



Federal Accounting Standards Advisory Board

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Ian Carruthers, Chairman
Angela Ryan, Deputy Chair
International Public Sector Accounting Standards Board
529 Fifth Avenue
New York, NY 10017

Consultation Paper: *Financial Reporting for Heritage in the Public Sector*

Dear Mr. Carruthers and Ms. Ryan,

Thank you for the opportunity to comment on the above-referenced consultation paper concerning heritage items in the public sector. Our Boards share similar interests in setting high-quality public sector accounting standards and we hope to offer insights from our past work in this area. We also share with you the challenges of developing proposals that balance the benefits of user information with the cost to preparers of providing that information.

The views expressed in this letter do not necessarily represent the current views of the Federal Accounting Standards Advisory Board (FASAB or Board), its sponsors, individual members, committees, task forces, or staff. As you know, formal positions of the FASAB are developed only through extensive due process and deliberation. Although I am not addressing each question in your consultation paper, I am providing insights gained from Board positions in existing FASAB guidance and alerting you to an ongoing project addressing land that should be relevant to your efforts.

Asset Definition

The Board has consistently concluded that heritage items¹ can be assets.² Key points from our concepts statements include:

- a. To be an asset, an item must have “the ability to provide economic benefits or services.” The Board noted that the services embodied in an asset may benefit the government in ways other than inflows of cash or other resources. For example, assets such as museums and art galleries often provide educational and research opportunities to the public at no charge, “thereby assisting the federal government to achieve its mission to provide public services.”³
- b. An item that meets the definition of an asset is an asset even if it is not recognized in the accrual-basis financial statements. “Unrecognized elements are candidates for disclosure in the notes to financial statements or as supplementary information.”⁴

Current standards provide that heritage assets should not be recognized on the balance sheet. Instead, a line item is presented on the balance sheet to refer readers to a note providing non-financial information about the heritage asset.⁵

Reporting Objectives, Qualitative Characteristics, and Cost-benefit Constraints

In developing the current standards, the Board concluded that the primary reporting objective for heritage assets and stewardship land is stewardship.⁶ The stewardship objective is:

Federal financial reporting should assist report users in assessing the impact on the country of the government’s operations and investments for the period and how, as a result, the government’s and the nation’s financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether

- the government’s financial position improved or deteriorated over the period,

¹ FASAB does not define heritage items. However, the characteristics associated with heritage assets are similar. Henceforth, this letter refers to heritage assets.

² See Statement of Federal Financial Accounting Standards (SFFAS) 6, [Accounting for Property, Plant, and Equipment](#); SFFAS 29, [Heritage Assets and Stewardship Land](#), and Statement of Federal Financial Accounting Concepts (SFFAC) 5, [Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements](#).

³ SFFAC 5, par. 26.

⁴ SFFAC 5, par. 9.

⁵ SFFAS 29, par. 19-27.

⁶ SFFAC 6, par. 123.

- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
- government operations have contributed to the nation's current and future well-being.

In contrast, the Board concluded that the primary object regarding other assets such as general property, plant, and equipment is operating performance which requires financial information such as depreciation expense.

These decisions were based on user needs⁷ and led the Board to focus on two important questions regarding heritage assets:

1. What and where are the important assets?
2. Is the government effectively managing and safeguarding its assets?⁸

The Board sought to address these questions by providing information that meets the qualitative characteristics established in its concepts. A key qualitative characteristic is that information be relevant to the user. To be relevant, a logical relationship must exist between the information provided and the purpose for which it is needed.⁹ To focus on the established reporting objective and the questions users raised, the Board concluded that information about the existence and condition of heritage assets would be relevant.¹⁰ In contrast, the Board concluded that attempting to capitalize and depreciate heritage assets is not useful because of the uncertain useful life and historical cost basis of such assets.¹¹

During due process, the Board proposed requiring reporting on the fair value of assets transferred to state and local governments. However, respondents to the proposal questioned the cost-benefit of doing so even for this limited portion of heritage assets. The Board agreed and did not require fair value information.¹²

Recognition

The Board concluded that attempting to capitalize and depreciate heritage assets would not provide valuable information to readers of financial reports. This decision was made

⁷ SFFAS 6, par. 124.

