



April 14, 2017

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

MEMBER ACTIONS REQUESTED:

- Provide answers to the 5 questions summarized on page 46 by April 21.
- **Approve preparation of draft ED or agree to suspend project.**

Subject: **Accounting and Reporting of Government Land<sup>1</sup> – Tab D**

**MEETING OBJECTIVE**

The objective is **for the Board to make preliminary decisions based on staff's analysis concerning (1) February's Broad Options A and B and (2) the incorporation of non-financial information (NFI) into the financial report.**

**BRIEFING MATERIAL**

This staff memorandum consists of (1) a brief background, (2) executive summary, (3) Broad Options analysis, (4) NFI analysis, (5) staff's proposed next steps and (6) questions for the Board. In addition, Attachment 1 provides a detailed task force analysis of the two broad options discussed at February's meeting.

Lastly, staff has compiled optional reading material presented as appendices that provide members with additional information concerning FASAB land reporting requirements.

Thank you and I look forward to our meeting.

Attachment 1, Task Force Analysis of Broad Options  
Appendix 1, G-PP&E Land Baseline – SFFAS 6 and SFFAS 50.  
Appendix 2, Stewardship Land Baseline - SFFAS 29.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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## BACKGROUND

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### BACKGROUND

At the February 22, 2017 Board meeting, members reviewed survey results addressing specific user opinions and information requirements needed by the user community regarding federal land and identifying broad options to improve reporting on land so that they can be considered in detail at the next meeting. Some significant discussion points from the session include:

- It is clear that historical cost information is not useful to the majority of users and that users believe that the reporting of land is currently deficient. Prior analyses of user needs reveal that financial statements are a starting point for users wherein they often branch off into other venues to obtain information.
- Although it seems clear that historical cost information is of limited value, the use of non-financial information does not seem supported by the survey.
- Performance reporting was discussed in the context that Citizens in particular, desire information to be audited, conversely where internal managers prefer disaggregated information. For the latter group, reliance upon system internal controls is sufficient.
- The Board might be overestimating the importance of land information in financial statements to users. One member noted that this was no surprise and that the same conclusion was reached circa 25-30 years ago in a study that addressed the importance of capital asset information (contained in financial statements) to users.
- In the matter of economic gain and whether it should be measured, it was noted that the entire area of Property was important to the new administration. However, in most cases sale or disposal of land for economic gain/loss would probably be immaterial and that immediate recognition might suffice as appropriate guidance.
- Consistency and accountability seem to be the 2 principles in play and these objectives can be achieved either from financial display or NFI perspectives.

Members also provided feedback to staff regarding the following broad options:

#### **Broad Option A: Focus on non-financial information for land**

- a. All land, to include Stewardship Land and General PP&E, would be (re)classified as a non-capitalized asset; that is, zero dollar amounts on the balance sheet.
- b. Acreage, predominant use, and land cover would be reported.
- c. When land assets are identified for disposal, the fair value would be reported on the balance sheet. [Note that SFFAS 6, *Accounting for Property, Plant, and Equipment*, calls for net realizable value to be reported for GPP&E held for disposal.]
- d. Separable land rights would be amortized over the shorter of their useful lives or contractual period.

## BACKGROUND

### Broad Option B: Modify and clarify SFFAS 6 and SFFAS 29 reporting requirements

- a. Retain the current recognition requirements for GPP&E land not held for disposal
- b. Require both GPP&E and SL held for disposal to be recognized on the balance sheet at fair value
- c. Improve non-financial information requirements for GPP&E and SL by requiring information regarding (i) acreage, (ii) predominant use, and (iii) land cover.

Members seemed to gravitate towards Broad Option A and question the need for fair value recognition of land held-for-disposal. Staff was tasked to have the task force identify the preferred presentation of NFI within the financial report (that is, the type of audit coverage if any, the task force would recommend for each type of NFI that they believe should be included within the financial report). The end result should assist members in better identifying appropriate placement of key NFI in the financial report.

For the April meeting, staff has added detail to the two options. The following table provides a general outline of the options and the current requirements. The most significant changes under consideration are (1) removing land from the balance sheet, (2) requiring broad acreage information to accompany unit count reporting, (3) establishing three broad-use NFI categories applicable across agencies, (4) recognizing the fair value of land held for disposal, and (5) identifying additional NFI data-points for reporting purposes.

