all. Four respondents (50 percent) answered they do not use the information, and one respondent (12.5 percent) replied that it is of minimal

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benefit. One respondent (12.5 percent) recommended recording total expenditures, one respondent (12.5 percent) suggested that deferred maintenance or replacement cost would be more valuable, and one respondent (12.5 percent) replied that the useful lives are not always accurate.

The 11 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. These respondents provided four primary uses for the information. Two respondents answered it allows them to compare two governments more easily. Two respondents replied that it provides insight into the age of the capital assets. Two respondents answered that more information is better. Two respondents replied that it can indicate how aggressive or conservative a government is on its policies.

Preparer survey

The preparer survey asked respondents to list estimated useful lives of assets. Table 33 displays the estimated useful lives that were reported. Note some respondents listed estimated useful lives for land which were not included in the below table.

Table 33
Estimated Useful Lives, by Type of Asset

Asset Type	Number of Respondents	Useful Life Low (in years)	Useful Life High (in years)
Construction in Progress	149	3	100
Non-depreciable assets	4	N/A	40
Art	40	5	40
Buildings	247	2	100
Equipment & Vehicles & Furniture	332	1	50
Improvements	65	4	75
Infrastructure	226	3	100
Intangible Assets	97	1	75
Library Books and Resources	16	5	20
Right to Use Assets	19	2	50
Software	39	3	45
Other Depreciable Assets	5	5	50
Other	51	1	100

Fully depreciated capital assets

Preparer survey

The preparer survey asked respondents to list the amount of fully depreciated capital assets that were reported in financial statements. Table 34 displays the percentages that were reported. Note some respondents listed percentages of land that had been considered fully depreciated which were not included in the below table.

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Table 34
Fully Depreciated Capital Assets, by Type of Asset

Asset Type	Lowest % of NBV $o	Highest % of NBV $o
Construction in Progress	N/A	N/A
Non-depreciable assets	N/A	N/A
Art	13.00%	41.00%
Buildings	0.02%	100.00%
Equipment & Vehicles & Furniture	1.33%	100.00%
Improvements	0.04%	100.00%
Infrastructure	0.10%	100.00%
Intangible Assets	1.26%	100.00%
Library Books and Resources	8.27%	76.56%
Right to Use Assets	5.00%	95.00%
Software	10.00%	100.00%
Other Depreciable Assets	6.60%	12.00%
Other	10.00%	50.00%

Joint research roundtable

Prior feedback as part of the capital assets pre-agenda research found that some stakeholders are concerned with the percentage of capital assets still in use by governments that are reported with a net book value of zero (fully depreciated). Participants were asked what additional criteria or explanation, if any, could be added to the calculation of the net book value to minimize the likelihood that a capital asset still in use will be reported as fully depreciated.

Thirteen participants (one user, four preparers, and eight auditors) stated they did not know of any additional guidance that could be added. In addition, four participants (auditors) did not think that reporting fully depreciated capital assets was an issue as it is the result of an incorrect estimate with no adjustment necessary to be provided in the future.

Some participants noted the causes of governments reporting fully depreciated assets without providing suggestions as to how to reduce the likelihood that fully depreciated capital assets would still be in use. Two participants (auditors) noted that this is an educational issue and not necessarily and standard setting issue with one of these participants noting that governments should not be using useful lives developed for the capital assets in the private sector as governments use capital assets differently

Potential disclosures were recommended by some participants to alert users of the financial statements that there are fully depreciated assets still in use. Ten participants (seven users, one preparer, and two auditors) recommended a disclosure of the percentage of fully depreciated capital assets still in use be included in the notes to the

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financial statements. Two of those participants (users) recommended that such a disclosure be provided by major capital asset class.

Separation of information

Major classes

User Survey

The user survey asked respondents how valuable the separation of information in the notes between major classes of capital assets is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.3. (See Table 35.) Ten respondents (53 percent) answered 4 or 5, and 11 respondents (58 percent) answered 3–5.

Table 35
How Valuable is the Separation of Disclosure Information Between Major Classes of Capital Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	3.2	20%
Financial Community	3.7	33%
Others	3.0	25%
Total	3.3	26%

The 11 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Five respondents answered they use it to analyze the types of assets for varying reasons.

Depreciable and nondepreciable

User Survey

The user survey asked respondents how valuable the separation of information in the notes between capital assets that are depreciated and those not depreciated is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 2.8. (See Table 36.) Nine respondents (47 percent) answered 1 or 2, and 14 respondents (74 percent) answered 1–3.

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Table 36
How Valuable is the Separation of Disclosure Information Between Capital Assets that are Depreciated and Those that Are Not

	Average User Value of Information	% of Responses Very Valuable
Academics	3.4	40%
Financial Community	2.8	0%
Others	2.5	25%
Total	2.8	21%

The 10 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Two respondents answered it is not necessary information. There were two responses that were more common than others. Three respondents replied that they use it to analyze types of assets for various reasons. Two respondents answered it is necessary for interpreting depreciation expense.

Beginning and end-of-year balances with increases and decreases

User survey

The user survey asked respondents how valuable the information about the beginning and end-of-year balances, increases and decreases during the year, for accumulated depreciation and historical cost is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.1. (See Table 37.) Seven respondents (37 percent) answered 4 or 5, and 13 respondents (68 percent) answered 3–5.

Table 37
How Valuable is the Disclosure Information About Beginning- and End-of-Year Balances, and Increases and Decreases during the Year, for Accumulated Depreciation and Historical Cost to Analyses

	Average User Value of Information	% of Responses Very Valuable
Academics	3.4	0%
Financial Community	3.0	17%
Others	3.0	25%
Total	3.1	16%

The six respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Three respondents answered they do not analyze capital assets,

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and one respondent did not provide an answer to this question. One respondent replied that they would prefer deferred maintenance or replacement cost information, and one respondent answered that this is outside the scope of their normal analysis.

The 13 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. One respondent answered this is not information they normally evaluate. The remaining respondents mentioned four uses more frequently than others. Three respondents replied that they use this information to analyze how the government is maintaining its capital assets. Three respondents answered they use the information to gain insight into the changes in capital assets during the year. Two respondents replied they use the information to perform trend analysis. The comments are shown below. Two respondents answered they use the information to help analyze depreciation expense.

Works of art and historical treasures not capitalized

User survey

The user survey asked respondents how valuable the information about collections of art or historical treasures is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 2.6. (See Table 38.) 12 respondents (63 percent) answered 1 or 2, and 13 respondents (68 percent) answered 1–3.

