



December 21, 2023

Mr. Alan Skelton
Director of Research and Technical Activities
Project No. 39
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Skelton:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Disclosure and Classification of Certain Capital Assets*, and are pleased to offer our comments. Overall, we appreciate the Board's efforts to provide users of governmental financial statements with essential information about certain types of capital assets. However, as further described in our detailed comments below, we recommend a different approach be taken to disclosing information on capital assets held for sale. The following includes further information on this recommendation, as well as provides several other comments for the Board's consideration.

Detailed Comments

Recommend a Different Approach to Disclosing Capital Assets Held for Sale

We support the disclosure of capital assets held for sale. However, we recommend a different approach from the Board's proposal to require separating out capital assets held for sale by major class of asset in the capital assets disclosure, which includes the related beginning balances, acquisitions, dispositions, and ending balances. Instead, we believe the Board should require a separate disclosure of the net book value of each major class of assets held for sale only at the financial statement date, along with a narrative description that provides more detail about the assets and facts surrounding the expected sale.

Our experience working with governments has shown that expected capital asset sales that meet the "held for sale" criteria in paragraph 5 do not always occur. In these cases, under the Board's proposal, assets will be moving in and out of the held for sale tabular disclosure line item from year to year. For example, if a building is deemed to be held for sale, it would be reclassified out of the buildings disclosure line item in the "decreases" column and added in the "increases" column in the held for sale disclosure line item. If the asset is determined not to be held for sale in the next reporting period, it would be shown as a "decrease" in the held

for sale disclosure line item and an “increase” in the buildings disclosure line item. Similar adjustments would be needed in the accumulated depreciation held for sale section of the tabular disclosure. We believe this reclass activity is unnecessary and will be confusing for users since there have been no true “additions” or “deletions” to total capital assets.

Paragraph .B21 states that the Board considered whether assets held for sale that no longer meet the criteria should be reclassified and concluded that evaluating the held for sale classification each reporting period, and reclassifying as needed, will provide better information about liquidity to users and best represents the status of a government’s assets. While we agree with the value of disclosing information about assets held for sale, we believe our suggested alternative disclosure, which includes presenting only the ending balances of capital assets held for sale, would (1) still meet the objective of the ED; (2) provide users with more clear and meaningful information about the net book value of capital assets held for sale, as well as informative narratives providing more context; and (3) avoid potential confusion by users in reclassification scenarios.

Clarify Scope and Applicability of the Standard

We believe the standard should be clear regarding which capital assets held for sale are included within its scope. In reviewing paragraph .B22 in the Basis for Conclusions, there appears to be a distinction between capital assets used in operations and classified as held for sale versus capital assets determined to be an investment at acquisition and classified as held for sale. We believe the Board’s intent is to scope the latter out of this standard and paragraph .B23 seems to confirm that by stating that this project is focused on the classification and presentation of nonfinancial assets. However, paragraph 2 of the standard is not clear on this point. We recommend that paragraph 2 be revised to clarify the scope in this regard to ensure readers appropriately understand which capital assets held for sale are covered by this standard.

Clarify How Right-To-Use Intangible Underlying Assets Are to be Disclosed

Paragraph 4b includes the following statement: “Intangible assets that represent the right to use intangible underlying assets are not required to be disclosed separately but should not be reported with owned intangible assets.” We are struggling to understand the intent of this sentence. That is, if right-to-use intangible underlying assets are not to be included with owned intangible assets and they are not included within the categories described in paragraph 4a, what other presentation would result other than these intangible assets being disclosed separately? Further clarity on the meaning of the first sentence of paragraph 4b is needed to enhance understanding of the Board’s intent.

Clarify that Capital Assets are not Required to be Idle to be Classified as Held for Sale

The statement at the end of paragraph .B20 of the Basis for Conclusions says: “This statement does not require capital assets to be idle in order to be classified as held for sale.” We suggest that this concept be included within paragraphs 5 through 7 of the final standard due to its importance and to ensure an appropriate understanding by governments.

Provide More Specificity on the Meaning of “Deciding to Sell”

One of the criteria for a capital asset to be deemed held for sale in paragraph 5 is that the government has decided to sell the capital asset. In discussing this provision, paragraph .B12 of the Basis for Conclusions indicates that the Board’s rationale for settling on this criterion was because governments “often” require a higher level of authority such as a city council or school board to make such decisions. However, “often” is not the same as “always” and we believe the Board should provide more specificity as to the authority needed for a government to support that a decision to sell a capital asset has been made to ensure comparability across governments. While we recognize that the concept of “decided to sell” is also included in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, in that standard it is discussed as an example of an impairment indicator rather than as a specific criterion for impairment. In this ED, “decided to sell” is one of two criteria needed to provide a high level of certainty that a capital asset should be categorized as “held for sale.” Therefore, we believe the inclusion of more specificity around the authority needed for a government to support such a decision is more important in this ED to help ensure consistency and comparability.


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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA’s State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Tony Boras
Chair
AICPA State and Local Government
Expert Panel



Mary M. Foelster
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AICPA Governmental Auditing and
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cc: State and Local Government Expert Panel
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