⁸ SFFAS 6, par. 125.

⁹ SFFAC 1, *Objectives of Federal Financial Reporting*, par. 161.

¹⁰ SFFAS 8, par. 11 and 119.

¹¹ SFFAS 8, par. 119.

¹² SFFAS 8, par. 127-128.

because the Board could not identify a relevant measurement attribute and expressed concern about the cost and benefit of producing financial amounts that likely have little or no relevance. Current standards require the cost of acquiring heritage assets to be expensed when incurred.¹³

Disclosure of Non-financial Information

Given the reporting objectives and the conclusion that it is not meaningful to assign a monetary value to heritage assets, the Board developed disclosure requirements to meet our stewardship objective. Current standards require the following non-financial information:

- a. A concise statement explaining how the heritage assets relate to the mission of the entity
- b. A brief description of the entity's stewardship policies for heritage assets
- c. A concise description of each major category of heritage asset
- d. The physical units of each major category of heritage assets at the beginning and end of the reporting period as well as the number of units acquired and withdrawn during the reporting period

To ensure condition information is available, entities also should include a reference to deferred maintenance and repairs information reported in required supplementary information.¹⁴

The Board has consistently found the relevance of non-financial information regarding heritage assets especially high in the public sector.

Deferred Maintenance and Repairs Information

Heritage assets often possess distinctive features which create significant financial obligations including obligations to maintain or preserve them. The Board concluded that reporting of deferred maintenance and repairs should be mandatory.¹⁵ This information is directly responsive to the second question identified by users – Is the government effectively managing and safeguarding its assets?

Land

The Board recently amended standards regarding land that qualifies as general property, plant, and equipment (general PP&E). The amendments allow entities to elect to exclude such land values from opening balances when they first adopt generally accepted accounting principles. Further, entities making the election are required to

¹³ SFFAS 8, par. 118-119.

¹⁴ SFFAS 29, par. 25-26.

¹⁵ SFFAS 42, *Deferred Maintenance and Repairs*, par. 15.

expense future acquisitions and to disclose the number of acres of land they control as well as changes in acreage during each reporting period.¹⁶

In adopting this new standard, the Board considered that, unlike other general PP&E, land is not depreciated. Depreciation expense for other general PP&E provides information essential to assessing operating performance. In contrast, capitalizing land provides information primarily beneficial in the period of acquisition so that the acquisition can be evaluated. "The Board carefully considered those aspects of the land category, along with measurement challenges, cost-benefit considerations, and the qualitative characteristics of financial information. The Board determined the most practical and cost-beneficial approach to establishing an opening balance for land would be to permit the reporting entity to exclude land from the opening balance of general PP&E and to support accountability through disclosures."¹⁷

However, members expressed concern regarding the resulting inconsistent reporting; reporting entities making this election would provide nonfinancial information about land and other entities would provide historical cost information for land qualifying as general property, plant, and equipment. Further inconsistencies have existed for some time because stewardship land is reported through disclosure of nonfinancial information such as physical quantities and policies.

The Board is currently considering proposals to address these inconsistencies. One proposal is to require acreage information for all land in lieu of assigning a monetary value. A proposal is expected before the end of 2017 and we hope it will prove relevant to your discussion of heritage items.

Conclusion

I hope that you find this overview of our current standards and projects, including the underlying rationale, in this area helpful. Should you require any clarification or wish to discuss this letter further, please do not hesitate contacting Ms. Wendy M. Payne, FASAB Executive Director at 202.512.7357 or email paynew@fasab.gov.

Sincerely,



D. Scott Showalter
Chairman, FASAB

¹⁶ SFFAS 6, (as amended by SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*), par. 40.f. and h.

¹⁷ SFFAS 50, par. A16-A17.