Table 38
How Valuable is the Disclosure Information About Collections of Works of Art or Historical Treasures

	Average User Value of Information	% of Responses Very Valuable
Academics	3.5	20%
Financial Community	2.7	17%
Others	2.0	13%
Total	2.6	16%

The 12 respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Two respondents answered that they do not evaluate capital assets and, therefore, this information is not applicable. The remaining respondents identified three reasons for why it is not useful to them or how it could be more useful. Three respondents suggested that if the assets were valued differently, it would be more useful. Three respondents noted this information is not as important to them because it is either uncommon or not material to the governments they evaluate. Two

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respondents replied that this information is outside their normal scope of interest for varying reasons.

The six respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Two respondents answered this information is useful for understanding the value of the collection.

Reporting of Infrastructure Using the Modified Approach

Background

Governments that report infrastructure assets using the modified approach are required to present schedules following the notes that contain the following information about those infrastructure assets (See Illustration B for an example):

- Physical condition of the assets, assessed at least every three years, for at least the three most recent complete condition assessments, indicating the dates of the assessments
- The basis for the condition measurement and the measurement scale used to assess and report condition
- *Estimated annual amounts* necessary to maintain and preserve the assets at (or above) the condition level established by the government compared with the *amounts actually expensed* for the past five fiscal years
- The condition level at which the government intends to preserve its eligible infrastructure assets reported using the modified approach
- Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules
- If a government changes the condition level at which it intends to preserve eligible infrastructure assets: an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period.

Summary of Results

The most significant findings or issues raised in the various stages of the pre-agenda research related to the use of the modified approach to report infrastructure assets include the following:

- Some users believe that information related to the condition and ongoing efforts to preserve infrastructure assets is valuable information for their analysis, decision making, and assessments of accountability.

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- Few governments report infrastructure assets using the modified approach.
- Some governments do not use capital asset management systems that track the information currently required to be presented as required supplementary information for infrastructure assets reported using the modified approach.

User roundtables

Participants in the user research roundtables were asked to provide the positive and negative aspects of the modified approach and the related information reported about infrastructure assets. Six participants stated that the condition assessment information presented as required supplementary information is more valuable information than net book value. In addition, three participants stated that the estimated amount needed to maintain infrastructure assets was valuable information.

Seven participants stated that the option to use the modified approach to report infrastructure causes comparability issues between the financial statements of different governments. Five participants answered that the difference between maintenance and improvements for infrastructure assets is not clear. Four participants replied that the modified approach requires a lot of subjective measurements. In addition, three participants expressed concerns that governments use different methods to assess the condition of infrastructure assets reported using the modified approach.

Preparer and auditor roundtables

Participants were asked to provide the positive and negative aspects of the provisions of the modified approach to reporting infrastructure assets. Thirty-three participants (22 preparers and 11 auditors) stated that they had no experience with governments that elect to report infrastructure using the modified approach. Five participants (preparers) stated their governments considered using the modified approach but decided not to because of concerns with performing condition assessments (one participant) and because it was cost prohibitive (four participants)

Two participants (preparers) stated that their governments previously reported infrastructure assets using the modified approach but currently depreciate infrastructure assets. One of those participants noted that the change was due to the difficulty in performing the condition assessments and the other participant stated the change was because the government continually did not spend the estimated amount to maintain the infrastructure assets.

One participant (auditor) answered that the modified approach provides good information if done objectively but noted that there would be audit issues if the information currently presented in required supplementary information were to be required to be presented in notes to the financial statements. Another participant (auditor) stated it is an appropriate method used by a toll authority client. Another

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participant (auditor) noted that it takes a commitment from both the executive and legislative branches of government to apply the modified approach.

Participants that use or audit the modified approach to reporting infrastructure expressed the following concerns with the approach:

- Causes lack of comparability between governments (two auditors)
- Assessments are complicated and difficult to perform (two preparers)
- Value of information is questionable (one auditor and one preparer)
- Information difficult to audit (two auditors)
- Determination of improvements still must be performed (two auditors)
- Approach is not consistently applied among governments (preparer)
- Assets are difficult to track (preparer)
- Makes information in financial statements confusing (preparer)
- Concern on whether approach should continue to be used if government continually does not meet estimated maintenance spending (auditor).

Participants also noted issues with requiring the modified approach to reporting infrastructure assets. Four participants (two preparers and two auditors) stated that it would take several years to implement procedures to provide information on infrastructure assets reported using the modified approach. Three participants (two preparers and one auditor) stated that operationalizing systems to report infrastructure assets would be difficult.

Prevalence of use

Interviews

Capital asset management system providers and consultants and industry associations were asked how the presence of an existing system, or lack thereof, affect governments' decisions about whether to use the modified approach or depreciation for infrastructure, if at all. One participant stated they believe that the decision was made based on whether accounting departments conferred with capital asset management departments as they believe that financial statement preparers are not inclined to attempt to use the modified approach. Two participants did not believe that governments wanted to apply the modified approach, so the presence of an existing system was not relevant to the decision. Two participants stated they were unaware as to whether an existing system influenced the decision to apply or not apply the modified approach to reporting infrastructure.

Participants also were asked whether they were aware of governments that changed whether or not they applied the modified approach to reporting infrastructure. None of the participants were aware of governments that changed their reporting of

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infrastructure assets between the modified approach and depreciating infrastructure assets.

User survey

The user survey asked respondents if any of the governments they have examined used the modified approach. Thirty-seven percent of respondents answered they did. (See Table 39).

Table 39
Do Any of the Governments you have Examined Use the Modified Approach

	Yes	No
Academics	3	2
Financial Community	-	6
Others	4	4
Total	7	12
Percentage	37%	63%

Preparer survey

The preparer survey asked respondents if they report infrastructure assets using the modified approach. (See Table 40). Thirty-five respondents (13 percent) use the modified approach.

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Table 40
Governments that Report Infrastructure Assets Using the Modified Approach, by Type and Size of Government

	Yes	No
City/town/village	10	71
County	4	35
Other business-type activity	2	16
Other taxing district	1	11
Postemployment benefit plan/system	-	8
Public college/university	-	29
Public hospital/healthcare	-	2
Public power utility	-	10
Public water/sewer utility	1	12
School district	-	10
State	17	29
Tribal government	-	3
Total	35	236
Phase 1	21	125
Phase 2	10	81
Phase 3	4	28
Unknown	-	2
Total	35	236
Percentage	13%	87%

Auditor survey

The auditor survey asked respondents if they have any governmental clients that report infrastructure assets using the modified approach. Twenty-four respondents (21 percent) had clients that used the modified approach. (See Table 41).