<b>Options under Consideration</b>			
<b>Information</b>	<b>Option A</b>	<b>Option B</b>	<b>Current</b>
<b>1. Land on the Balance Sheet</b>	No	Only general PP&E – excluding those agencies electing not to recognize per SFFAS 50	Only general PP&E – excluding those agencies electing not to recognize per SFFAS 50
<b>2. Broad Acreage and Physical Units</b>	Acres and unit count	Acres and unit count	Stewardship land should be quantified in terms of physical units. The appropriate level of aggregation and physical units of measure for each major category of stewardship land-use should be meaningful and determined by the preparer based on the

## BACKGROUND

<b>Options under Consideration</b>			
			entity's mission, types of stewardship land use, and how it manages the assets.
<b>3. Predominant Use</b>	<p>Yes, through adoption of three categories for use across government.</p> <p>1. Conservation and Preservation (Fauna and Flora)</p> <p>2. Military, Scientific, Nuclear, and Other Related (Readiness and training, Office Building Locations, Storage and Vacant)</p> <p>3. Commercial Use (Revenue to include In-Kind)</p>	<p>Yes, through adoption of three categories for use across government.</p> <p>1. Conservation and Preservation (Fauna and Flora)</p> <p>2. Military, Scientific, Nuclear, and Other Related (Readiness and training, Office Building Locations, Storage and Vacant)</p> <p>3. Commercial Use (Revenue to include In-Kind)</p>	<p>No use information for general PP&amp;E.</p> <p>A concise description of each major category of <b>stewardship land-use</b>. Where parcels of land have more than one use, the predominant use of the land should be considered the major use. In cases where land has multiple uses, none of which is predominant, a description of the multiple uses should be presented. The appropriate level of categorization of stewardship land-use should be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how it manages the assets.</p>
<b>4. Land Held (eligible) for Disposal</b>	Fair value	Fair value	<p>Net realizable value – general PP&amp;E</p> <p>None for stewardship land.</p>
<b>5. Identify Revenue Generating Land</b>	Yes (# of acres)	Yes (# of acres)	Existing land use discussions may identify revenue generating activities. (Presentation of acres associated with revenue is not required and is unlikely to occur.)

## BACKGROUND

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### Recap of Current Land Classification Guidance

The following chart summarizes current land classification as per our standards for member reference when considering the proposed broad options:

#### **General Property Plant & Equipment (PP&E) (SFFAS 6, as amended)**

1. Includes land:
  - a. used in a business-type activity
  - b. acquired for or in connection with other general PP&E
    - i. acquired with the intent to construct general PP&E or in combination with general PP&E (including common grounds)
    - ii. if general PP&E is built on existing land, only land with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E
2. Excludes land identified as excess (such land is recognized at net realizable value)
3. May exclude land held by reporting entities applying SFFAS 50

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#### **Stewardship Land (SFFAS 29)**

Stewardship Land (SL) is land and land rights owned by the Federal Government but not acquired for or in connection with items of general PP&E.

Please refer to Appendices 1 and 2 for additional information concerning FASAB land reporting requirements.

## EXECUTIVE SUMMARY

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### EXECUTIVE SUMMARY

#### Analysis of Broad Options

Staff analyzed the two broad options in connection to FASAB's conceptual framework as per SFFAC 1, *Objectives of Federal Financial Reporting* and SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. Where appropriate, staff relied on work done by the Task Force at-large and a smaller task force working group. Four areas were reviewed from a conceptual perspective to assist members in evaluating which option best follows our conceptual framework. (The definition of asset was not included since most would agree land meets the definition.)

