

July 16, 2018

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Dear Wendy,

I have reviewed the Exposure Draft titled *Accounting and Reporting of Government Land*. My answers to the questions are as follows:

Q1. a. Do you agree or disagree with the Board's proposal to reclassify G-PP&E land as a non-capitalized asset with no dollar amounts reported on the balance sheet and expense future acquisitions on the Statement of Net Cost? Please provide the rationale for your answer.

I disagree for many reasons with the Board's proposal to reclassify G-PP&E land as a non-capitalized asset with no dollar amounts reported on the balance sheet.

1. First, FASAB's Mission Statement, which has been repeated in every Annual Report and Three Year Plan, states "FASAB serves the public interest by **improving** federal financial reporting through issuing federal financial accounting standards and providing guidance...." Statement of Federal Financial Accounting Concepts No. 1 *Objectives of Federal Financial Reporting* expands upon that statement by averring that the Board would be developing accounting standards that would **enhance the financial information** reported by the federal government to (1) **demonstrate its accountability** to internal and external users of federal financial reports, (2) provide useful information to internal and external users of federal financial reports, and (3) help internal users of financial information **improve the government's management**.¹ⁱ

These statements establish that the **first** purpose for Federal financial statements is to enable the government and its agencies to demonstrate accountability. The fact that the historical cost of land is of limited value to users, and particularly for users responsible for making management decisions, should not be a factor. The highly summarized nature of agency financial statements, the infrequency of their issuance, and the lengthy time frame between the end of the reporting period and the statements' issuance date means that hardly any of the information in the financial statements is of value for users' decision-making.

¹ Statement of Federal Financial Accounting Concepts No. 1 *Objectives of Federal Financial Reporting*, paragraph 3.

The demonstrated far more important purpose for Federal financial statements is that they drive reliability of financial information through the examination of the statements by independent auditors. Dollars are the only measure that is common to all assets, liabilities, revenues, expenditures, etc. This is a major reason why dollars have been used for reporting items on the financial statements. For property, plant, and equipment, measurement bases such as fair value or value-in-use provide users relevant information. However, these financial measurements have been deemed cost-prohibitive to apply plus the results would be less reliable, less comparable, and inconsistent. Historical cost, therefore, has been deemed the most reliable, consistent, comparable, and understandable financial measure with which agencies can report their land holdings. By abandoning historical cost as the reporting measure for land, FASAB would cause agency financial statements to be less reliable. This is contrary to the third objective listed above, namely help internal users of financial information improve the government's management.

2. Second, it will be said that the decision to eliminate the cost of land from the classification of general property, plant, and equipment line on the balance sheet is in order that the government can avoid the problem of having all but one agency report their G-PP&E land at historical cost, and one agency report its land holdings using another measure; that the problem arose because FASAB earlier issued a standard permitting the one agency to report its G-PP&E land using a different measure; and that standard was issued to accommodate that agency's inability to maintain the necessary records. In short, Federal financial reporting will have lowered its accounting standards and requirements to accommodate an agency who does not maintain reliable information, instead of using accounting standards to induce improvement of the agency's and thus the entire government's management, again conflicting with the purpose for which FASAB is supposed to develop accounting standards, namely improve the government's management..

A related undesired ramification if this proposal goes forward is that it will send a signal to the other government agencies that they do not have to maintain complete, reliable financial information. The standards will be tailored to what they do maintain. Moreover, there will be a significant negative impact on the morale of the personnel in agencies that made the extremely difficult effort to obtain and maintain the necessary historical cost information.

3. The Exposure Draft's Paragraph A43 states "the Board has elected to focus on ensuring that the costs of providing land information are commensurate with user benefits." FASAB's Mission Statement states that FASAB "strives to ensure due consideration of the costs and the benefits to the preparers and users of financial information prepared in conformity with generally accepted accounting principles." The agencies presently report cost of land information for G-PP&E land meaning the present reporting of land has already met the cost benefit test. Requiring agencies to replace historical cost with estimated acres and/or other

physical quantity information, particularly since many agencies do not have that information in verifiable form, will force them to incur substantial costs, while the cessation of reporting the one auditable measure—historical cost—means there will be no benefit resulting from adapting this standard. In short, there will be no cost-benefit with issuance of this standard; in fact, there will be a negative cost-benefit.

