GASB Preliminary Views

September 30, 2024

Comments Due: January 17, 2025

Preliminary Views
of the Governmental Accounting Standards Board
on major issues related to

Infrastructure Assets

Project No. 3-43P

Governmental Accounting Standards Board

INFRASTRUCTURE ASSETS

Notice of Public Hearings and User Forums, and Request for Written Comments

PUBLIC HEARINGS AND USER FORUMS

Public hearings are tentatively scheduled as follows:

- February 12, 2025, virtually, beginning at 8:30 a.m. EST.
- February 18, 2025, virtually, beginning at 8:30 a.m. EST.
- February 26, 2025, at the Financial Accounting Foundation offices, 801 Main Avenue, Norwalk, CT, beginning at 8:30 a.m. EST.

User forums are tentatively scheduled as follows:

- February 19, 2025, virtually, beginning at 1:00 p.m. EST.
- February 27, 2025, at the Financial Accounting Foundation offices, 801 Main Avenue, Norwalk, CT, beginning at 9:00 a.m. EST.

Public Hearings. Interested individuals or organizations will participate in the first and second public hearings by videoconference. The third public hearing is being conducted for interested individuals and organizations that intend to participate in person. Details regarding participation will be provided after the Governmental Accounting Standards Board (GASB) receives a notice of intent to participate.

User Forums. The user forums are being conducted for interested individuals or organizations from the financial statement user community. Individuals or organizations will participate in the first user forum by videoconference. The second user forum is being conducted in person. Details regarding participation will be provided after the GASB receives a notice of intent to participate.

Deadline for written notice of intent to participate in the public hearings and user forums: January 17, 2025

Basis for public hearings and user forums. The GASB has scheduled the public hearings and user forums to obtain information from interested individuals and organizations about the issues discussed in this Preliminary Views. The hearings and forums will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate in a hearing or forum, as appropriate, and through written response.

Public hearing oral presentation requirements. Individuals or organizations that want to make an oral presentation at a public hearing are required to provide, **by the deadline for notice of intent to participate (January 17, 2025),** a written notification of that intent. A copy of written comments addressing the issues discussed in this Preliminary Views should be provided two weeks before the hearing. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 3-43P, and emailed to director@gasb.org. The notification should indicate the public hearing at which the respondent would like to participate. A public hearing may be cancelled if sufficient interest is not expressed by the deadline.

The GASB intends to schedule all respondents who want to make oral presentations at the public hearing and will notify each individual or organization of the expected time of the presentation. The time allotted to each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

User forum participation requirements. Participation in a user forum is limited to external financial statement users, such as municipal bond analysts, taxpayer group members, and legislators. All participants are asked to engage in a discussion of the issues raised in this Preliminary Views, additional issues raised by the Board members and staff, and issues raised by other participants. Every participant will be provided with the opportunity to express his or her views.

Individuals who want to participate in a user forum should provide, **by the deadline for notice of intent to participate (January 17, 2025),** a written notification of that intent (addressed to the Director of Research and Technical Activities, Project No. 3-43P, and emailed to director@gasb.org). The notification should indicate the user forum at which the respondent would like to participate.

Observers. Observers are welcome at the public hearings and user forums and are urged to submit written comments.

WRITTEN COMMENTS

Deadline for submitting written comments: January 17, 2025

Requirements for written comments: Any individual or organization that wants to provide written comments but does not intend to participate in a public hearing or user forum should provide those comments by **January 17, 2025.** Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-43P, and emailed to director@gasb.org. Comments also may be submitted through an electronic feedback form.

OTHER INFORMATION

Public files. Written comments and transcripts of the public hearings and user forums will become part of the GASB's public file. Written comments also are posted on the GASB's website. Copies of the transcripts may be obtained for a specified charge.

This Preliminary Views may be downloaded from the GASB's website at www.gasb.org.

Notice to Recipients of This Preliminary Views

The GASB is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to best understand and most effectively implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standard-setting process. As part of that due process, the GASB is issuing this Preliminary Views to solicit comments on the Board's proposal for accounting and financial reporting for infrastructure assets. This Preliminary Views identifies significant issues that are known to exist, presents the Board's preliminary views on how it intends to address those issues, and invites respondents to comment on them and identify additional relevant issues.

A Preliminary Views is a Board document designed to set forth and seek comments on the Board's current views at a relatively early stage of a project. This Preliminary Views is a step toward an Exposure Draft of a Statement of Governmental Accounting Standards but is *not* an Exposure Draft. This document presents the Board's preliminary views on accounting and financial reporting for infrastructure assets and discusses the foundational principles, purposes, and objectives of the Board's proposal. A Preliminary Views generally is issued when the Board anticipates that respondents are likely to be sharply divided on the issues or when the Board itself is sharply divided on the issues. This Preliminary Views represents the Board's current views on the issues discussed in this document.

We invite your comments on all matters in this Preliminary Views. Respondents are encouraged to give their views only after reading the entire text of this Preliminary Views. Because guidance proposed in this Preliminary Views may be modified before it is issued as an Exposure Draft, it is important that you comment on any aspects with which you agree, as well as any with which you disagree. To facilitate our analysis of the responses to this Preliminary Views, it would be helpful if you explain the reasons for your views, including alternatives that you believe the Board should consider.

All responses are distributed to all Board members and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to an Exposure Draft. In deciding on changes in accounting and financial reporting standards, the Board also takes into consideration the expected benefits to users of financial statements and the perceived costs of preparing and reporting the information. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, will a vote be taken to issue an Exposure Draft. The Board also will seek and consider comments on the Exposure Draft before proceeding to a final Statement.

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GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD®

CONTENTS

Summary

This document presents the preliminary views of the Governmental Accounting Standards Board (GASB) on the issues associated with accounting and financial reporting for infrastructure assets. The Board continues to believe that infrastructure assets are capital assets that should be recognized and reported in the financial statements of state and local governments.

Definition

Infrastructure assets would be defined as assets that may consist of multiple components that are part of a network of long-lived capital assets that are utilized to provide a particular type of public service, that are stationary in nature, and that can be maintained or preserved for a significant number of years. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, and communication networks. Only buildings that are part of a network of infrastructure assets used to provide a particular type of public service should be considered infrastructure assets.

Recognition and Measurement

Governments would continue to recognize infrastructure assets in financial statements. Infrastructure assets would continue to be measured at historical cost net of accumulated depreciation unless the government elects to use the modified approach. Governments also would continue to review the estimated useful lives and salvage values of infrastructure assets periodically. In addition, governments that report infrastructure assets measured at historical cost net of accumulated depreciation would separately depreciate each component of an infrastructure asset that is significant to the total cost of the infrastructure asset if the estimated useful lives of those components are different.

Governments that elect to report infrastructure assets using the modified approach generally would continue to apply the requirements to use that approach in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* with the exception that an asset management system would not be required to manage the infrastructure assets. Instead, a government would need to have processes in place to perform and document the condition assessments and record information related to the government's estimates of annual amounts to preserve those infrastructure assets.

Notes to Financial Statements

This Preliminary Views would remove three of the existing disclosures related to infrastructure assets included in notes to financial statements. Governments that elect to report infrastructure assets using the modified approach would no longer describe that approach in their summary of significant accounting policies in notes to financial statements. In addition, governments that were not required to retroactively report

infrastructure assets at transition when implementing Statement 34 would no longer need to disclose that those infrastructure assets were not reported at transition in their summary of significant accounting policies in notes to financial statements. Also, governments would no longer disclose the amount of impaired infrastructure assets that are idle at year-end.