The four areas reviewed and staff's summary analysis follows:

<b>Decision Factors</b>	<b>Preferred Option</b>	<b>Rationale</b>	<b>Page Reference</b>
<b>Recognition Criteria:</b> Meets the definition of an element and is measurable. Other criteria: is material, benefits exceed costs, and amounts can be determined with reasonable certainty or are reasonably estimable.	<b>Option B</b>	Option B maintains the current level of financial reporting whereas Option A would regress reporting in light of gains achieved by the federal financial reporting community at-large.	11-13
<b>Reporting Objectives:</b> Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control.	<b>Option B</b>	Option A regresses on financial reporting progress made to-date and significantly departs from our conceptual framework.	14 -17
<b>Qualitative Characteristics:</b> Relevance, understandability, reliability, comparability, consistency and timeliness.	<b>Option A</b>	Option A is preferred because it has a positive effect on understandability, comparability, and timeliness. However, Option A poses a risk to relevance and reliability.	18 - 21
<b>Cost Benefit Constraints:</b> Analyzed from agency and user perspectives.	<b>Option B</b>	Option B is preferred because it retains relevant agency customization and provides users with meaningful (NFI) information. From an agency perspective there is uncertainty if Option A's benefits would exceed its costs.	22 - 24

## EXECUTIVE SUMMARY

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### **Incorporating Non-financial Information (NFI) into the Financial Report**

With the assistance of the task force and user sub-group, staff has analyzed the NFI candidates from Broad Options A and B as well as additional NFI candidates to help identify (1) those discrete data-points such as broad acreage that could be suitable for use, (2) more meaningful categories or sub-categories (other than SL and G-PP&E) that agencies could use to report land based on predominant land-use, (3) the type of reasonable audit support that could be expected to satisfy management assertions, (4) a rough-order assessment of burden related to each NFI data-point considered, (5) preferred placement of NFI candidates within the financial report and (6) preparer, user, and auditor concerns related to those data-points found suitable for use.

#### **1. Discrete NFI Data-Points Suitable for Use**

Staff has identified five “favored” NFI Data-points which are: broad acreage, eligible for disposal, predominant use, revenue-generating land and unit count information. Two points need to be noted regarding terminology. First, the term “broad” has been used by the task force to differentiate acreage reporting from parcel-specific or survey based acreage reporting. That is, entities would be allowed for example, to use geographic information system (GIS) for financial reporting purposes. Second, the term “disposal” has been used in a broad sense to include other than just land sales. This would include land that could be leased under long-term arrangements such as public-private partnerships.

Also, because one of the NFI candidates, predominant use, lends itself as a basis for developing more meaningful categories or sub-categories of land, it can serve as a reporting framework or umbrella for the other discrete NFI data-points.

#### **2. Categorizing Land – predicated on predominant land-use**

Three broad land reporting categories (other than SL and G-PP&E) identified for potential use in reporting land include: (1) *Conservation and Preservation (Fauna and Flora)* - For example, the Departments of Interior and Agriculture (Forest Service) would report most land under this category, (2) *Military, Scientific, Nuclear, and Other* (Readiness and training, Office Building Locations, Storage and Vacant) For example, the Department of Defense (DoD), National Aeronautics and Space Administration (NASA), Veterans Administration (VA) and Department of Energy (DoE) would report most land under this category, and (3) *Commercial Use (Revenue to include In-Kind)* - For example, Interior’s Bureau of Land Management (BLM), National Park Service (NPS), & Fish and Wildlife Service (FWS) along with the Department of Agriculture’s (USDA) Forest Service (FS) would report land activities generating revenue here.

#### **3. Obtaining Reasonable Audit Support**

As a proxy for level of effort involved in auditing each data-point, staff asked task force members to identify the procedures they would expect the auditor to apply to each. Those with a higher number of procedures were considered more audit intensive than those with a lower number of procedures. The most audit-intensive data-points appear

## EXECUTIVE SUMMARY

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to be broad acreage, predominant use and identifying revenue-generating land because each seems to require physical inspection audit procedures.

Identifying land that is eligible for disposal and unit count information do not appear to be as audit intensive. These last two data-points appear to be satisfactorily covered via testing of controls, inspection of documents, substantive testing, observation, and recalculation procedures. Please note that the audit standards differentiate between observation and physical inspection of assets procedures. Simply put, auditor observations often involve direct (visual) observation of a work flow process whereas physical inspection of an asset requires an actual “touch and feel” such as a capital asset floor-check.

### **4. Rough-order Assessment of Burden**

Staff has identified reporting broad acreage and identifying revenue-generating land as the most burdensome for preparers. This is primarily due to the number and type of audit procedures which are expected to be performed, namely the physical inspection of land.