4. The one agency referred to above (DOD) advised during my tenure on the Board that it not only did not have cost information for the land it uses, it did not have the acreage or other physical quantity information for the land. I remember expressing surprise, stating that every military installation is encircled by a fence within which the acres can be measured. The DOD representative responded that much of its land was acquired as long as two centuries ago, i. e., before land acquisitions were recorded, and DOD does not know the status of the legal titles for significant portions of its land and installations. Hence an accounting standard would be changed to accommodate DOD by having all agencies switch from reporting cost information to physical quantity information even though it is doubtful whether DOD will be able to meet the new standard.
5. Paragraph A11 states Federal executives and managers sometimes feel the need to seek and/or develop financial information outside the agency's financial system, yet they believe this information is not reliable. The most effective way to assure reliability of financial information is to subject it to audit. Issuing a standard which would make it no longer necessary to maintain data bases that provide information reliable enough to pass audit would be counterproductive for the Federal executives and managers.
6. Paragraph A34 states "Prior FASAB analyses of user needs revealed that financial statements are a starting point for users. However, the Board believes additional information should be included within the financial report to allow users to assist them in their analyses of entity performance. The Board believes this can be best accomplished using NFI." By all means, additional information should be included if it assists users' analyses of entity performance. This, however, does not require discontinuance of the financial information which, as stated, is the starting point and provides the foundation for assuring reliability. Rather, NFI should be **in addition to** the financial information.
7. Finally, the lack of comparability is cited as the reason for abandoning reporting G-PP&E land using the historical cost measure.

There are two aspects of comparability that this proposal is intended to address. The first is the lack of comparability between the non-defense agencies who have determined and are reporting the cost of their G-PP&E land and the Department of Defense, who allegedly will not be able to ascertain and report historical cost for its land. The foregoing presents many reasons why this lack of comparability should not be sought by eliminating the standard requiring that G-

PP&E land be presented at historical cost. Financial reporting should not be reduced to only that which agencies have the information to report.

The other “lack of comparability,” while admittedly harder to rationalize, is between G-PP&E land and stewardship land (for which cost is not reported). This lack of reporting cost for stewardship land does not represent a lack of comparability as much as a recognition of the different nature of the two categories of land. G-PP&E land is used to support the current delivery of government services, in the same manner as other types of general property, plant, and equipment, e. g., buildings, equipment, etc. It is appropriate to present, to the extent one exists, a cost for this type of asset. Stewardship land is the land other than the land that supports the delivery of government services. Although it might in itself provide a service, e. g., national parks, grazing land, national forests, the key difference is that the government, as a steward, intends to hold this land indefinitely for the benefit of both current and future generations. The cost to acquire this land, much of which occurred centuries ago, is insignificant in terms of current dollars, and thus meaningless to present in dollar terms on the balance sheet. While some of this stewardship land is used for constructing general property, plant, and equipment buildings, the historical cost of that land is likely to be insignificant.

Having disagreed with the Board’s proposal to reclassify G-PP&E land as a non-capitalized asset with no dollar amounts reported on the balance sheet, it is incumbent upon me to suggest an alternative that

- is consistent with Federal financial reporting objectives,
- meets the quality characteristics for information in financial reports,
- addresses the implementation issues in the previously-issued statements of federal financial accounting standards, and
- provides a means with which DOD can conform to generally accepted accounting principles.

Statement of Federal Financial Accounting Standards No.48 *Opening Balances for Inventory, Operating Materials and Supplies*, and No. 50 *Stockpile Materials and Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35* permit a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies, and stockpile materials when presenting financial statements, or one or more line items addressed by the Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements

without use of the alternative valuation method. Deemed cost is identified as one of the acceptable alternative valuation methods, and is defined as based on one, or a combination, of several valuation methods, including: standard price, i. e., selling price or fair value, latest acquisition cost, replacement cost, estimated historical cost, and actual historical cost.

