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January 13, 2025

Project No. 3-43P

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EMAIL

Re: Preliminary Views of the Government Accounting Standards Board on major issues related to Infrastructure Assets

Dear Mr. Skelton:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the Government Accounting Standard Board's (GASB) Request for Written Comments on Project No. 3-43, *Infrastructure Assets*. The comments provided in our response were prepared based on a review by members of the FGFOA Technical and Legislative Resources Committee and the Board of Directors.

We generally agree with the Preliminary Views of the Board. We have, however, identified some items we believe would benefit from additional clarifications, noted some disagreements, and made some recommendations for your consideration (see the enclosed Exhibit A of our response).

We thank the GASB for its efforts in preparing the *Infrastructure Assets* Preliminary View and for providing an opportunity to respond. Please feel free to contact me at (850) 488-2415 or rip.colvin@justiceadmin.org regarding the comments above.

Sincerely,

Alton L. "Rip" Colvin, Jr., CPA, CGFO, CPM
President

Enclosure

Exhibit A: Comments on GASB Preliminary Views on Infrastructure Assets (Project No. 3-43P)

Chapter, Paragraph		Comment
Chapter 2, #2	<p>Definition of Infrastructure Assets The Board’s preliminary view is that infrastructure assets are assets that may consist of multiple components that are part of a network of long-lived capital assets utilized to provide a particular type of public service, that are stationary in nature, and that can be maintained or preserved for a significant number of years. 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.</p>	<p>We request clarification on the use of “component” in footnote 1 of 2.2. It is unclear as to whether it has the same definition of “component” in Chapter 4.</p> <p>We recommend changing the infrastructure definition to “...can be maintained or preserved for a <u>significantly greater</u> number of years <u>than most capital assets.</u>” The longer lives of infrastructure assets were the main distinction from other capital assets in the original definition in Statement 34, but that distinction is missing from the Preliminary View.</p> <p>The “buildings” explanation in item (d) of paragraph 3 provides a clearer statement and should replace the “buildings” sentence in paragraph 2.</p>
Chapter 4, #2	<p>Periodic Review of Estimated Useful Lives and Salvage Values 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.</p>	<p>To provide for more consistency of the periodic reviews, we recommend that the GASB provide examples of factors to be considered when establishing the frequency of periodic reviews.</p>
Chapter 4, #6	<p>Consideration of Components with Different Estimated Useful Lives 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.</p>	<p>We request that the GASB provide some examples of infrastructure components, to assist governments with identifying components.</p> <p>Given the significant amount of practitioner effort involved in identifying “components” while implementing the forthcoming standard, we request that the separate identification, useful lives, and depreciation of infrastructure components be implemented prospectively.</p> <p>Question: How do “components” affect the modified approach? We request that the GASB provide examples to assist financial statement preparers.</p>
Chapter 4, #7	<p>Grouping of Similar Assets 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.</p>	<p>Given the significant amount of practitioner effort involved in identifying “components” while implementing the forthcoming standard, we request that the transition rules prospectively apply this requirement. The option of including note disclosures explaining the prospective application would be beneficial and would be consistent with the original GASB 34 infrastructure implementation approach referenced in Chapter 6, paragraph 3.</p>
Chapter 5, #3	<p>Modified Approach 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.</p>	<p>Paragraph 5 allows governments to have processes in place to provide flexibility in using the modified approach. Given that asset management systems are not required or in use by most governments, we request clarification or guidance, including examples, regarding processes for “estimating annual amounts to preserve infrastructure assets at the condition levels the government establishes.”</p>

Exhibit A: Comments on GASB Preliminary Views on Infrastructure Assets (Project No. 3-43P) – (Continued)

Chapter, Paragraph		Comment
Chapter 5, #12	<p>Modified Approach If 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.</p>	<p>Question: Since the modified approach essentially uses an infinite useful life, and switching to historic cost net of accumulated depreciation would likely result in a shorter useful life, would the transition from the modified approach to the historical cost approach be treated as a change in accounting estimate or a change in accounting principle?</p>
Chapter 6, #7	<p>Notes to Financial Statements, Currently Required Disclosures Disclosures in notes to financial statements related to infrastructure assets should be separated by major classes of infrastructure assets.</p>	<p>We request clarification on the definition of “major classes of infrastructure” and how “classes of infrastructure” compare to “components”. Definitions and examples would be helpful. Note that paragraph 20 of Statement 34 gives examples of “major classes of assets” <u>not</u> “major classes of infrastructure assets.”</p>
Chapter 6, #16	<p>New Disclosure 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</p>	<p>Question: If the condition level for preservation of infrastructure assets under the modified approach changes from a higher level to a lower level, would there be an impact on the financial statements in addition to the note disclosure?</p> <p>We request clarification regarding condition level decreases. If the condition level drops from excellent to fair, there may be no impact on the life of the infrastructure assets. However, if the condition level dropped from fair to poor, for example, it could affect the life of the infrastructure assets and impact the accounting records (not just a note disclosure). We recommend that the GASB provide specific examples that describe a scenario and the accounting and reporting consequences if the actual condition level drops to a point that impacts useful lives, even if the government has lowered its selected condition level to stay eligible.</p>
Chapter 6, #19	<p>New Disclosure 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.</p>	<p>We disagree with this preliminary view. We note that presenting historical cost for the assets at 80% of their useful lives would not be useful in informing the reader on the cost to replace the aging infrastructure because the current cost to replace those assets is anticipated to be significantly greater due to the impact of inflation since the asset was originally placed in service.</p>
Chapter 6, #22	<p>New Disclosure 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.</p>	<p>Many governments (those not using the modified approach) will not have this information available in their accounting systems at this level of detail. If the GASB retains this requirement, we request prospective application.</p>
Chapter 6, #25	<p>New Disclosure 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.</p>	<p>We request examples of this proposed disclosure to avoid generalized statements that are too vague to be meaningful.</p>
Chapter 7, #3	<p>RSI 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.</p>	<p>We recommend that the government also disclose the specific change to the condition level, not just the estimate of the effect of the change.</p>

Exhibit A: Comments on GASB Preliminary Views on Infrastructure Assets (Project No. 3-43P) – (Continued)

Chapter, Paragraph		Comment
Chapter 7, #5	<p>RSI Schedules 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.</p>	<p>Many governments using this method will not likely have this information available and would find it costly to acquire. If the GASB retains this requirement, we request prospective application.</p>
Chapter 7, #15	<p>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.</p>	<p>We recommend that if the four (4) items (a, b, c, and d) are required to be disclosed when they change, then the value/current state of those same specific items should be presented as a disclosure in RSI annually.</p>