The preliminary view of the Board is that four additional disclosures in notes to financial statements related to infrastructure assets should be provided. First, governments would disclose in their summary of significant accounting policies changes in their policy for capitalizing infrastructure assets or estimating the useful lives of infrastructure assets used to calculate depreciation. Second, for infrastructure assets reported using historical cost net of accumulated depreciation, governments would disclose the historical cost of infrastructure assets by major class that have exceeded 80 percent of their estimated useful lives. For this disclosure, governments would separate the historical cost of infrastructure assets that have exceeded their estimated useful lives from those infrastructure assets that have exceeded 80 percent of their estimated useful lives but have not yet exceeded their estimated useful lives. Third, governments would disclose maintenance or preservation expenses related to their infrastructure assets by major class. Fourth, governments would disclose in their summary of significant accounting policies their policy for monitoring and maintaining or preserving infrastructure assets.

Required Supplementary Information

Governments that use historical cost net of accumulated depreciation to report infrastructure assets would present a schedule of maintenance expenses related to infrastructure assets by major class over the past 10 fiscal years.

Governments that use the modified approach to report infrastructure assets would continue to provide the following two schedules as required supplementary information: (1) the assessed condition of those assets from the three most recent complete condition assessments and (2) the estimated annual amount by major class to preserve those assets at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed over the past 10 fiscal years.

How the Changes Proposed in This Preliminary Views Would Improve Financial Reporting

The information that would be required by this Preliminary Views, if ultimately issued as a Statement, would provide updated guidance for reporting infrastructure assets of state and local governments. The guidance would enhance the consistency and comparability of infrastructure assets by (1) elevating the requirement to review estimated useful lives and salvage values of infrastructure assets periodically from Category B generally accepted accounting principles to Category A and (2) requiring infrastructure assets that have components that are significant in relation to the total cost of the infrastructure assets to be depreciated separately if the estimated useful lives of those components are different. Furthermore, the guidance enhances relevance by providing financial statement users with information regarding a government’s policy on monitoring and maintaining or preserving its infrastructure assets and the amount of maintenance or preservation expenses related to infrastructure assets by major class incurred by the government during the reporting period. Users also would receive information in notes to financial statements related to infrastructure assets by major class that have exceeded 80 percent of their estimated useful lives.

CHAPTER 1—OBJECTIVE AND BACKGROUND

Objective of the Infrastructure Assets Project

1. The objective of the Infrastructure Assets project is to reexamine issues associated with accounting and financial reporting for infrastructure assets and consider improvements to existing guidance. Specifically, the project seeks to answer the following questions:

a. How should infrastructure assets be recognized and measured in financial statements?
b. Should the optional use of the modified approach to report infrastructure assets continue to be allowed?
c. Should additional information related to the maintenance and preservation of infrastructure assets be presented in financial statements and, if so, what information and what method of communication should be used to provide that information?

Project Background

2. Current authoritative guidance specific to reporting infrastructure assets is provided by Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. That guidance provides (a) a definition for infrastructure assets, (b) that infrastructure assets are a class of capital assets, (c) recognition and measurement guidance for reporting infrastructure assets, (d) note disclosures for infrastructure assets, and (e) required supplementary information (RSI) presentation for infrastructure assets reported using the modified approach.

3. Under current authoritative literature, infrastructure assets may be reported at either (a) historical cost and depreciated over their estimated useful lives or (b) historical cost and not depreciated if the infrastructure assets are part of a network or subsystem of a network, and as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at (or above) a condition level established and disclosed by the government—the *modified approach*.

4. Governments that report infrastructure assets using the modified approach are required to present schedules derived from asset management systems as RSI. The required schedules provide information about the assessed condition of infrastructure assets from at least the three most recent complete condition assessments, indicating the dates of the assessments, and the estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at the condition level established and disclosed by the government compared with the amounts actually expensed for each of the past five reporting periods. In addition, those schedules should include disclosures that provide (a) the basis for the condition measurement and the measurement scale used to assess and report the condition; (b) the condition level at which the government intends to preserve its infrastructure assets reported using the modified approach, including, if applicable, an

estimate of the effect of the change on the estimated annual amount to maintain and preserve those infrastructure assets in the current period if there is a change in the condition level at which the government intends to preserve infrastructure assets; and (c) 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.

5. Pre-agenda research on capital assets began in August 2019. The objective of that research was to review existing standards applicable to capital asset accounting and financial reporting to evaluate whether the information reported about capital assets could be more (a) comparable across governments and consistent over time; (b) useful for making decisions or assessing government accountability; (c) relevant for assessments of a government's economic condition, including its financial position, fiscal capacity, and service capacity; and (d) reflective of the capacity of capital assets to provide services and how that capacity may change over time.

6. At its February 2023 meeting, the Board reviewed the results of the pre-agenda research. After considering those results, the Board determined that the pre-agenda research did not find significant issues in practice related to the accounting and financial reporting of capital assets generally, but there were opportunities to consider issues related to the recognition and measurement of infrastructure assets in financial statements and to provide additional information related to the costs of maintenance and preservation of infrastructure assets. As a result, a project relating to infrastructure assets was added to the Board's current technical agenda at its April 24, 2023 meeting. The Board began deliberations on the Infrastructure Assets project in May 2023.

7. The GASB assembled a task force for the project composed of persons broadly representative of the GASB's stakeholders. Throughout the project, the task force members provided feedback on issues discussed by the Board and on drafts of this Preliminary Views. In addition, further feedback has been received from members of the Governmental Accounting Standards Advisory Council at its meetings.

Objective of This Preliminary Views

8. The objective of this Preliminary Views is to solicit comments from stakeholders regarding the Board's current views on what it believes are the most fundamental issues related to reporting infrastructure assets. Those comments will be considered by the Board in its deliberations, which may lead to the issuance of proposed standards. This Preliminary Views does not address effective date or transition provisions. The Board intends to deliberate those topics before considering the issuance of an Exposure Draft of a proposed Statement for public comment.

9. The Board believes that the provisions in this Preliminary Views would enhance the consistency and comparability of financial reporting for infrastructure assets. The Board also believes that this Preliminary Views would provide additional information related to infrastructure assets presented in financial statements that is more (a) comparable across

governments and consistent over time, (b) useful for making decisions or assessing government accountability, (c) relevant to assessments of a government's economic condition, and (d) reflective of the capacity of infrastructure assets to provide services and how that capacity may change over time.

Considerations Related to Benefits and Costs

10. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address a significant user need and that the costs incurred through the application of its standards, compared with the possible alternatives, are justified when compared to the expected overall public benefit. One purpose of this Preliminary Views is to obtain input on the benefits and perceived costs associated with the reporting of infrastructure assets. Additionally, a field test will be conducted on the proposed standards in this Preliminary Views to gather information about the potential costs.

CHAPTER 2—DEFINITION OF INFRASTRUCTURE ASSETS

1. This chapter describes the Board's preliminary views regarding the definition of *infrastructure assets.* It discusses the modifications to the definition presented in paragraph 19 of Statement 34.

