

September 25, 2017

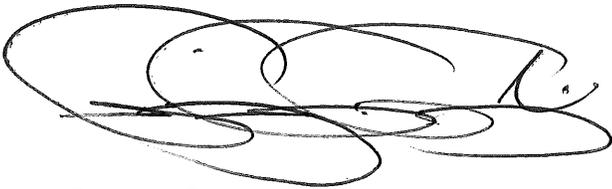
Mr. Ian Carruthers, Chairman  
International Public Sector Accounting Standards Advisory Board  
529 Fifth Avenue  
New York, NY 10017

Dear Chairman Carruthers and Members of the Board –

Thank you for the opportunity to comment on IPSASB's Consultation Paper on Heritage Assets. I hope my comments will be useful in determining how best to meet the needs of users of general purpose financial reports (GPFRs) as you continue with this important project.

Please find my responses to the preliminary views (PV) and specific matters for comment (SMC) enclosed.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ricky A. Perry, Jr.', with a large, stylized flourish at the end.

Ricky A. Perry, Jr., CPA  
Senior Financial Auditor / Federal Financial Management Analyst  
United States of America

Enclosure

Enclosure

## PV and SMC Responses

### **SMC; Chapter 1**

*Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8? If not, please give reasons and identify any additional characteristics that you consider relevant.*

I agree with paragraph 1.7. It seems as though IPSASB identified the appropriate, broad characteristics necessary for inclusion in paragraph 1.7, and excluded other more narrow characteristics that might not apply to all heritage items. Please note that my response here only relates to characteristics of heritage items—not heritage assets.

### **PV; Chapter 2.1**

*Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

I agree. The definition is intentionally broad and provides flexibility to facilitate the identification of heritage items; however, other considerations are relevant to identifying and recognizing heritage assets, as I discuss below in my responses to preliminary views that follow.

### **PV; Chapter 2.2**

*For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

No. This preliminary view could lead to reporting entities recognizing the same items as assets under two different classifications: land and heritage. Properties / lands recognized and measured on the statement of financial position should already include the historical cost of the natural heritage areas and features on those properties. Unlike buildings, for example, natural heritage areas and features are not separate assets. Therefore, recognition of an additional asset under the heritage classification is not appropriate. It would result in double-counting.

As it relates to the preliminary view, the historical cost of properties and lands likely include certain plants and organisms located on them. Even if there were certain natural heritage items that should be recognized as separate assets but are not currently recognizable as property / land under the current standards, it would be impracticable—using any measurement basis—to develop initial measurements for those natural heritage areas and features in isolation and without consideration to the plants and organisms occupying or visiting those areas and features. Would reporting entities value these items under the assumption that the areas and features were barren?

### **PV; Chapter 3**

*The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

I concur with the notion that some items that meet the definition of a heritage item may also be recognizable as assets; however, the Board's preliminary view statement is not entirely clear. The Board should clarify its view and address the following areas:

- The preliminary view statement should better align with the views expressed in paragraph 3.8. The Board should explicitly scope out intangible cultural heritage items. Additionally, for reasons noted in my response above, the Board should preclude natural areas and features from being classified as heritage assets since they are already measured on the statements of financial position at the historical cost (if any) of the properties / lands that they permanently occupy.
- Paragraph 1.8 and the view expressed here seem disintegrated and inconsistent. Going forward, the Board should clarify or amend its preliminary view as follows:

“Although the special characteristics of heritage items do not of themselves prevent such items from being recognized as assets for purposes of financial reporting, *other considerations* alluded to in paragraph 1.8—along with resource constraints, materiality, relevance, reliability, measurability, and definitional issues (i.e., control and service potential)—can preclude heritage items from being recognizable as assets.”

Also, in paragraph 3.5 the Board may wish to include restricted and non-restricted contributions from donors and other reporting entities.

### **SMC; Chapter 4.1**

*Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration? If so, please provide your reasons.*

No. Reporting entities should not initially recognize heritage assets at symbolic or nominal value. Reporting entities should recognize heritage assets at historical cost when they are held indefinitely (which would often be zero currency units), and at fair value in rare instances when they become available for sale.

The absence of monetary value assigned to heritage assets acquired or transferred to reporting entities without consideration already reflects the cost of those heritage assets. Symbolic or nominal costs do not meet the qualitative characteristics of information included in GPFs under the Conceptual Framework or any of the financial reporting objectives. I concur with the Board's views expressed in paragraphs BC7.40 and BC7.41 of the Conceptual Framework and believe that the views expressed there still hold true.

Enclosure

#### **PV; Chapter 4.1**

*Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

Partially. The Board should add clarification to align the text of this preliminary view with BC7.41 of the Conceptual Framework. Not only should heritage assets meet recognition criteria in Chapter 6 of the Conceptual Framework but they should also meet the definition of an asset under Chapter 5.