Table 41
Auditors with Clients that Report Infrastructure Assets using the Modified Approach

	Yes	No
City Auditor	-	4
National Auditor	5	19
Regional Auditor	12	55
State Auditor	7	14
Total	24	92
Percentage	21%	79%

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Value of Information

User survey

Comparability

The user survey asked the nine respondents who had analyzed financial statements that used the modified approach what comparability issues does a government's use of the modified approach cause, if any, related to *infrastructure assets that are not reported using the modified approach* in terms analyses, decision making, or assessments of accountability. Six respondents answered that this has no impact. Two respondents replied that it was not possible to compare organizations that use the modified approach to those that do not. Another respondent answered that the assets not reported under the modified approach provide no indication as to the need for replacement.

The user survey asked the nine respondents who had analyzed financial statements that used the modified approach what comparability issues does a government's use of the modified approach cause, if any, related to *other capital assets* in terms of analyses, decision making, or assessments of accountability. Eight respondents answered this had no impact while one respondent replied it is difficult to compare assets reported using the two different methods.

The user survey asked the nine respondents who had analyzed financial statements that used the modified approach what comparability issues does a government's use of the modified approach cause, if any, related to the *net investment in capital assets* in terms analyses, decision making, or assessments of accountability. Four respondents answered this had no impact. Two respondents replied that governments using the two methods are not comparable.

The user survey asked the nine respondents who had analyzed financial statements that used the modified approach what comparability issues a government's use of the modified approach causes, if any, related to *total net position* in terms of analyses, decision making, or assessments of accountability. Seven respondents answered there was no impact while two respondents replied that it would not be comparable to a government that did not use the modified approach.

The user survey asked the nine respondents who had analyzed financial statements that used the modified approach what comparability issues a government's use of the modified approach causes, if any, related to *expenses* in terms of analyses, decision making, or assessments of accountability. Four respondents answered it has no impact while two respondents replied the two methods cause different types of expenses.

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Condition assessment

The user survey asked the seven respondents who had examined governments that use the modified approach were asked how valuable the physical condition of the assets for at least the three most recent complete condition assessments, indicating the dates of the assessment for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.0. (See Table 42.)

Table 42
How Valuable is the Information About the Physical Condition of the Asset for at Least the Three Most Recent Complete Assessments, Indicating the Date of Assessment to Analyses, Decision Making, or Assessments of Accountability

	Average User Value of Information	% of Responses Very Valuable
Academics	2.7	33%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.0	71%

The two respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. One respondent suggested governments use the same scale to measure the condition of infrastructure assets. The other respondent replied that they prepare the list of assets.

The five respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Three respondents answered that this provides insight into how the government is maintaining their assets.

Estimated amount to maintain and preserve infrastructure

The user survey asked the seven respondents who had examined governments that use the modified approach how valuable the estimated annual amount needed to maintain and preserve the assets at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for the past five reporting periods for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.3. (See Table 43.) Five respondents answered 4 or 5, and six respondents answered 3–5.

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Table 43
How Valuable is the Information About the Estimated Annual Amount to Maintain and Preserve the Assets at (or Above) the Condition Level Established and Disclosed by the Government Compared with the Amounts Actually Expensed for the Past Five Reporting Periods to Analyses, Decision Making, or Assessment of Accountability

	Average User Value of Information	% of Responses Very Valuable
Academics	3.3	33%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.3	71%

The one respondent that answered 2 was asked how the information could be more valuable, if at all, and they provided the comment below. That respondent stated that they need the amount spent to maintain capital assets separate from the amount spent to preserve the capital assets.

The six respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Three respondents answered that it provides insight into how the government is maintaining its assets.

Basis for Condition Measurement and Measurement Scale

The user survey asked the seven respondents who had examined governments that use the modified approach how valuable the basis for the condition measurement and measurement scale used to assess and report condition for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.0. (See Table 44.) Four respondents answered 5, and six respondents answered 3–5.

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Table 44
How Valuable is the Presentation of Information About the Basis for the Condition Measurement and the Measurement Scale Used to Assess and Report Condition

	Average User Value of Information	% of Responses Very Valuable
Academics	2.7	0%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.0	57%

The one respondent that answered 2 was asked how the information could be more valuable, if at all. That respondent answered that governments need to use the same condition measurement conditions.

The six respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Two respondents answered they use it to understand the baseline information.

Condition Level at Which the Government Intends to Preserve Assets

The survey asked the seven respondents who had examined governments that use the modified approach how valuable the condition level at which the government intends to preserve the assets for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.1. (See Table 45.) Five respondents answered 4 or 5, and six respondents answered 3–5.

Table 45
How Valuable is the Presentation of Information About the Condition Level at Which the Government Intends to Preserve the Assets to Assess and Report Condition

	Average User Value of Information	% of Responses Very Valuable
Academics	3.0	0%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.1	57%

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The one respondent that answered 2 was asked how the information could be more valuable, if at all. That respondent answered that governments need to use the same condition measurement levels.

The six respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Three respondents answered that this information provides insight into how the government maintains its assets

Estimated amount to maintain and preserve infrastructure

The survey asked the seven respondents who had examined governments that use the modified approach how valuable information about factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during periods covered by schedules for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.9. (See Table 46.) All seven respondents answered 4 or 5.

Table 46
How Valuable is the Presentation of Information About Factors that Significantly Affect Trends in the Information Reported in the Required Schedules, Including Any Changes in the Measurement Scale, the Basis for Condition Measurement, or the Condition Assessment Methods Used During the Periods Covered by the Schedules

	Average User Value of Information	% of Responses Very Valuable
Academics	4.7	67%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.9	86%

The seven respondents that answered 4 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Five respondents answered this amount provides context for the amounts reported.

Changes in Conditional Level at Which a Government Intends to Preserve Assets

The survey asked the seven respondents who had examined governments that use the modified approach how valuable information about, if a government changes the condition level at which it intends to preserve the asset, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the

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current period for entities using the modified approach is to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.6. (See Table 47.) Six respondents answered 5.

Table 47
How Valuable is the Presentation of Information About if a Government Changes the Condition Level at which it Intends to Preserve the Assets: An Estimate of the Effect of the Change on the Estimated Annual Amount to Maintain and Preserve those Assets for the Current Period

	Average User Value of Information	% of Responses Very Valuable
Academics	4.0	67%
Financial Community	N/A	N/A
Others	5.0	100%
Total	4.6	86%

For the one respondent that answered 2, they were asked how the information could be more valuable, if at all. That respondent answered that the information is not valuable in comparing governments.

The six respondents that answered 5 were asked how they use the information in their analyses, decision making, or assessments of accountability. Five respondents answered the information is valuable because it provides context for the amounts reported. One respondent answered this would be valuable information if it were presented.