I propose that the inadequacies in DOD's records can be accommodated with the issuance of a standard that

- states that agencies reporting G-PP&E land (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method, can use deemed cost; and
- includes as a deemed cost, current fair market value for comparable land adjacent to the G-PP&E land applied to the estimated number of acres considered as G-PP&E.

I submit this standard should not be impossible or impracticable for DOD to apply. DOD knows what land it uses, and therefore the acres.. An inability to verify title to the land is not a cogent argument; its use of the land over time and its restriction to use by others is tantamount to owning the land. Furthermore, the inability to verify legal title would also preclude reporting acres of G-PP&E land. Finally, there should be no problem in ascertaining from appraisers, brokers, and other professionals, a current fair market value of comparable, adjacent land.

b. Do you agree or disagree that land information should be presented as basic information in the G-PP&E note disclosure? Please provide the rationale for your answer.

I do not agree that all of the land information specified in paragraph 10 should be presented as basic information in the G-PP&E note disclosure. Sub-categorizing the land into commercial use land; conservation and preservation land; and operational land could be useful.

On the other hand, I suspect many agencies do not maintain land records in acres. It would therefore be extremely costly for all agencies to aggregate such information in a form auditors would consider sufficiently reliable to support an unmodified opinion. The Board need look no further than what happened as a result of issuing Statement of Federal Financial Accounting Standard No. 29 *Heritage Assets and Stewardship Land* to understand the reason for my response. Agencies maintain the number of acres or miles of stewardship land they manage in systems of record. Prior to the issuance of SFFAS No. 29, auditors applied certain limited procedures to these systems, which enabled the agencies to present as required supplementary information, the quantities of acres and/or miles. SFFAS No. 29 required the agencies to disclose the non-financial information in the footnotes as basic financial information. The agencies

realized the lack of reliability in the systems of record for stewardship land and, to avoid receiving a modified auditors' opinion, stopped reporting the numbers of acres and miles for their stewardship land and instead reported the numbers of parcels and units of land. Hence, if the Board believes categorizing the land into commercial use land; conservation and preservation land; and operational land would be useful, and it wants the information to be reported in acres rather than parcels, the information should be first designated as required supplementary information and not moved to basic information until there is sufficient confidence in its reliability.

The above said, I would observe that the wide variety in what agencies call units of land, combined with the fact that for operating purposes, agencies can and frequently do adjust what is part of an operating unit, will make this data point not very comparable, consistent, reliable, meaningful, and therefore useful.

Q2. a. Do you agree or disagree with the Board's proposed component reporting entity disclosure requirements for G-PP&E land and SL? Please provide the rationale for your answer.

I agree and I disagree with the Board's proposed component reporting entity disclosure requirements for G-PP&E land and SL. I think the classification of land into the three predominant sub-categories can be useful for understanding how both G-PP&E land and SL can be used.

Since the illustrative examples in Appendix B of how the non-financial information can be displayed are useful, I would add a third example. The examples in Appendix B-1 and B-2 present the non-financial information for the predominant use categories in two tables: one for the G-PP&E land and one for the SL. The example in Appendix B-3 presents the non-financial information in a single table: the information for both the G-PP&E land and SL is presented on the left and the information for the predominant use categories is presented in total on the right.

I would add a single matrix table in which the G-PP&E land and SL non-financial information is presented in two columns, with a third column presenting the total for both. The columns would be broken into four lines: three for presenting the non-financial information for each of the predominant use categories, and a fourth for presenting the total non-financial information data for G-PP&E land, for SL, and for both combined.

There is also a correction I suggest for the exhibits. I can envision situations where land acquired for stewardship purposes is used for G-PP&E purposes (and visa versa). When that happens the, agency should adjust its records to reflect the change. Therefore, the tables in Exhibit B should be labeled Categorized by Purpose or Intent, and not Categorized by Purpose or Intent at Acquisition.