2. **The Board's preliminary view is that infrastructure assets are assets that may consist of multiple components that are part of a network[1] of long-lived capital assets utilized to provide a particular type of public service, that are stationary in nature, and that can be maintained or preserved for a significant number of years. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, and communication networks. Only buildings that are part of a network of infrastructure assets used to provide a particular type of public service should be considered infrastructure assets.**

3. Paragraph 19 of Statement 34 provides a definition of infrastructure assets. The Board's preliminary view is that the definition should be modified to ensure that stakeholders understand the types of assets that should be considered infrastructure assets in financial statements of state and local governments. Those modifications consist of the following five clarifications to assist governments in classifying assets as infrastructure assets: (a) infrastructure assets may consist of multiple components, (b) infrastructure assets should be part of a network, (c) infrastructure assets should be utilized to provide a particular type of public service, (d) buildings should be included as infrastructure assets if they are a part of a network of infrastructure assets used to provide a particular type of public service, and (e) communication networks should be added as an example of infrastructure assets.

4. Although being part of a network was not included in the definition of infrastructure assets in paragraph 19 of Statement 34, paragraph 23 of Statement 34 requires that infrastructure assets be part of a network or subsystem of a network in order for a government to report the infrastructure assets using the modified approach. The Board believes that including infrastructure assets as part of a network in the definition will assist governments in determining whether capital assets should be presented and disclosed as infrastructure assets in financial statements.

5. In guidance allowing depreciation to be calculated on capital assets by a class of assets, a network of assets, a subsystem of a network, or individual assets, the Board included footnote 14 to Statement 34, which states that "a network of assets is composed of all assets that provide a particular type of service for a government." The Board believes that because networks should provide a particular type of public service for a government,

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[1]Consistent with footnote 14 of Statement 34, the Board believes that "a network of infrastructure assets may be only one infrastructure *asset* that is composed of many *components.*"

the requirement to provide a particular type of public service should be part of the definition of infrastructure assets.

6. Included in the definition of infrastructure assets in paragraph 19 of Statement 34 is that “buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets. . . .” The Board is concerned that governments may not be consistent in making the determination of whether a building is an ancillary part of a network of infrastructure assets. The Board also believes that a building that is part of a network of infrastructure assets that provides a particular type of public service should be included as an infrastructure asset. As a result, the Board’s preliminary view is to eliminate consideration of whether a building is an ancillary part of a network of infrastructure assets.

7. The definition of infrastructure assets in paragraph 19 of Statement 34 includes examples of infrastructure assets. The Board believes that those examples are still types of infrastructure assets that governments have. The Board also believes that additional types of infrastructure assets have emerged since the definition of infrastructure assets was developed, such as the cables and wiring for broadband infrastructure. The Board believes that including communication networks as an example of infrastructure assets reflects additional types of infrastructure assets that may exist.

CHAPTER 3—RECOGNITION AND MEASUREMENT OF INFRASTRUCTURE ASSETS

1. This chapter presents the Board's preliminary views regarding recognition and measurement of infrastructure assets in financial statements of state and local governments. It discusses the option to recognize and measure infrastructure assets using either historical cost net of accumulated depreciation or the modified approach.

2. **The Board's preliminary view is that infrastructure assets should continue to be recognized in financial statements and should continue to be measured at historical cost net of accumulated depreciation unless the government elects to use the modified approach.**

3. The Board believes that infrastructure assets meet the definition of an asset in paragraph 8 of Concepts Statement No. 4, *Elements of Financial Statements,* which states that "assets are resources with present service capacity that the government presently controls." That definition has two components: (a) having present service capacity and (b) having that present service capacity presently controlled by the government.

4. Present service capacity is defined in paragraph 9 of Concepts Statement 4 as a resource's "existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission." The Board believes that infrastructure assets have present service capacity because they can be used by governments to provide services to citizens, or they can be used directly by citizens as part of the services being provided.

5. Control of a resource is defined in paragraph 12 of Concepts Statement 4 as "the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource." Paragraph 12 of Concepts Statement 4 further states that the government controlling the resource generally "has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit." The Board believes that infrastructure assets are controlled by governments because either governments use infrastructure assets to provide services to citizens or infrastructure assets are used directly by citizens as part of the services being provided.

6. Initially, infrastructure assets measured using historical cost net of accumulated depreciation are measured using the price paid to acquire the infrastructure assets or, if donated, acquisition value. In subsequent reporting periods, the infrastructure assets are reported at carrying value, which is the amount of the infrastructure assets recognized in the prior reporting period less the amount recognized as depreciation expense for the current reporting period. Depreciation expense is measured using a systematic and rational method to allocate the difference between the historical cost of the infrastructure assets and the salvage value of the infrastructure assets over their estimated useful lives. The

Board believes that, as discussed in paragraph 36 of Concepts Statement No. 6, *Measurement of Elements of Financial Statements,* the use of historical cost to measure infrastructure assets "generally results in a cost-of-services amount that is relevant for assessing interperiod equity."[2] More details related to the Board's preliminary views of historical cost net of accumulated depreciation are discussed in Chapter 4.

7. Because of the feedback received during the pre-agenda research regarding information disclosed related to infrastructure assets measured using the modified approach, the Board also believes that governments should continue to be allowed to report infrastructure assets using a preservation method measurement approach, such as the Board allowed in the modified approach described in Statement 34. Information related to the condition of infrastructure assets, as presented for infrastructure assets reported using the modified approach, was consistently rated by stakeholders as highly relevant for making decisions or assessing the accountability of governments. As opposed to infrastructure assets reported using historical cost net of accumulated depreciation, the modified approach does not provide the same information related to the cost of services for specific periods allowing for assessments of interperiod equity. Instead, the modified approach is based on the assumption that the infrastructure assets reported will be preserved at a condition level that allows the infrastructure assets to continue to be used by the government and provides information related to that condition level. More details related to the Board's preliminary views on the modified approach are discussed in Chapter 5.

[2]Interperiod equity, as discussed in paragraphs 59–61 of Concepts Statement No. 1, *Objectives of Financial Reporting,* and in paragraph 27 of Concepts Statement 4, is an assessment of whether current-year revenues are sufficient to pay for the services that year and whether future taxpayers will be required to assume burdens for services previously provided.

CHAPTER 4—HISTORICAL COST NET OF ACCUMULATED DEPRECIATION

1. This chapter presents the Board's preliminary views regarding certain application issues with the use of historical cost net of accumulated depreciation to measure infrastructure assets. It discusses views to address concerns raised by stakeholders during the pre-agenda research related to information for infrastructure assets reported at historical cost net of accumulated depreciation.

Periodic Review of Estimated Useful Lives and Salvage Values

2. The Board's preliminary view is that estimated useful lives and salvage values of infrastructure assets reported using historical cost net of accumulated depreciation should be reviewed periodically and adjusted, if necessary, to better reflect the useful lives and salvage values of those infrastructure assets.

3. One of the concerns expressed most often by participants in the pre-agenda research was that a significant number of governments have capital assets, including infrastructure assets, that are currently being reported as fully depreciated even though the assets are still being used by governments to provide services. That circumstance results in the entire cost of a capital asset having been allocated to prior periods. The Board believes that those costs instead should be allocated to the periods in which the infrastructure assets continue to be used to provide services by governments, which include future periods.