Difficulties

Performing condition assessments

Preparer Survey

The preparer survey asked respondents that report infrastructure assets under the modified approach how often they encounter difficulties in performing condition assessments of infrastructure assets reported using the modified approach. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.7. (See Table 48.) Eighteen respondents (or 51 percent) answered 2.

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Table 48
Frequency of Difficulties in Performing Condition Assessments of Infrastructure Assets Reported Using the Modified Approach, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	1.6	0%
County	1.7	0%
Other business-type activity	1.5	0%
Other taxing district	2.0	0%
Postemployment benefit plan/system	N/A	N/A
Public college/university	N/A	N/A
Public hospital/healthcare	N/A	N/A
Public power utility	N/A	N/A
Public water/sewer utility	1.0	0%
School district	N/A	N/A
State	1.8	0%
Tribal government	N/A	N/A
Total	1.7	0%
Phase 1	1.7	0%
Phase 2	1.6	0%
Phase 3	1.7	0%
Unknown	N/A	N/A
Total	1.7	0%

Auditor Survey

The auditor survey asked respondents that had a client that reported infrastructure assets under the modified approach how often their clients encounter difficulties in performing condition assessments of infrastructure assets reported using the modified approach. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 2.0. (See Table 49.) Seventy-one percent of respondents answered 1 or 2, and 85 percent answered 1–3.

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Table 49
Frequency of Clients Difficulties in Performing Condition Assessments of Infrastructure Assets Reported using the Modified Approach

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	N/A	N/A
National Auditor	2.4	0%
Regional Auditor	1.8	8%
State Auditor	2.0	0%
Total	2.0	4%

For the respondents that answered 3 or greater, they were asked the nature of the difficulties encountered, and how they resolved those difficulties. The respondents were permitted to provide more than one response. Two respondents answered that it can be challenging to hire experts to complete the assessments with all necessary components in a timely manner. To resolve this, some of those respondents explained that they roll forward past results as much as possible while others noted this issue resulted in audit delays. Two respondents replied that it can be difficult to meet the frequency and documentation requirements. The auditors did not identify any ways to resolve this issue. One respondent replied that it can be difficult to determine which assets meet the criteria to be accounted for under the modified approach. To resolve this, the auditor works with the governments to analyze the facts for the capital costs, but, because this involves professional judgement, they are not always able to come to the same conclusion. One respondent stated the modified approach causes variances between governments, and this can cause the information to lose some value for analysis.

Estimating Annual Amount to Maintain and Preserve Assets

Preparer Survey

The preparer survey asked respondents that reported infrastructure assets under the modified approach how often they encounter difficulties in estimating the annual amount to maintain and preserve at (or above) the condition level established. On a scale of 1 to 5 with 1 being “never” and 5 being “frequently”, the average response was 1.7. (See Table 50.) No respondents answered 4 or 5, and 25 respondents (71.4 percent) answered 1 or 2.

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Table 50
Frequency of Difficulties in Estimating the Annual Amount to Maintain and Preserve At (or Above) the Condition Level Established, by Type and Size of Government

	Average Preparer Frequency of Difficulty	% of Responses Frequent Difficulty
City/town/village	1.6	0%
County	1.7	0%
Other business-type activity	1.5	0%
Other taxing district	3.0	0%
Postemployment benefit plan/system	N/A	N/A
Public college/university	N/A	N/A
Public hospital/healthcare	N/A	N/A
Public power utility	N/A	N/A
Public water/sewer utility	1.0	0%
School district	N/A	N/A
State	1.9	0%
Tribal government	N/A	N/A
Total	1.7	0%
Phase 1	1.9	0%
Phase 2	1.6	0%
Phase 3	1.7	0%
Unknown	N/A	N/A
Total	1.7	0%

The respondent that answered 3 or greater was asked the nature of the difficulties encountered, and how do they resolve those difficulties. That respondent stated it is difficult to anticipate the amount of a required repair until the repair has commenced. That respondent stated they use an initial cost estimate based on similar work that is performed in the past to overcome difficulties in estimating the amount to maintain and preserve the infrastructure assets.

Auditor Survey

The auditor survey asked respondents that had a client that reported infrastructure assets under the modified approach how often their clients encounter difficulties in estimating the annual amount to maintain and preserve at (or above) the condition level established. On a scale of 1 to 5 with 1 being "never" and 5 being "frequently", the average response was 1.9. (See Table 51.) Eighteen respondents (79 percent) answered 1 or 2, and 20 respondents (87 percent) answered 1–3.

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Table 51
Frequency of Clients' Difficulties in Estimating the Annual Amount to Maintain and Preserve at (or Above) the Condition Level Established

	Average Auditor Frequency of Difficulty	% of Responses Frequent Difficulty
City Auditor	N/A	N/A
National Auditor	1.8	0%
Regional Auditor	1.8	8%
State Auditor	2.0	0%
Total	1.9	4%

The 3 respondents that answered 3 or greater were asked what the nature of the difficulties encountered, and how they resolve those difficulties. Four areas of difficulty were identified: (1) when their clients do not meet their required condition level, they may just change it, which makes it difficult to audit (the respondent did not discuss how they resolved this issue), (2) the assets capitalized under the modified approach are more likely to be recorded in the aggregate, which can make it difficult to analyze improvements or repairs(the respondent did not discuss how they resolved this issue), (3) the auditor's clients rely on experts to perform the assessment, and, if they change experts, the inputs change which causes additional audit work (in order to gain assurance around the inputs, the auditors must first identify the changes and compare them to the previous assessments to ensure they are reasonable changes) and (4) there is a large volume of assets that must be analyzed (in order to resolve this in a timely manner, they must have additional assistance).

Auditing issues

Auditor survey

The auditor survey asked the 24 respondents that had clients who used the modified approach what auditing issues, if any, they have had with the modified approach, and 10 respondents (41.7 percent) of those respondents identified an audit issue. Respondents were allowed to provide more than one answer. There were three responses that were more common than the others. Four respondents (16.7 percent) answered that the assessments can be difficult to have completed timely because it involves several different departments. Two respondents (8.3 percent) replied that it can be difficult to determine what is a new asset and what should be expensed under the modified approach. Two respondents (8.3 percent) answered there is a large amount of non-financial information that is very subjective to audit.

The auditor survey also asked the 24 respondents that had clients who used the modified approach what auditing issues, if any, they have had with applying certain limited procedures to required supplementary information schedules related to the modified approach, and five respondents (20.8 percent) identified an audit issue.