I believe the concise statement explaining how land relates to the mission of the entity should be limited to the stewardship land and not be required for G-PP&E land. FASAB

has undertaken a project to address and hopefully reduce footnote disclosures. A statement of how G-PP&E land relates to the mission of any agency is superfluous.

Finally, I reiterate that non-financial information, while useful information, should be presented as required supplementary information and not in the footnotes as basic information. As stated, when agencies do not have information that auditors can consider sufficiently reliable, they reduce the specificity of the information to less meaningful information.

b. Do you agree or disagree with the Board's proposed government-wide financial statement disclosure requirements for G-PP&E land and SL? Please provide the rationale for your answer.

My response to whether I agree or disagree with the Board's proposed government-wide financial statement disclosure requirements for G-PP&E land and SL is consistent with my response to the requirements for component-level disclosure for G-PP&E land and SL.

Q3. Do you agree with retaining the G-PP&E land and SL categories? Please provide the rationale for your answer.

I agree with retaining the G-PP&E land and SL categories. It provides minimal measurable and reliable information about the land the government uses to support its general services. For reasons described above, SL is not reported with financial measures, but with non-financial measures. Eliminating the G-PP&E land and SL categories would require all land to be reported with non-financial measures. Implementing a requirement to obtain and present non-financial information for G-PP&E land would be extremely disruptive and costly for the agencies. Moreover, the data is likely to be not as reliable as the financial information, and thus not auditable nor as meaningful.

Paragraph 3's concern that current use of a land holding (e. g., G-PP&E land) is sometimes different from the initial intent at time of acquisition (e. g. SL) is not the result of a deficient accounting standard. It is the result of inadequate record keeping and reporting. The problem should be addressed not by changing the accounting standard, but by proper following of appropriate accounting procedures and assuring that following through sufficient auditing.

Q.4 Do you agree or disagree with the Board's proposed G-PP&E land and permanent land rights definition and the related sub-category definitions? Please provide the rationale for your answer.

I agree with the Board's proposed G-PP&E land definition.

I agree with the Board's proposed permanent land rights definition.

I agree with the related sub-category definitions, recognizing that the agencies will have implementation challenges categorizing certain lands. For instance, I assume national parks would be considered Conservation and Preservation Land, or even Operational Land because they are mission related. However, many national parks have campsites that are rented, which Paragraph 11/20B identifies as Commercial Use Land. Implementation guidance will be needed.

I believe the physical unit measures will be meaningless. Agencies' missions, the type of land they manage, and their related asset management practices differ widely. Presenting information based on these criteria, as required by paragraph 10A/45A.c.ii, means there will be no comparability for the information for users of component financial statements and an inability to consolidate the information for the government-wide financial statements .

Q5. Do you agree or disagree with the Board's proposed definition of SL, including footnote 16 and the related subcategory definitions? Please provide the rationale for your answer.

I agree with the Board's proposed definition of SL, including footnote 16 and the related subcategory definitions

Q6. Do you agree or disagree with the proposed effective date? Please provide the rationale for your answer.

The implementation of this standard as proposed would require more than modifying the manner in which transactions are reported. It would require obtaining and organizing considerable amounts of data, much of which may not be in existence. Hence, the feasibility of the proposed effective date can best be answered by preparers of the financial statements.

Q7. a. Would incorporating any of the guidance contained in TR 9 in the proposed accounting standards facilitate the preparation and auditing processes? For example, should the list of examples of the supporting documentation contained at paragraph 85 in TR 9 be incorporated, changed, or expanded to facilitate implementation of the proposed requirements? Please provide the rationale for your answer.