4. The Board recognizes that accumulated depreciation is an estimate. As a result, some infrastructure assets may not last as long as expected, resulting in costs that are still left to be allocated to those estimated future periods of service being recognized in the current period. Likewise, some infrastructure assets may last longer than expected, resulting in costs not being allocated to the later periods during which those infrastructure assets provide service, as discussed above. The Board is concerned that governments may not reevaluate the estimated useful lives of their infrastructure assets as often as they should to ensure the appropriateness of that estimate. The Board believes that because infrastructure assets are long lived and are a significant portion of the capital asset amounts reported by some governments, the estimates used in reporting information related to infrastructure assets should be evaluated periodically so that the amount of depreciation expense charged to periods, as well as the amount of historical cost net of accumulated depreciation, is as reflective as possible of the actual use of the infrastructure assets. The Board recognizes that governments are currently required to periodically review estimated useful lives of capital assets, as discussed in Question 7.14.4 of *Implementation Guide No. 2015-1.* However, the Board believes that elevating the requirement for infrastructure assets to perform those reviews to Category A in the hierarchy of generally accepted accounting principles will prioritize the requirement.

5. The Board recognizes that governments generally do not assign salvage values to infrastructure assets when determining the amount to recognize for depreciation expense either because those governments do not expect to sell the infrastructure assets or

because they expect those salvage values to be immaterial. However, the Board believes that governments that have infrastructure assets that are expected to have salvage values at the time of disposal and that report those infrastructure assets using historical cost net of accumulated depreciation should periodically review the appropriateness of those salvage values, similar to the review of the estimated useful lives discussed above.

Consideration of Components with Different Estimated Useful Lives

6. The Board's preliminary view is that each component of an infrastructure asset with a cost that is significant in relation to the total cost of the infrastructure asset should be depreciated separately if the useful lives of those components are different.

7. Although current guidance allows governments to calculate depreciation expense by grouping similar assets, it does not discuss whether components of an infrastructure asset should be depreciated separately from other components of that infrastructure asset. The Board generally believes that in circumstances in which an infrastructure asset has multiple components that have different estimated useful lives, those components should be depreciated over the estimated useful life associated with that component rather than the overall estimated useful life of the infrastructure asset. For example, the substructure of a road may have a different estimated useful life than the surface of the road.

8. The Board believes that requiring components of infrastructure assets with different estimated useful lives to be depreciated by governments over the estimated useful lives associated with those components better allocates costs to periods in which those components are used as part of the infrastructure asset. The Board recognizes that it may require additional work to track those amounts. However, the Board believes that only components with different estimated useful lives that have costs that are significant in relation to the infrastructure asset should be depreciated separately, which also serves to remind preparers that the Board's proposals need not be applied to immaterial items.

CHAPTER 5—MODIFIED APPROACH

1. This chapter presents the Board's preliminary views regarding the requirements that the Board believes should be met for governments to use the modified approach to report infrastructure assets. It discusses these provisions in relation to the current guidance regarding the use of the modified approach to report infrastructure assets by governments in paragraph 23 of Statement 34.

2. Paragraph 23 of Statement 34 provides two requirements for use of the modified approach. First, the government manages the infrastructure assets using an asset management system that (a) maintains an up-to-date inventory of infrastructure assets, (b) performs condition assessments of the infrastructure assets and summarizes the results using a measurement scale, and (c) estimates each year the annual amount to maintain and preserve the infrastructure assets at the condition level established and disclosed by the government. Second, the government documents that the infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

3. The Board's preliminary view is that a government that reports infrastructure assets using the modified approach should have processes in place to (a) maintain an up-to-date inventory of infrastructure assets, (b) perform and summarize condition assessments on those infrastructure assets, and (c) estimate annual amounts to preserve infrastructure assets at the condition levels the government establishes.

4. In considering the first requirement in paragraph 23 of Statement 34 to use the modified approach, the Board generally agreed with keeping each of the components of the requirement. However, the Board is concerned that some stakeholders may interpret that the asset management system must perform each of the duties described.

5. The Board believes that governments may manually fulfill some of those requirements to use the modified approach rather than automating them within an asset management system. As a result, the Board believes that rather than requiring governments to have an asset management system, governments should have processes in place to perform each of the requirements that paragraph 23 of Statement 34 requires of an asset management system, recognizing that governments likely will continue to use asset management systems to meet some of those requirements. The Board believes that allowing governments to have processes in place to fulfill the requirements in paragraph 23 of Statement 34 will provide flexibility for governments that want to report their infrastructure assets using the modified approach.

6. The Board's preliminary view is that a government that reports infrastructure assets using the modified approach should continue to perform and document complete condition assessments in a consistent manner at least every three years and that the results of the three most recent complete condition assessments should continue to provide reasonable assurance that the infrastructure assets are

being preserved approximately at (or above) the condition level established and disclosed by the government.

7. Paragraph 24a of Statement 34 requires that complete condition assessments of infrastructure assets be performed in a consistent manner every three years. Some stakeholders during the pre-agenda research noted that it is difficult to complete condition assessments within three years. Other stakeholders noted that it is costly to devote time or to engage independent engineering consultants to perform condition assessments every three years. The Board noted that footnote 19 of Statement 34 allows condition assessments to be performed (a) using statistical samples that are representative of the infrastructure assets being preserved and (b) on a cyclical basis over the three-year period. For example, the assessment may be performed in a single year during the three-year period or may be performed continuously over the three-year period. Regardless of the manner in which a government elects to perform the condition assessment, the Board believes that a complete condition assessment—the assessment of all or a statistical sample of all infrastructure assets being reported using the modified approach—should be completed during a three-year period. The Board is concerned that allowing a condition assessment to be performed over a longer period may result in the information presented not reflecting the current condition of those infrastructure assets.

8. Paragraph 24b of Statement 34 requires that the results of the three most recent complete condition assessments provide reasonable assurance that the government is keeping its infrastructure assets reported using the modified approach approximately at (or above) the condition level established and disclosed by the government. Because there is a lack of a standardized condition measurement scale and condition assessment process being used in practice, the Board continues to believe that the government should be allowed to establish the condition level at which it intends to preserve its infrastructure assets. The Board also continues to believe that such a condition level should be established and documented by administrative or executive policy, or by legislative action. The Board recognizes that in some circumstances, certain of those three complete condition assessments may report that the infrastructure assets are not being preserved at (or above) the condition level established and disclosed by the government. However, the Board believes that if the condition level established and disclosed by the government for the other years are at (or above) that condition level, the government would be allowed to continue to report the infrastructure assets using the modified approach.

9. The Board also acknowledges that some may consider that either more or fewer assessments are necessary to support the assertion that the infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government. However, the Board believes that the time period covered by three complete condition assessments (three to nine years) is an adequate period over which to determine whether the infrastructure assets are being preserved at that level.

10. In considering the second requirement in paragraph 23 of Statement 34 that a government document that infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government, the Board considered whether a standardized condition assessment process should be required.

Although a standardized condition assessment process may increase comparability between the information related to infrastructure assets reported using the modified approach by different governments, the Board is concerned that specific condition assessment processes have yet to be required by certain regulatory entities. In addition, the Board believes that different condition assessment processes may have to be developed to address different types of infrastructure assets due to their different uses and designs. The Board also is concerned that mandating a specific condition assessment process would discourage a government from reporting infrastructure assets using the modified approach if that process is different from the process the government currently uses to perform condition assessments. Therefore, the Board does not believe that additional requirements to document condition assessments—beyond that condition assessments be documented in such a manner that they can be replicated, as discussed in footnote 18 of Statement 34—are needed. That is, the condition assessments should be based on sufficiently understandable and complete measurement methods such that a different measurement using the same methods would reach substantially similar results.