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Respondents were permitted to provide more than one response. There were three areas of audit issues identified by the respondents. Three respondents (12.5 percent) answered that non-financial information can be difficult to audit. Two respondents (8.3 percent) replied that it can be difficult to work with all the necessary departments. One respondent (4.2 percent) noted that it can be difficult to communicate with the client when their estimate of the required maintenance is inaccurate.

Potential information about all infrastructure assets

User survey

Condition Assessments for all Infrastructure Assets

The user survey asked respondents how valuable it would be to disclose the physical condition of the assets for at least the three most recent complete condition assessments, indicating the dates of the assessments, for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.7. (See Table 52.) Eleven respondents answered 4 or 5, and 14 respondents (74 percent) answered 3–5.

Table 52
How Valuable Would Information About Physical Condition of Assets for at Least the Three Most Recent Complete Condition Assessments, Indicating the Dates of the Assessments be for All Infrastructure Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	3.6	40%
Financial Community	4.2	67%
Others	3.5	50%
Total	3.7	53%

The five respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Three respondents (60 percent) answered that this is either not applicable to them as they do not analyze capital assets or that there is nothing that could make it more useful.

The 14 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Seven respondents answered that this information could be used to evaluate potential future costs.

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Estimated Amount to Maintain and Preserve all Infrastructure Assets

The user survey also asked respondents how valuable it would be to disclose the estimated annual amount to maintain and preserve the assets at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for the past five reporting periods for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.8. (See Table 53.) Eleven respondents (58 percent) answered 4 or 5, and 13 respondents (69 percent) answered 3–5.

Table 53
How Valuable Would Information About the Estimated Annual Amount to Maintain and Preserve Infrastructure Assets at (or Above) the Condition Level Established and by the Government Compared with the Amount Actually Expensed for the Past Five Reporting Periods be for All Infrastructure Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	3.0	20%
Financial Community	4.7	83%
Others	3.7	50%
Total	3.8	53%

The five respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Four respondents answered this is either not applicable to them as they do not evaluate capital assets or there is nothing that could make it more useful. One respondent suggested that the information would be more useful if it differentiated between maintenance and preservation costs.

The 13 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Respondents were permitted to provide more than one response. Seven respondents answered this would provide insight into future costs.

Basis for Condition Assessments and Measurement Scale All Infrastructure Assets

The user survey also asked respondents how valuable it would be to disclose the basis for the condition measurement and the measurement scale used to assess and report condition for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very

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valuable", the average response was 3.9. (See Table 54.) Thirteen respondents (69 percent) answered 4 or 5, and 14 respondents (74 percent) answered 3–5.

Table 54
How Valuable Would Information About the Basis for the Condition Measurement and the Measurement Scale Used to Assess and Report Condition for Assets be for All Infrastructure Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	4.0	40%
Financial Community	4.3	67%
Others	3.6	50%
Total	3.9	53%

The four respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Two respondents (50 percent) indicated that there is nothing that would make this information more valuable as they do not evaluate capital assets. The other two respondents (50 percent) suggested that it would be more valuable if it was comparable between governments.

The 14 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. The respondents identified two primary uses. Six respondents (42.9 percent) answered they would use the information to gain context and transparency for the amounts reported. Three respondents (21.4 percent) replied they would like to see more information on deferred maintenance presented.

Condition Level for All Infrastructure Assets

The user survey also asked respondents how valuable it would be to disclose the condition level at which the government intends to preserve the assets for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.5. (See Table 55.) Ten respondents (53 percent) answered 4 or 5, and 12 respondents (64 percent) answered 3–5.

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Table 55
How Valuable Would Information About the Condition Level at Which the Government Intends to Preserve Assets be for All Infrastructure Assets be

	Average User Value of Information	% of Responses Very Valuable
Academics	3.6	20%
Financial Community	4.2	50%
Others	3.0	38%
Total	3.5	37%

The five respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Three respondents (60 percent) indicated that there is nothing that would make this information more valuable as they do not evaluate capital assets.

The 12 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. The respondents identified two primary uses. Five respondents answered it would provide insight into the future needs of the government and its ability to provide services. Three respondents replied that it would provide necessary context for the amounts reported.

Factors That Significantly Affect Trends in Information All Infrastructure Assets

The user survey also asked respondents how valuable it would be to disclose the factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.6. (See Table 56.) Eleven respondents (58 percent) answered 4 or 5, and 13 respondents (69 percent) answered 3–5.

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Table 56
How Valuable Would Information About the Factors that Significantly Affects Trends in the Information Reported in the Required Schedules, Including Any Changes in the Measurement Scale, the Basis for the Condition Measurement, or the Condition Assessment Methods Used during the Period Covered by the Schedules be for all Infrastructure Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	4.0	40%
Financial Community	3.3	33%
Others	3.6	50%
Total	3.6	42%

The five respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Three respondents indicated that there is nothing that would make this information more valuable as they do not evaluate capital assets.

The 13 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. The respondents identified three primary uses for the information. Four respondents (30.8 percent) answered this information provides context for the amounts reported. Three respondents (23.1 percent) answered this is important for government transparency. Three respondents (23.1 percent) replied the information indicates future maintenance needs.

Estimate of Effect of the Change in Estimated Amount to Maintain and Preserve All Infrastructure Assets

The user survey asked respondents how valuable it would be to disclose an estimate of the effect of the change in the estimated annual amount to maintain and preserve those assets for the current period if a government changes the condition level at which it intends to preserve the assets for *all* infrastructure assets regardless of whether the assets are reported with the modified approach for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being “not valuable at all” and 5 being “very valuable”, the average response was 3.6. (See Table 57.) Ten respondents (53 percent) answered 5, and 12 respondents (64 percent) answered 3–5.

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Table 57
How Valuable Would Information About if a Government Changes the Condition Level at Which it Intends to Preserve the Assets: an Estimate of the Effects of the Change on the Estimated Annual Amount to Maintain and Preserve those Assets for the Current Period be for All Infrastructure Assets

	Average User Value of Information	% of Responses Very Valuable
Academics	3.4	40%
Financial Community	4.0	67%
Others	3.4	50%
Total	3.6	53%

The six respondents that answered 1 or 2 were asked how the information could be more valuable, if at all. Four respondents indicated that there is either nothing that would make this information more valuable or that they do not evaluate capital assets.

The 12 respondents that answered 3 or greater were asked how they use the information in their analyses, decision making, or assessments of accountability. Six respondents (50 percent) answered that the information would provide insight into future potential costs of maintenance.