#### **PV; Chapter 4.2**

*In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

No. Replacement cost is not an appropriate measurement basis. The characteristics of heritage items noted in paragraphs 1.7a—irreplaceability—and 1.7c—long, indefinite useful lives—lead me to conclude that the replacement cost of many heritage assets cannot be estimated because replacement is not possible. Additionally, market value is not appropriate because (a) heritage assets are not typically available for sale, (b) there are not active markets for heritage assets, and (c) market or appraised values would have no relevance to financial statement users anyhow (i.e., the financial capacity objective) because heritage assets are held indefinitely. However, the historical costs of heritage assets are relevant to the cost of services financial reporting objective.

If the Board's intent, as alluded to in paragraph 4.22, is to require certain types heritage asset restoration costs to be subsequently capitalized, I recommend that the Board articulate and describe this treatment rather than referring to restoration costs as replacement costs. It seems as though reporting entities could only capitalize restoration costs as those costs are incurred and depreciate those restoration costs over the estimated useful life of the restoration, if appropriate, which makes this a subsequent measurement issue rather than one related to initial measurement.

#### **SMC; Chapter 4.2**

*Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because: (a) It is not possible to assign a relevant and verifiable monetary value; or (b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits? If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.*

Yes. It would not often be possible to assign relevant, verifiable monetary values using any initial measurement base, given the characteristics of heritage items and absence of historical cost information for many heritage assets. Market value and replacement cost measurement

bases are not relevant or practicable to estimate the value for heritage assets that are held indefinitely; however, I support initially measuring heritage assets at historical cost when such information is available and when those assets are held indefinitely.

In rare instances when heritage assets become available for sale, financial capacity becomes the relevant financial reporting objective and fair value would be the appropriate measurement basis.

For heritage assets that are held indefinitely and for which no historical cost information is available or applicable for purposes of initial measurement, I would avoid initial measurement altogether and simply capitalize subsequently-incurred restoration costs going forward. Capitalized restoration costs of heritage assets should also be depreciated, provided that the useful lives of the restorations are estimable. Cost-benefit constraints would likely prevent reporting entities from being able to retroactively capitalize, depreciate, and value previously-incurred restoration costs for their heritage assets.

### **SMC; Chapter 4.3**

*What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?*

Conceptually it makes sense to ensure alignment between the two projects to facilitate measurement; however, I do not concur with two of the three measurement bases listed under Preliminary View 4.2.

### **PV; Chapter 5**

*Subsequent measurement of heritage assets: (a) will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, impairment and revaluation, and (b) can be approached in broadly the same way as subsequent measurement for other, non-heritage assets. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

I am not sure whether I agree or not. The preliminary view assumes the assignment of an initial value; however, many heritage assets that are held indefinitely and that have no historical cost information should not be assigned an initial value under any measurement basis. If historical cost information does not exist and the asset is held indefinitely, subsequent changes in the initial value of zero have no effect on financial capacity anyhow, so why expend resources accounting for the value of something that should not have been valued in the first place?

Otherwise, for heritage assets that are either (a) initially valued using historical cost information or (b) available for sale and measured at fair value, I concur with the view that value changes can be capitalized, amortized, impaired, and revaluated in a manner consistent with other non-heritage assets.

For heritage assets having an initial value / historical cost of zero, restoration costs can still be accounted for in a manner consistent with other non-heritage assets, which would contribute to the cost of services and operational capacity financial reporting objectives.

## **SMC; Chapter 5**

*Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets? If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.*

Yes. Although the measurement basis for heritage assets held indefinitely should not change subsequent to initial measurement, in rare instances when heritage assets become available for sale the appropriate measurement basis should change to fair value, which would contribute to the financial capacity financial reporting objective.

For purposes of capitalizing restoration costs for certain heritage items held indefinitely, such as works of art, there is the issue of how to depreciate such costs since the useful lives of these restorations can be difficult to determine. I concur with the Board's views noted at paragraph 5.10, but also believe that capitalizing restoration costs and depreciating those costs over the estimated useful life of the restoration (not the asset) is appropriate.

For many heritage assets, I do not expect depreciation to be applicable since heritage items held for their heritage significance either do not become obsolete or are preserved and restored as necessary.

## **PV; Chapter 6**

*The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability. Do you agree with the IPSASB's PV? If not, please provide your reasons.*

I agree; however, the phrasing that "the entity should not therefore recognize a liability" is somewhat misleading. Numerous events and transactions arise that result in recognizable liabilities, as listed in paragraph 6.3. The Board should improve the clarity of its preliminary view.

## **PV; Chapter 7**

*Information about heritage should be presented in line with existing IPSASB pronouncements. Do you agree with the IPSASB's PV? If not, please provide your reasons and describe what further guidance should be provided to address these.*

I cannot determine whether or not I agree without additional clarifications being added to the preliminary view and the question for respondents.

- Information about heritage assets should be presented in line with IPSASB pronouncements; however, heritage items that are not heritage assets should be omitted from GFRs, unless there are significant deferred maintenance and repair obligations,

liabilities, commitments, or contingencies associated with those heritage items that should be recognized or disclosed by the reporting entity.

- Reporting entities asserting presentation in accordance with IPSASB standards are supposed to present information in line with those standards. Therefore, it would not really make sense to disagree with this preliminary view. Accordingly, my concurrence does not mean that I concur with all of the existing IPSASB standards as they relate to heritage assets or that such standards cannot be improved going forward.