11. The Board also considered whether a minimum condition level should be established by the government. However, the Board believes that the lack of a standardized condition measurement scale and condition assessment process necessitates that governments establish the appropriate condition level in coordination with the condition assessment process selected. Although the Board recognizes that this may appear to diminish comparability between governments, the Board believes that governments will establish appropriate condition levels for long-lived use of the infrastructure assets. In addition, because the pre-agenda research determined that information provided by the modified approach was valuable, the Board does not want concerns about Board-established minimum condition levels of infrastructure assets to be a reason that governments do not use the modified approach to report infrastructure assets in the financial statements.

12. The Board's preliminary view is that if the criteria established to use the modified approach are no longer met, a government should report infrastructure assets at historical cost net of accumulated depreciation for subsequent periods.

13. The Board considered circumstances in which a government's infrastructure assets are not preserved approximately at (or above) the condition level established and disclosed, and the government cannot justify changing that established condition level. The Board continues to believe that in those circumstances, the government should no longer report those infrastructure assets using the modified approach. Instead, the Board believes that those infrastructure assets should be reported using historical cost net of accumulated depreciation.

CHAPTER 6—NOTES TO FINANCIAL STATEMENTS

1. This chapter presents the Board's preliminary views on the disclosures related to infrastructure assets that governments should include in notes to financial statements. It discusses views related to both currently required disclosures and proposed disclosures requested by stakeholders during the pre-agenda research and supplemental user outreach.

2. Current GASB literature contains two required note disclosures specific to infrastructure assets. Other note disclosures applicable to infrastructure assets are those required for all capital assets, including infrastructure assets.

3. Governments that report infrastructure assets using the modified approach are required by paragraph 115e of Statement 34, as amended, to describe that approach for reporting infrastructure assets in their summary of significant accounting policies note disclosure. In addition, governments that both (a) had less than $10 million of revenue in their first fiscal year ending after June 15, 1999, and (b) elected not to retroactively report infrastructure assets when implementing Statement 34, as allowed by paragraph 148 of Statement 34, as amended, are required to provide a note disclosure in their summary of significant accounting policies that general infrastructure assets that were acquired prior to the beginning of the fiscal year in which the government implemented Statement 34 are not reported in the basic financial statements, as discussed in Question 7.85.5 of Implementation Guide 2015-1.

4. Other required disclosures in notes to financial statements related to capital assets, including infrastructure assets, generally are found in Statement 34, as amended, and Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* as amended. Paragraph 115e of Statement 34, as amended, requires a government to include in its summary of significant accounting policies its policy for capitalizing assets and for estimating the useful lives of those assets used to calculate depreciation expense. Paragraph 116 of Statement 34, as amended, requires detailed disclosures of capital assets to be separated between (a) major classes of capital assets, (b) those capital assets associated with governmental activities and those associated with business-type activities, and (c) those capital assets being depreciated and those not being depreciated. Paragraph 117 of Statement 34, as amended, requires governments to present the beginning- and end-of-year balances, capital acquisitions, sales or other dispositions, and current period depreciation expense for capital assets as well as the amounts of depreciation charged to each of the functions in the statement of activities. Statement 42 provides note disclosure requirements for impaired capital assets. Paragraph 17 of Statement 42 requires that "if not otherwise apparent from the face of the financial statements, a general description, the amount, and the financial statement classification . . . of the impairment loss should be disclosed in the notes to the financial statements." In addition, paragraph 20 of Statement 42, as amended, requires that the carrying amount of impaired capital assets that are idle at year-end be disclosed, and paragraph 21 of Statement 42 requires that, if not otherwise apparent from the face of the

financial statements, the amount and the financial statement classification of insurance recoveries be disclosed.

Currently Required Disclosures

5. The Board's preliminary view is that the currently required disclosures in notes to financial statements related to infrastructure assets should continue to be required, with the following exceptions: the description of the modified approach (paragraphs 9–11), the disclosure of infrastructure assets not reported at transition (paragraphs 12 and 13), and the disclosure of impaired infrastructure assets that are idle at year-end (paragraphs 14 and 15).

6. Pre-agenda research and supplemental user outreach related to note disclosures found that, except for the three disclosures discussed in paragraphs 9–15, the currently required disclosures have a meaningful effect on users' analyses for making decisions or assessing accountability, and a breadth or depth of users utilize those note disclosures in their analyses for making decisions or assessing accountability. Therefore, the Board believes that those note disclosures are essential and should continue to be required.

7. The Board's preliminary view is that disclosures in notes to financial statements related to infrastructure assets should be separated by major classes of infrastructure assets.

8. Paragraph 20 of Statement 34 and Question 7.85.2 of Implementation Guide 2015-1 provide examples of major classes of capital assets that include infrastructure assets as a major class. The Board believes that in certain circumstances, such as when a city has infrastructure assets related to both roads and communications systems, infrastructure assets should be further separated by major classes of infrastructure assets. The Board believes that disclosing information related to infrastructure assets by major class is essential because it will allow users to access the information they need for their analyses for making decisions or assessing accountability in relation to a specific major class of infrastructure asset in circumstances in which a government has multiple major classes of infrastructure assets.

Disclosures Proposed to No Longer Be Required

Description of the Modified Approach

9. The Board's preliminary view is that a government that uses the modified approach to report infrastructure assets should not include a description of the modified approach in its summary of significant accounting policies in notes to financial statements.

10. As discussed in paragraph 3 in this chapter, paragraph 115e of Statement 34 requires governments that use the modified approach to report infrastructure assets to describe the modified approach in their summary of significant accounting policies in notes to financial statements. Subsequent to the issuance of Statement 34, the Board developed concepts

for providing information in note disclosures to basic financial statements in Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. Paragraph 10 of Concepts Statement 7 contains the types of information not appropriate for notes to financial statements. One of those types of information is “general or educational information that is not specific to the government.”

11. Although the Board believes that the use of the modified approach to report infrastructure assets is a significant accounting policy that should be disclosed in accordance with the requirement in paragraph 115e of Statement 34 to disclose significant accounting policies related to capital assets, the Board also believes that a description of the modified approach is general educational information that is not specific to the government. Although an explanation may be useful to a user of the financial statements, the Board believes that it is not essential and that users are “. . . responsible for obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting . . .” in interpreting information in financial statements as stated in paragraph 21 of Concepts Statement No. 3, *Communication Methods In General Purpose External Financial Reports That Contain Basic Financial Information*. Therefore, the Board believes that a description of the modified approach in the summary of significant accounting policies in notes to financial statements is not essential to a user for making economic, social, or political decisions or assessing accountability and should no longer be required.

Infrastructure Assets Not Retroactively Reported

12. The Board’s preliminary view is that a government that does not, and was not required to, report major general infrastructure assets retroactively when implementing Statement 34 does not need to include that decision in its summary of significant accounting policies in notes to financial statements on an ongoing basis.

13. As discussed in paragraph 3 in this chapter, Question 7.85.5 of Implementation Guide 2015-1 requires a disclosure if a government (a) was not required to retroactively report infrastructure assets acquired prior to the beginning of the fiscal year in which they were required to implement the provisions of Statement 34 and (b) elected not to retroactively report those infrastructure assets. The Board believes that because of the time that has elapsed since those governments would have had to make that election, the carrying value of infrastructure assets that were not retroactively reported when implementing Statement 34 is no longer essential information.

Idle Impaired Infrastructure Assets

14. The Board’s preliminary view is that a government should not disclose in notes to financial statements the carrying amount of its impaired infrastructure assets that are idle at year-end.

15. As discussed in paragraph 4 in this chapter, paragraph 20 of Statement 42 requires that the carrying amount of impaired capital assets that are idle at year-end be disclosed. The Board does not believe that disclosure of the carrying amount of impaired infrastructure assets that are idle at year-end is essential information.