Capital asset management systems

Interviews

Prevalence

Capital asset management system providers and consultants and industry associations were asked how prevalent the use of capital asset management systems was by state and local governments. Three participants noted that capital asset management system use was dependent upon the size of the government with larger governments widely using such systems and smaller governments using Microsoft Excel spreadsheets. Another participant stated that governments have systems in place to meet financial reporting requirements. The other participant noted that much of their work is with colleges and universities that are required to maintain an asset management system to track assets by the federal government as a grantor.

The participants were also asked the types of governments that are likely to use capital asset management systems. One participant answered that all governments use some type of system to meet financial reporting requirements. The other four participants replied that larger governments are more likely to use such systems as such systems can require significant resources to acquire. One of those participants noted that governments with significant infrastructure assets such as states or toll authorities use

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such systems. Two of those participants noted that small governments do not have the resources to continually monitor capital assets at a level greater than the current requirements for financial reporting.

Participants were then asked what percentage of those governments use a capital asset management system. The participant that said all governments use some type of system noted he is not aware of governments that do not use a system. The other four participants again noted that it depends on the size of the governments. One participant replied that all state transportation agencies use capital asset management systems and stated they guessed about 75 percent of larger local governments and 50 percent of small governments use a capital asset management system. Another participant estimated that 90 percent of large governments, 75 percent of medium size governments, and few small governments utilize capital asset management systems.

Purpose

Participants were asked the primary purposes for which governments use their asset management systems. One participant noted that systems are used to maintain a state of good repair and setting budget priorities with an emerging use by large governments for risk management purposes. Three participants noted that systems primarily are used for the financial reporting needs of recording historical cost of capital asset additions, tracking disposals of capital assets, and calculating depreciation expense and net book value of capital assets by major asset category. Another participant answered that smaller governments use capital asset systems for financial reporting and insurance valuation purposes, medium size governments only use capital asset management systems for financial reporting as they generally are self-insured, and larger governments use capital asset management systems for financial reporting and budgetary purposes.

Participants also were asked whether capital asset management systems are used for tracking improvement spending, estimating costs of needed maintenance and tracking annual spending, determining improvement and/or replacement needs, determining maintenance/preservation budgets, tracking deferred maintenance, and estimating replacement cost or highest and best use. One participant stated that some improvement spending, tracking of improvement spending, and tracking of budgetary needs are done by large governments, especially in the transportation industry. One participant noted that large governments do track spending on improvements. None of the participants were aware of the use of capital asset management systems to track deferred maintenance or estimating replacement costs or highest and best use.

Separate System for Infrastructure

Participants were asked whether governments use separate information systems for infrastructure from other capital assets. Three participants noted that generally only

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larger governments will use a separate system for infrastructure. One of those participants noted that separate systems are used when individuals are responsible for asset management of the government rather than only financial reporting responsibilities. One participant was not aware of separate systems other than using different worksheets in Microsoft Excel to track different categories of capital assets. The other participant noted that their area of specialty is transportation infrastructure so the only asset tracked is infrastructure but believed that other governments likely used separate systems.

Changes in Capital Asset Management System Since Implementation of Statement 34

Participants were asked what the biggest changes in capital asset management systems were since Statement 34 was issued. One participant noted that there is now better access to data, better data processing capabilities, increased awareness of decision-making tools, and a better understanding that there is data than can be used for planning purposes. Another participant answered that the only change is that some governments have increased capitalization thresholds and do not track as many items. Another participant replied that tracking of intangible assets is the most significant change as large governments already had capital asset management systems when Statement 34 was issued. Another participant noted that there has not been a major focus on capital asset management systems by governments. The other participant stated that they are seeing more interest in capital asset management systems and more prioritization of capital asset management at governments.

Participants were also asked the percentage of governments by type that incorporated changes into their capital asset management systems. One participant estimated that about 50 percent of states were using capital asset management systems for other than inventory in 1999 with the percentage now closer to 70 percent. Another participant stated that they believed around 60 percent of large governments, 50 percent of medium-sized governments, and 25 percent of small governments have increased the use of their capital management systems from only financial reporting capabilities. Three participants either did not think that governments have changed their use of capital asset management systems or did not want to provide a guess as to what percentage have changed.

Factors in Selecting Capital Asset Management Systems

Participants were asked what factors governments consider in selecting information systems for capital assets. One participant stated that compatibility with legacy systems is an important factor along with what systems similar types of governments are using. Another participant answered that governments want the least costly approach. One participant replied that governments are looking for financial management systems with a capital asset module, if possible, rather than a stand-alone system. Another participant noted that there are two types of governments selecting capital asset

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management systems: those whose primary purpose is for enterprise resource planning and those that want system-specific capital asset management capabilities that can be adapted for inventory control and financial reporting purposes. The other participant said that governments are starting to place an emphasis on tracking the life of assets and are looking for systems that can capture that date.

The participants were also asked why some governments that are comparable to governments with capital asset management systems choose not to acquire and use a system. One participant believes that cost constraints and technical expertise and support keeps governments from implementing capital asset management systems, especially at smaller governments. Another participant stated that cost is the most important reason for not having a system with not caring about the additional benefits as the second most important factor. Another participant stated that most governments find Microsoft Excel to be acceptable to capture the necessary information. Another participant stated they believed that some governments are not concerned with high level accounting for capital assets. The other participant was unsure as to why some governments do not elect to acquire and use a capital asset management system.

Preparer survey

The preparer survey asked respondents if they use a capital asset management system to obtain potential information as to whether governments had systems in place to potentially report infrastructure using the modified approach. (See Table 58.) Sixty-six percent of the respondents stated they had capital asset management systems.

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Table 58
Governments that Use a Capital Asset Management System, by Type and Size of Government

	Yes	No
City/town/village	49	32
County	26	13
Other business-type activity	15	3
Other taxing district	8	4
Postemployment benefit plan/system	3	5
Public college/university	24	5
Public hospital/healthcare	1	1
Public power utility	8	2
Public water/sewer utility	7	6
School district	7	3
State	28	18
Tribal government	2	1
Total	178	93
Phase 1	104	42
Phase 2	55	36
Phase 3	19	13
Unknown	-	2
Total	178	93
Percentage	66%	34%

Modified approach-joint research roundtable

Prior feedback as part of the capital assets pre-agenda research noted that the use of the modified approach to report infrastructure assets, while providing useful data in the required supplementary information, reduced comparability of information reported in financial statements, including governments that elect to apply the modified approach to reporting certain infrastructure assets but not to other infrastructure assets. In addition, some feedback was obtained from stakeholders that question whether the use of the modified approach by so few governments justified it being included as a potential measurement method allowed for financial reporting. The research questions related to the use of the modified approach asked participants (1) whether it was an acceptable method to recognize infrastructure assets and whether alternative methods should be allowed and (2) whether the information presented in required supplementary information by governments that elect to use the modified approach to reporting infrastructure should be required supplementary information for all infrastructure reported by all governments.