The guidance in Technical Release No. 9 would be helpful for determining and reporting non-financial information. In regard to paragraph 85 in Technical Release No. 9, I would add the "history of use and/or of restricting use by others" in order to help DOD recognize the land for which it claims no record of legal ownership, but still uses to the exclusion of others. Also, incorporating portions of the Technical Release into the standard would increase its authoritativeness and thus likelihood for adherence. Finally, the guidance in Technical Release No. 9 provides agencies preparing financial statements (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial

statements without use of an alternative valuation method with the physical quantity of land that can be combined with a financial measure (e. g., current fair market value for comparable land adjacent to the G-PP&E land) to arrive at a deemed cost.

b. What type of implementation guidance should FASAB provide that enables (1) flexibility for supporting estimated acres of land and (2) assistance in identifying predominant use as well as selecting appropriate physical unit categories? Please provide the rationale for your answer.

I am not aware of any additional implementation guidance for supporting estimated acres of land beyond what is in Technical Release No. 9. Nor am I aware of implementation guidance for identifying predominant use beyond what is in the Exposure Draft. As stated, I think reporting physical units is meaningless and thus categorizing the different ways is meaningless.

Q8. The Board is interested in receiving comments specific to the following matters:

- (1) Its proposed use of non-financial information (NFI) as a means to provide information more relevant than the financial recognition and measurement of land**
- (2) Whether requiring the disclosure of “estimated acres of land” instead of “acres of land” would provide preparers greater flexibility and reduced burden while still ensuring that user needs are met**
- (3) The determination and application of materiality to NFI (that is, the appropriate considerations for NFI)**
- (4) Whether materiality is affected by the presentation of land information as basic, required supplementary information, or other information. For example, identify challenges in estimating the NFI in each of the three categories identified above.**

a. Please provide your thoughts and rationale concerning the four areas noted above.

- (1) Certain types of non-financial information (i. e., the magnitude of land holdings rather than the number of land holdings) are more relevant than financial information. However, relevance is only one of six characteristics of quality information. Two others are reliability and comparability. The Federal government’s non-financial information for land is generally not reliable, and in many instances, non-existent. The wide diversity of purposes for the different financial agencies means that presentations of parcels of land would not be comparable among agencies; and of acres or miles, would not be meaningful.

Hence, non-financial information is relevant, but only in combination with the more reliable and comparable financial information.

- (2) Requiring the disclosure of “estimated acres of land” instead of “acres of land” would provide preparers greater flexibility and reduced burden. With either, however, the absence of reliability of the information means that users’ needs would be only partially met.
- (3) No comment.
- (4) If non-financial land information is required as basic information, it is likely to be presented as numbers of parcels of land. This type of information would be less material than acres and/or miles of land. The best hope for obtaining the more material—and meaningful—acres and miles information is to require the non-financial information as required supplementary information. Suggesting that non-financial land information be presented as Other Information means the auditors will do no more than read the information for inconsistency with other portions of the financial report. This approach reflects zero concern for the non-financial information’s reliability.

(2) Please provide any other comments or suggestions you have regarding the goals for this project, other issues identified in the Basis for Conclusions, or other areas that have not been addressed.

1. Paragraph 3 states “Clarifying the SL definition and requiring the use of three predominant use sub-categories should reduce accounting and reporting differences and preparer burden....” Requiring the presentation of land information in three new sub-categories will not reduce preparer burden. It will increase it.
2. Paragraph 11/Footnote 20b and paragraph 14/footnote 36b
 - 2nd bullet—add dams as an example.
 - 5th bullet—Would the fact that most licenses for photography are temporary affect the definition?
3. Paragraph 11/20C and paragraph 14/footnote 36c —Should this sub-category include national parks?
4. Paragraph 16, which adds paragraph 23b to SFFAS 32, states there should be a note on the government-wide balance sheet that discloses information about general PP&E land and permanent land rights, but no asset dollar amounts. The standard should be more specific about the information to be disclosed.
5. Appendix B-1. It seems unlikely that an agency would have 2,600,000 acres of General PP&E categorized as Preservation and Conservation.

6. Paragraph A31—office building locations are mentioned twice.

I hope these responses are helpful. I would be glad to discuss them further.

Sincerely

Hal Steinberg

Hal Steinberg