New Disclosures

16. The Board believes that changes in a government's policy for capitalizing infrastructure assets or estimating the useful lives of infrastructure assets used to calculate depreciation expense should be disclosed in its summary of significant accounting policies in notes to financial statements.

17. As discussed in paragraphs 3 and 4 in this chapter, paragraph 115e of Statement 34, as amended, requires governments to disclose their policy for capitalizing assets, including whether the government uses the modified approach or historical cost net of accumulated depreciation to recognize and measure infrastructure assets, and their policy for estimating the useful lives of those assets used to calculate depreciation expense. Examples of changes in those policies include a change in the capitalization threshold used for reporting infrastructure assets, a change in the estimated useful lives of major classes of infrastructure assets, and a change in the condition level established by a government for those infrastructure assets reported using the modified approach. During the pre-agenda research, a significant percentage of users indicated that changes in those policies related to infrastructure assets would have a meaningful effect on their analyses for making decisions or assessing accountability.

18. The Board noted in adding this disclosure that some changes in the policies for capitalizing infrastructure assets or estimating the useful lives of infrastructure assets used to calculate depreciation expense, such as the change in the estimated useful lives over which to depreciate infrastructure assets, would be required to be disclosed by paragraph 21 of Statement No. 100, *Accounting Changes and Error Corrections,* as those are changes to an input that have a significant effect on an accounting estimate. However, some other changes, such as the change in the capitalization threshold used to report infrastructure assets, do not meet the definition of an accounting change in paragraph 4 of Statement 100, and, therefore, the government would not be required to disclose information on those changes. The Board believes that all changes in the policies for capitalizing infrastructure assets or estimating the useful lives of infrastructure assets used to calculate depreciation expense are essential information and should be disclosed in the summary of significant accounting policies.

19. The Board's preliminary view is that for infrastructure assets reported using historical cost net of accumulated depreciation, a government should disclose in notes to financial statements the historical cost of infrastructure assets by major class that have exceeded 80 percent of their estimated useful lives. For this disclosure, a government should separate the historical cost of infrastructure assets that have exceeded their estimated useful lives from the historical cost of

infrastructure assets that have exceeded 80 percent of their estimated useful lives but have not yet exceeded their estimated useful lives.

20. During the pre-agenda research, stakeholders provided feedback about concerns that governments report a significant percentage of capital assets, especially long-lived capital assets such as infrastructure assets, that have no carrying value. The Board believes that a disclosure related to infrastructure assets by major class that have fully exceeded their estimated useful lives provides essential information about infrastructure assets that are being used past the end of their estimated useful lives.

21. In addition, during the pre-agenda research, users requested information related to infrastructure assets that are near the end of their remaining estimated useful lives. The Board believes that separating the historical cost of those infrastructure assets by major class that have exceeded their estimated useful lives from the historical cost of those infrastructure assets that have exceeded 80 percent of their estimated useful lives but have not yet exceeded their estimated useful lives, would provide information related to the estimated useful lives of infrastructure assets that are near the end of their remaining estimated useful lives. The Board recognizes that the useful lives of infrastructure assets are estimates over a significant number of years, which increases the likelihood that the infrastructure assets will be used by the government for longer or shorter periods than those estimated useful lives. However, the Board believes that the estimate of useful lives used to calculate depreciation is a significant assumption used in the financial reporting of infrastructure assets for which additional information should be provided in notes to financial statements. The Board also believes that such a disclosure should not require significant costs to provide as the historical cost and carrying value of infrastructure assets reported using historical cost net of accumulated depreciation should already be known by governments.

22. The Board's preliminary view is that a government should disclose in notes to financial statements its maintenance or preservation expenses for the current reporting period related to infrastructure assets by major class. Maintenance expenses should be disclosed for infrastructure assets reported using historical cost net of accumulated depreciation. Maintenance expenses are considered expenses that allow infrastructure assets to continue to be used throughout their estimated useful lives but do not extend the estimated useful lives of those infrastructure assets or increase the capacity or efficiency of those infrastructure assets. Preservation expenses should be disclosed for infrastructure assets reported using the modified approach. Preservation expenses are considered expenses that are intended to keep those infrastructure assets at (or above) the condition level established and disclosed by the government but do not increase the capacity or efficiency of those infrastructure assets.

23. During the pre-agenda research, stakeholders conveyed that information related to deferred maintenance was needed in financial statements. The Board believes that information related to deferred maintenance does not meet the criteria for inclusion in basic financial statements or RSI, as discussed in paragraphs A6–A12 of Appendix A. However, the Board believes that including the amount of maintenance and preservation expenses

in notes to financial statements would provide users with some of the information they indicated they need.

24. By having information related to the amount of maintenance and preservation expenses related to infrastructure assets by major class recognized in the financial statements, the Board believes that users can compare those amounts to their expectation of maintenance and preservation expenses incurred by the government. The Board also believes that such a disclosure would not require significant costs to provide as such amounts are already recognized as expenses in the financial statements and generally are budgeted by governments separately from other expenses.

25. The Board's preliminary view is that a government should disclose its policy for monitoring and maintaining or preserving infrastructure assets in its summary of significant accounting policies in notes to financial statements.

26. The Board believes that information related to how a government monitors and intends to maintain (for infrastructure assets reported using historical cost net of accumulated depreciation) or preserve (for infrastructure assets reported using the modified approach) its infrastructure assets should be provided as a disclosure in the summary of significant accounting policies in notes to financial statements. The Board believes that such a disclosure of a government's policy for monitoring and maintaining or preserving infrastructure assets is essential information that would let users of financial statements know how a government determines whether maintenance or preservation expenses, as discussed in paragraph 22, should be incurred for its infrastructure assets. The Board believes that such a disclosure would not require significant costs as governments would be providing a summary of their policies related to monitoring and maintaining or preserving their infrastructure assets.

CHAPTER 7—REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION

1. This chapter presents the Board's preliminary views regarding the requirements for the presentation of information related to infrastructure assets as RSI. For governments that report infrastructure assets using historical cost net of accumulated depreciation, there are currently no RSI presentation requirements related to infrastructure assets. For governments that report infrastructure assets using the modified approach, as discussed in Chapter 5, that information is currently required to be presented as discussed in paragraphs 132 and 133 of Statement 34. In addition, this chapter presents the Board's preliminary views related to presenting certain information as supplementary information if governments have infrastructure assets reported using historical cost net of accumulated depreciation.

2. Paragraph 132 of Statement 34 requires the presentation of two schedules as RSI related to infrastructure assets reported using the modified approach. The first schedule presents the assessed condition of infrastructure assets, performed at least every three years, for at least the three most recent complete condition assessments, indicating the dates of the assessments. The second schedule displays the estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve infrastructure assets at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for each of the past five reporting periods.

3. Paragraph 133 of Statement 34 requires that governments disclose certain information related to the RSI schedules. First, governments should disclose the basis for the condition measurement and the measurement scale used to assess and report the condition level. Second, governments should disclose the condition level at which the government intends to maintain and preserve its infrastructure assets reported using the modified approach. Third, governments should disclose factors that significantly affect the trends in the information reported in the RSI 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. Finally, if there is a change in the condition level at which the government intends to preserve infrastructure assets reported using the modified approach, governments should disclose an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period.