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Recognition

Participants were asked whether they believed that the modified approach is an acceptable method to report infrastructure assets and whether any alternative methods other than net book value should be allowed. No alternative methods were suggested by participants. Table 59 displays responses to whether participants believe that the modified approach is an acceptable method to report infrastructure assets.

Table 59
Modified Approach as an Acceptable Method, by Stakeholder Type

	Acceptable	Not Acceptable	No Opinion	Total
User				
Academic				
Accounting	1	-	-	1
Nonaccounting	1	-	-	1
Citizen and Advocacy-Research organization	-	2	-	2
Muni Bond Industry				
Financial Firm	1	1	1	3
Insurance Investor	-	-	1	1
Mutual Fund	-	1	-	1
Rating Agency	-	-	1	1
Total	3	4	3	10
Preparer				
City/town/village	2	-	1	3
County	1	-	-	1
State	1	-	-	1
Public water/sewer utility	-	-	1	1
Consultant	2	-	-	2
Total	6	0	2	8
Auditor				
National audit firm	9	1	1	11
Local audit firm	2	-	2	4
State auditor	2	-	1	3
Total	13	1	4	18
Total	22	5	9	36
Percentage	61%	14%	25%	100%

Of the 22 participants that responded they believed the modified approach is an acceptable method to report infrastructure assets, two participants (one preparer and one auditor) noted concerns with the cost and benefit of providing the required supplementary information.

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Conversely, three participants (users) of the five participants that did not believe that modified approach was an acceptable method to report infrastructure assets noted that the modified causes reduced comparability in financial information. One participant (user) expressed the belief that the modified approach is not practical for most governments. In addition, one participant (auditor) conveyed they believe that the modified approach is inconsistently applied by governments, expressed concern that governments can select which infrastructure systems to which to apply or not apply the modified approach, and questioned whether the modified approach can be considered generally accepted if such a small percentage of governments use it.

Of the nine participants that did not express an opinion on whether the modified approach is an acceptable method to report infrastructure assets, two participants (users) stated they would like the information presented in required supplementary information. In addition, one participant (preparer) noted they did not believe providing the information would be cost effective.

Required supplementary information

Participants were asked whether they believed that the information required to be presented as required supplementary information for infrastructure assets reported using the modified approach should be required for infrastructure assets that are not reported using the modified approach. Table 60 displays responses to whether participants believe that information should be presented in required supplementary information.

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Table 60
Present All Infrastructure in RSI Using Modified Approach, by Stakeholder Type

	Yes	Yes, But Concerns with Small Government	No	No Opinion	Total
User					
Academic					
Accounting	1	-	-	-	1
Nonaccounting	1	-	-	-	1
Citizen and Advocacy-Research organization	-	-	1	1	2
Muni Bond Industry					
Financial Firm	-	2	1	-	3
Insurance Investor	-	1	-	-	1
Mutual Fund	-	1	-	-	1
Rating Agency	-	-	-	1	1
Total	2	4	2	2	10
Preparer					
City/town/village	-	1	1	1	3
County	-	-	1	-	1
State	-	-	1	-	1
Public water/sewer utility	-	-	1	-	1
Consultant	1	-	1	-	2
Total	1	1	5	1	8
Auditor					
National audit firm	2	-	8	1	11
Local audit firm	1	-	2	1	4
State auditor	1	-	2	-	3
Total	4	0	12	2	18
Total	7	5	19	5	36
Percentage	19%	14%	53%	14%	100%

Of the seven participants that believe governments should report the information required to be presented as required supplementary information for infrastructure assets reported using the modified approach for all infrastructure assets, one participant (auditor) replied that this would provide comparable information for infrastructure assets of all governments. Also, one participant (auditor) stated that the information is necessary for utilities. Another participant (preparer) noted that services from external consultants, such as engineers, would need to be procured to provide the information. Another participant (auditor) suggested that such requirements could be imposed only on governments of a certain size or governments that have issued public debt.

Of the 19 participants that did not believe that such information should be presented for all infrastructure assets, three participants (one user and two auditors) believe that the perceived benefits of the information do not justify the expected costs to provide the information.

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In lieu of presenting information required to be presented as required supplementary information for infrastructure assets reported using the modified approach for all infrastructure assets, one participant (auditor) suggested that a discussion on the general condition of all capital assets be included in management's discussion and analysis.

Conversely, three participants (users) of the five participants that did not believe that the modified approach was an acceptable method to report infrastructure assets noted that the modified approach causes reduced comparability in financial information. One participant (user) expressed the belief that the modified approach is not practical for most governments. In addition, one participant (auditor) conveyed they believe that the modified approach is inconsistently applied by governments, expressed concern that governments can select which infrastructure systems to which to apply or not apply the modified approach, and questioned whether the modified approach can be considered generally accepted when such a small percentage of governments use it.

Of the nine participants that did not express an opinion on whether the modified approach is an acceptable method to report infrastructure assets, two participants (users) stated they would like the information presented in required supplementary information. In addition, one participant (preparer) noted they did not believe providing the information would be cost effective.

Management's Discussion and Analysis and Statistical Section

Background

Governments that include a management's discussion and analysis are required to include a description of significant capital asset activity, including commitments made for capital expenditures. Governments that include a statistical section with their financial statements are required to present a schedule for the past 10 fiscal years of indicators of the volume, usage, or nature of capital assets, organized by function, program, or identifiable activity.

Summary of Results

Few substantive issues were raised related to information related to capital assets presented in management's discussion and analysis and the statistical section.

User research roundtables

Participants in the user research roundtables were asked to provide the positive and negative aspects related to information about capital assets in management's discussion and analysis and the statistical section. Six participants replied that the information in management's discussion and analysis provides context for the information reported about capital assets in the financial statements. In relation to the

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statistical section, four participants expressed concerns on the inability to relate to the information presented to the amounts reported in the financial statements.

User survey

The user survey asked respondents if any of the governments they have examined present a statistical section. Nine respondents (47 percent) had examined governments that presented a statistical section. (See Table 61.)

Table 61
Do You Examine Governments that Present a Statistical Section

	Yes	No
Academics	4	1
Financial Community	2	4
Others	3	5
Total	9	10
Percentage	47%	53%

The nine respondents that had examined governments that presented a statistical section were asked how valuable the information in the statistical section schedule of capital asset volume, usage, or nature is for their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 3.4. (See Table 59.) Four respondents answered 4 or 5, and eight respondents answered 3–5.

Table 62
How Valuable is the Information in the Statistical Section Schedule of Capital Asset Volume, Usage, or Nature to Your Analysis, Decision Making, or Assessments of Accountability

	Average User Value of Information	% of Responses Very Valuable
Academics	2.8	0%
Financial Community	4.0	0%
Others	4.0	33%
Total	3.4	11%

The respondent that answered 2 was asked how the information could be more valuable, if at all. That respondent answered that they have not evaluated the statistical section in detail.

The eight respondents that answered 3 or greater, were asked how they use the information in their analyses, decision making, or assessments of accountability.

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Respondents were permitted to provide more than one response. Four respondents answered they use it to assess various trends.

Deferred Maintenance

Background

Governments currently are not required to provide information related to deferred maintenance in financial statements.

Summary of Results

During each round of research, some users requested information related to deferred maintenance on capital assets by provided in financial statements of state of local governments.

User research roundtables

Participants in the user research roundtables were asked what information about deferred maintenance, if any, they use at present or would use, if available and how they use or would use that information for performing analyses, making decisions, or assessment accountability. Seven participants stated that the deferred maintenance information would provide information related to capital budgeting needs. Two participants stated that deferred maintenance information would provide information as to whether management is appropriately allocating resources. Six participants noted that it would be difficult to make information provided related to deferred maintenance consistent. In addition, two participants noted that most of the information they receive currently related to deferred information is not useable and two other participants noted that many governments do not want to provide deferred maintenance information because of litigation risks.

User survey

The user survey asked respondents what, if any, information are they able to obtain at present about deferred maintenance and where they get that information. Respondents were permitted to provide more than one response. The consensus among all respondents was that they were obtaining little to no information about deferred maintenance. However, a few different ways were mentioned to obtain a sense of deferred maintenance. Nine respondents (47.4 percent) either did not try to obtain any information or were unable to obtain any information. Two methods to obtain information about deferred maintenance appeared more frequently than others. Three respondents (15.8 percent) answered they obtained the information through direct inquiry with the government. Three respondents (15.8 percent) replied they obtained the information through looking at current capital expenditures and capital plans.

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The user survey asked respondents what information about deferred maintenance would they want in financial reports if governments were required to report such information and how they would use it for their analyses, decision making, or assessments of accountability. Respondents were permitted to provide more than one response. Three responses appeared more frequently than others. Twelve respondents answered they want to know the amount of deferred maintenance. Five respondents replied that it would be useful to know when the assets will be repaired. Five respondents answered they would use information about the funding source for the planned maintenance. The respondents identified several ways they would use this information: (1) to assess solvency, (2) to assess accountability, (3) to assess potential future capital and debt needs, (4) to understand financial position, and (5) to prioritize state funding to the governments with the most need.

The user survey asked respondents how valuable the information related to deferred maintenance would be to their analyses, decision making, or assessments of accountability. On a scale of 1 to 5 with 1 being "not valuable at all" and 5 being "very valuable", the average response was 4.2. (See Table 63.) Fifteen respondents (78.9 percent) answered 4 or 5, and 17 respondents (89.5 percent) answered 3–5.

Table 63
How Valuable Would Information About Deferred Maintenance be

	Average User Value of Information	% of Responses Very Valuable
Academics	4.2	40%
Financial Community	4.8	83%
Others	3.8	63%
Total	4.2	63%

Joint research roundtables

Prior feedback as part of the capital assets pre-agenda research noted that users believe that information related to deferred maintenance is essential in their analyses, decision making, and assessments of accountability. Participants were asked (1) whether GASB should consider requiring governments to report information related to deferred maintenance and (2) if GASB were to require governments to provide such information, what information should be reported and for what types of capital assets should that information be reported. Table 64 displays responses to whether participants believe that the information related to deferred maintenance should be reported.

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Table 64
Present Deferred Maintenance Information, by Stakeholder Type

	Yes	No	Other Answer	No Opinion	Total
User					
Academic					
Accounting	1	-	-	-	1
Nonaccounting	1	-	-	-	1
Citizen and Advocacy-Research organization	2	-	-	-	2
Muni Bond Industry					
Financial Firm	2	-	1	-	3
Insurance Investor	1	-	-	-	1
Mutual Fund	-	1	-	-	1
Rating Agency	-	-	-	1	1
Total	7	1	1	1	10
Preparer					
City/town/village	-	2	-	1	3
County	1	-	-	-	1
State	-	1	-	-	1
Public water/sewer utility	-	-	1	-	1
Consultant	1	1	-	-	2
Total	2	4	1	1	8
Auditor					
National audit firm	2	9	-	-	11
Local audit firm	-	4	-	-	4
State auditor	1	2	-	-	3
Total	3	15	0	0	18
Total	12	20	2	2	36
Percentage	33%	56%	6%	6%	100%

Twelve participants (seven users, two preparers, and three auditors) stated that information related to deferred maintenance should be reported by governments. Three participants (users) stated that deferred maintenance is an unreported liability in governmental financial statements and one participant (user) answered that deferred maintenance is a contingent liability that should be monitored.

Three participants (two users and one auditor) that believe deferred maintenance information should be presented in financial statements noted that the information would be expensive for governments to provide.

Of the 20 participants that did not believe that GASB should consider requiring governments to report information related to deferred maintenance, three participants (auditors) noted similar information could be obtained by requiring presentation of information for all infrastructure assets similar to the information required to be presented in required supplementary information for infrastructure reported using the

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modified approach and one of those participants suggested considering providing deferred maintenance information in management's discussion and analysis. Four participants (auditors) stated that they believe the information should be presented as part of a government's capital plan or capital budget. Five participants (auditors) suggested that information related to deferred maintenance would be too subjective.

Two participants did not provide an answer as to whether deferred maintenance should be reported in financial statements. One of those participants (preparer) suggested that deferred improvements could be disclosed in the financial statements. The other of those participants (user) suggested disclosure of the policy and timing of evaluations of adequacy, reliability, and safety information about assets, and if any assets failed such tests.

Two participants noted they did not have an opinion as to whether deferred maintenance should be reported in financial statements. One of those participants (preparer) expressed concern as to what the definition of deferred maintenance would be.

Two participants (one user and one auditor) suggested information related to deferred maintenance be provided only for buildings and infrastructure while one participant suggested information be provided for only certain types of assets and one participant suggested information be provided for major infrastructure. Potential information to present related to deferred maintenance included the following:

- General information related to whether assets are being maintained (user)
- Approximate amount (user)
- Monitoring policy (user)
- Plan to address (user)
- Risk of not addressing (preparer).

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