4. Footnote 58 to Statement 34 encourages governments that report infrastructure assets using historical cost net of accumulated depreciation to provide as supplementary information the same information that governments that report infrastructure assets using the modified approach present as RSI, as discussed in paragraphs 2 and 3 in this chapter.

RSI Schedules

Historical Cost Net of Accumulated Depreciation Reporting

5. The Board's preliminary view is that governments that report infrastructure assets using historical cost net of accumulated depreciation should present as RSI a schedule of the estimated annual amount calculated at the beginning of the fiscal year to maintain those infrastructure assets by major class compared with the amounts actually expensed for each of the past 10 fiscal years.

6. As discussed in paragraphs 22–24 in Chapter 6, the Board believes that disclosure of maintenance expenses related to infrastructure assets by major class could provide users of financial statements with essential information related to how a government is maintaining its infrastructure assets reported using historical cost net of accumulated depreciation. The Board believes that providing that information in a 10-year schedule of the estimated annual amount of maintenance expenses compared to actual maintenance expenses related to those infrastructure assets would place that information in an appropriate operational and historical context. At this time, the Board has not discussed transition issues, such as whether to provide information as RSI schedules prospectively or retroactively. The Board expects to consider transition issues when it considers the feedback from its preliminary views.

Modified Approach Reporting

7. The Board's preliminary view is that governments that report infrastructure assets using the modified approach should continue to present as RSI a schedule of the assessed condition of those infrastructure assets, performed at least every three years, for the three most recent complete condition assessments, indicating the dates of those assessments.

8. Users that participated in the pre-agenda research and supplemental user outreach consistently ranked information related to the condition of infrastructure assets as valuable. For those governments that report infrastructure assets using the modified approach, the Board continues to believe that the condition of infrastructure assets is essential information. Such information allows users to assess the degree to which infrastructure assets are being preserved. As discussed in paragraphs 6 and 7 in Chapter 5, the Board believes that those condition assessments should be performed at least once every three years.

9. The Board considered whether condition assessments meet the criteria to be included as disclosures in notes to financial statements. Although the Board believes that condition assessments meet some of the criteria to be included as disclosures in notes to financial statements, the Board is concerned with the auditability of that information. As a result, the Board determined that condition assessments should continue to be presented as RSI.

10. Although paragraph 133 of Statement 34 requires that at least the three most current assessments be presented as RSI, the Board believes that because information presented as RSI is required, the number of periods to be presented should be specified. Current RSI presentation for claims development information required by Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended, and for postemployment benefit information required by Statement No. 67, *Financial Reporting for Pension Plans,* as amended; Statement No. 68, *Accounting and Financial Reporting for Pensions,* as amended; Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended; and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended, is required to be presented over 10 reporting years. The Board believes that presentation of 10 reporting years of information places the information in an appropriate historical context. If a government elects to perform the condition assessments over the maximum allowed period of time between assessments of three years as discussed in paragraphs 6 and 7 in Chapter 5, the Board believes that the period of nine years covered by those three condition assessments would cover a similar period of time as other RSI information.

11. The Board's preliminary view is that governments that report infrastructure assets using the modified approach should present as RSI a schedule of the estimated annual amount calculated at the beginning of the fiscal year to preserve infrastructure assets by major class at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed for that fiscal year for each of the past 10 fiscal years.

12. Similar to providing information on the condition of infrastructure assets reported using the modified approach, the Board believes that information related to the estimated annual amount of preservation expenses of infrastructure assets by major class compared to actual preservation expenses provides users of financial statements with information to assess the degree to which infrastructure assets are being preserved. Because of the definition of preservation expenses related to infrastructure assets reported using the modified approach discussed in paragraphs 22–24 in Chapter 6, the Board believes currently existing references to *preservation and maintenance* can be limited to *preservation* when determining the expenses to present in this schedule.

13. Paragraph 132b of Statement 34 requires that information related to the estimated annual amount to preserve infrastructure assets at (or above) the condition level established and disclosed by the government compared with the amounts actually expensed is required only for the past five fiscal years. The Board believes that in addition to other information presented as RSI generally being for 10 fiscal years, as discussed in paragraph 10 in this chapter, the long-lived nature of infrastructure assets supports including information from the past 10 fiscal years rather than the past 5 fiscal years to place the information in an appropriate historical context.

Notes to RSI Schedules

14. The Board's preliminary view is that governments should continue to disclose in the schedules presented as RSI the following information for infrastructure assets reported using the modified approach: (a) the basis for the condition measurement and the measurement scale used to assess and report the condition and (b) the condition level at which the government intends to preserve those infrastructure assets.

15. In addition to the items discussed in paragraph 14, the Board's preliminary view is that factors that significantly affect trends in the information reported as RSI, whether the RSI schedule is for infrastructure assets reported using historical cost net of accumulated depreciation or infrastructure assets reported using the modified approach, should be disclosed in the schedules presented as RSI. For infrastructure assets reported using historical cost net of accumulated depreciation, an example of a need for that disclosure would include variations in maintenance expenses due to a change in the government's policy to monitor and maintain its infrastructure assets. For infrastructure assets reported using the modified approach, those factors would include any changes in (a) the measurement scale, (b) the basis for the condition measurement, (c) the condition assessment methods used during the periods covered by the schedules, or (d) the condition level at which the government intends to preserve infrastructure assets. If there is a change in the condition level at which the government intends to preserve infrastructure assets reported using the modified approach, an estimate of the effect of the change on the estimated annual amount to preserve those assets for the current period also should be disclosed.

16. Although the Board believes that information related to the measurement factors used for the modified approach may meet some of the criteria for inclusion in notes to financial statements, the Board also believes that this information is intended to provide operational, economic, and historical context to the multi-year schedules of the assessed condition of infrastructure assets that are presented as RSI.

17. Similar to other schedules required to be presented as RSI, the Board continues to believe that factors that significantly affect trends in the information reported as RSI should be disclosed as notes to those schedules. The Board believes that reasons for significant changes in the amount of maintenance expenses (for infrastructure assets reported using historical cost net of accumulated depreciation) and preservation expenses (for infrastructure assets reported using the modified approach) should be disclosed as notes to those schedules. The Board also believes that an estimate of the effect of a change on the estimated annual amount to preserve infrastructure assets reported using the modified approach, if there is a change in the condition level at which the government intends to preserve those assets, should be disclosed as notes to those schedules.

Supplementary Information

18. The Board's preliminary view is that governments that do not use the modified approach to report infrastructure assets should no longer be encouraged to present as supplementary information the same information related to infrastructure assets that governments that report infrastructure assets using the modified approach present as RSI.

19. Paragraph 46 of Concepts Statement 3 defines supplementary information as "supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context." Although the Board believes that information related to the condition of infrastructure assets meets the definition of supplementary information, the Board is not aware of many governments that have provided such information as supplementary information in annual comprehensive financial reports. The Board noted that a government that does not use the modified approach to report infrastructure assets may present information related to its infrastructure assets as supplementary information because the government either is required to do so by a regulatory body or voluntarily elects to present the information.

APPENDIX A: SUMMARY OF OTHER CONSIDERATIONS DURING THE DEVELOPMENT OF THIS PRELIMINARY VIEWS

A1. This appendix discusses alternatives considered and rejected in the process of developing the preliminary views presented in this document. Individual Board members may have given greater weight to some views than to others.

Other Measurement Approaches Considered

A2. In addition to historical cost net of accumulated depreciation and the modified approach, the Board considered other approaches to measure infrastructure assets reported in financial statements of state and local governments. Some participants in the pre-agenda research advocated that the Board consider either fair value or replacement cost to measure infrastructure assets.

A3. Infrastructure assets measured at fair value would be measured at the price that would be received to sell the infrastructure assets in an orderly transaction between market participants at the measurement date. Although the Board recognizes that measuring infrastructure assets at fair value may provide better information about the financial position of the government, the Board believes that fair value generally is not appropriate to measure infrastructure assets, as discussed in paragraph 39 of Concepts Statement 6, which states that "fair value generally is not appropriate for assets that will be used directly to provide services because fair value is an exit price and governments will not be selling or otherwise exiting from these assets." The Board also believes that because governments generally do not sell infrastructure assets, obtaining information to appropriately measure the fair value of infrastructure assets may be difficult. In addition, the Board believes that the cost of infrastructure assets should be allocated to the periods of service in which the infrastructure assets are used in order to better assess interperiod equity.

A4. Infrastructure assets measured at replacement cost would be measured at the price that would be paid to acquire infrastructure assets with equivalent service potential in an orderly market transaction at the measurement date. Similar to the concerns discussed in paragraph A3 related to the use of fair value, the Board believes that the cost of infrastructure assets should be allocated to the periods in which the infrastructure assets are used, as discussed in paragraph 41 of Concepts Statement 6, which states that replacement cost "generally results in a cost-of-services amount that is less relevant for assessing interperiod equity than the use of either acquisition value or historical cost."

A5. Some participants in the pre-agenda research and supplemental user outreach requested disclosures related to the fair value or replacement cost of capital assets, including infrastructure assets. Although the Board believes that information related to the fair value or replacement cost of infrastructure assets would provide more detail about amounts recognized in the financial statements—a type of information that paragraph 9 of Concepts Statement 7 allows to be presented in notes to financial statements—the Board is concerned with the costs that governments may incur to provide that information.

Deferred Maintenance

A6. During the pre-agenda research, some stakeholders expressed concerns that governments have a liability for deferred maintenance on capital assets, most notably infrastructure assets. Although deferred maintenance is not universally defined, it is generally considered maintenance and repairs that are delayed until future periods.

A7. The Board first considered whether deferred maintenance met the definition of a liability in paragraph 17 of Concepts Statement 4: a present obligation to sacrifice resources that a government has little or no discretion to avoid. The Board believes that deferred maintenance is the result of management making decisions as to whether assets are in an acceptable working condition. The Board believes that a government generally would not be legally required to incur maintenance or preservation costs on infrastructure assets at specific times. That is, management has the discretion to determine whether infrastructure assets are in an acceptable condition and either need or do not need additional maintenance or preservation work performed to continue to provide services. The Board noted that there could be instances in which the condition of infrastructure assets deteriorates to such a degree that there could be legal proceedings to attempt to force the government to perform certain maintenance or preservation work. However, if a court were to render a judgment that a government must perform maintenance that had been deferred, it would be the result of some legal or contractual obligation the government has to maintain that infrastructure asset rather than the general concept that all infrastructure assets are required to be maintained or preserved at a certain condition level. That is, deferred maintenance gave rise to the condition that led to the legal action, but the present obligation of the government to sacrifice resources is the result of the legal or contractual obligation the government has to maintain or preserve that specific infrastructure asset and not all infrastructure assets.

A8. The Board also considered two other types of obligations—social and moral obligations—that create liabilities of state and local governments because the consequences of not performing a certain action leave the government little choice but to sacrifice resources as a response. As noted in paragraph 19 of Concepts Statement 4, generally a social or moral obligation is the result of an exchange transaction. The postponing of maintenance or preservation does not result from exchange transactions; instead, decisions of management related to the allocation of resources to each of the types of services provided by a government may result in potential maintenance or preservation activities not being done at certain times. In addition, although the resources used to pay for maintenance or preservation generally are the result of unrelated transactions, such as the collection of taxes or fees by a government, the receipt of those resources generally does not create a social or moral obligation of the government *to provide specific services* using *a specific infrastructure asset or type of infrastructure asset*. Instead, those resources generally are received to provide general services, with the government having discretion as to the manner in which to provide those services. As a result, the Board does not believe that a government has a social or moral obligation to perform maintenance or preservation activities as the government generally has the ability to provide its services through means other than the use of specific infrastructure assets.

A9. In determining whether deferred maintenance meets the definition of a liability, the Board also considered the discussion in paragraph 20 of Concepts Statement 4 explaining when a government has little or no discretion to avoid sacrificing resources because of an obligation. That paragraph lists three scenarios in which a government has little or no discretion to avoid the sacrifice of resources: ". . . when it does not have the power to decline making the sacrifice of resources, when it cannot indefinitely defer when the sacrifice of resources will occur, or when the penalty or consequences for failing to sacrifice the resource is more than insubstantial." As noted in paragraphs A7 and A8, governments generally have the ability to determine how to allocate their resources to provide services to their constituents, which allows a government to avoid making a sacrifice of resources to maintain or preserve infrastructure assets if the government determines that resources should not be allocated to perform such maintenance or preservation activities. In addition, the Board believes that governments generally have the ability to defer performing maintenance or preservation activities as, again, governments generally can decide the scope and ways that services will be provided to constituents. Also, although the Board believes that the penalty or consequence of failing to sacrifice resources for maintenance or preservation activities may be substantial, as discussed earlier, those results would not meet the criteria for recognition as a liability until the events that cause those results occur.

A10. The Board also considered the discussion in paragraph 21 of Concepts Statement 4 that the party to whom the liability is owed must be external to the government, even if it is unknown who that party is as of the report date. The Board acknowledges that the government may have to pay an external party to perform maintenance or preservation services. However, the liability to that party is for the maintenance or preservation services provided at that time; it is not a liability prior to the point in time that that party provides those services. Instead, an obligation to keep assets at an established condition is an obligation that a government has determined to take on in order to continue to provide services in a specific manner. The Board believes that such an obligation would be a liability to the government itself, which would not be an external party. The Board acknowledges that some might argue that the constituency of a government is an external party. The Board believes, however, that any obligation to the constituency, as discussed above, is generally in terms of the services to be provided and not related to having specific infrastructure assets kept at a specified condition level.

A11. After determining that deferred maintenance does not meet the definition of a liability for purposes of financial reporting, the Board considered whether deferred maintenance should be disclosed in notes to financial statements or as RSI. However, the Board is concerned that such information is two of the three types of information in paragraph 10 of Concepts Statement 7 (for inclusion in notes) or paragraph 44 of Concepts Statement 3 (for inclusion as RSI) that are not appropriate: subjective assessments of the effects of reported information on the government's future financial position, other than expectations and assumptions about the future that are inputs to current measures in the financial statements or notes to financial statements, and predictions about the effects of future events on future financial position. Similar to whether a government has an obligation, as discussed in paragraphs A7–A9, the Board believes that the determination of future maintenance and preservation costs would be subjective assessments of the effects of reported information on the government's future financial position and predictions about those effects on future financial position.

A12. To provide information that users of financial statements can utilize to make their own assessments on information related to deferred maintenance, the Board decided that estimated amounts of maintenance or preservation expenses compared to actual expenses related to infrastructure assets should be disclosed in notes to financial statements, as discussed in paragraphs 22–24 of Chapter 6, and presented as RSI, as discussed in paragraphs 5, 6, and 11–13 of Chapter 7. The Board believes that as this information is gathered over time, users will be able to compare those amounts to their expectation of maintenance or preservation expenses for infrastructure assets.