### **5. Presentation of NFI (preferred placement)**

There was no clear task force consensus in this regard. Nonetheless, staff considered input from the task force and user sub-group to identify where the NFI data-points seem to coalesce<sup>2</sup>. A presentation analysis of the five “Favored” NFI Data-points follows:

1. Broad acreage - Disclosure (Note) information
2. Eligible for disposal - Disclosure (Note) information
3. Predominant use - Required Supplementary Information
4. Revenue generating - Required Supplementary Information
5. Unit count - Disclosure (Note) information

### **6. Preparer, User, and Auditor Concerns**

Of the five NFI Data-points identified immediately above, staff has identified three that appear to be the most burdensome to the financial reporting community at-large. Accordingly, summarized concerns related to each follow:

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<sup>2</sup> Please note that at the April 3<sup>rd</sup> Task Force Meeting, that Department of Interior representatives advised that they would amend their NFI survey responses. The National Park Service representative who spoke on their behalf stated that not all Bureaus were in agreement and that in order to provide a consolidated response, CFO-shop office judgements were made that differ from individual bureau responses. On April 5<sup>th</sup> staff received notice from the Deputy CFO's office that Interior's position is that acreage information be reported as Other Accompanying Information (OAI) with corresponding web-links and that Unit count information be treated consistently with acreage as OAI and no longer as a disclosure.

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1. Broad acreage - Concerns
  - a. Without acreage, financial information on land is of limited value.
  - b. Not consistently captured or auditable.
  - c. Duplicative reporting.
  - d. Not all agencies measure acres consistently<sup>3</sup>.
  - e. Obtaining evidence in light of ineffective controls or lack of adequate documentation of additions and dispositions.
  
2. Eligible for disposal – Concerns
  - a. This is where valuing land is most sensitive and where greatest scrutiny is needed.
  - b. Secretary of the Interior has limited authority to dispose of land.
  - c. Acreage may increase or decrease but may not reflect purchases or disposal.
  - d. For G-PP&E, duplicative reporting due to FRPP requirements.
  - e. Land eligible for disposal via land transfer or community re-use does not become relevant until the land is actually selected for disposal.
  - f. Evaluating the appropriateness of the valuation model and reasonableness of assumptions.
  
3. Revenue generating – Concerns
  - a. Would open up more uses for the data and would make connecting land acreage and value to other entries in the financials more straightforward.
  - b. Data for revenue-generating activities are identified and reported at the unit level (e.g., the refuge level) and generally cannot be tied to a parcel of land at the acreage level.
  - c. Duplicative reporting.
  - d. This requirement is more stringent than reporting requirements for other PP&E.
  - e. Obtaining evidence if the agency does not have effective controls or does not have adequate documentation.

This concludes the Executive Summary.

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<sup>3</sup> This task force member raises two interesting points: (1) Consistency in how acres can be measured and (2) comparability or lack thereof as a result. For example, acres can be measured using (1) geographic information science (GIS) technology that basically uses satellite technology to determine key measurement components like longitude, latitude, and elevation, (2) traditional survey methods which rely on geometry and trigonometry and (3) calculating the square footage of land and simply dividing by 43,560 to find the size of the land in acres. Members may wish to consider to what extent, if any, any potential new standard should proscribe discrete measurements methods, express a preference for any particular method, or require year-to-year consistency in methods chosen by management.

## ANALYSIS OF BROAD OPTIONS

### ANALYSIS OF BROAD OPTIONS

#### Recognition Criteria

By and large federal land meets the two basic recognition criteria that an item or element should (1) meet the definition of an element of financial statements and (2) be measurable.<sup>4</sup>

However, SFFAC 5 further notes that although an item may meet the basic recognition criteria it might not be recognized because of measurement, materiality, or cost versus benefit considerations. As such, unrecognized elements become candidates for note disclosure or supplementary information. Table 1.0 below analyzes the other recognition criteria mentioned in SFFAC 5.

**Table 1.0**  
**How Does Federal Land Meet the Other (than basic) Recognition Criteria?**

Other Criteria	Federal Land	Comments
Is the item material?	YES	In most cases land can be assumed to be (at least) qualitatively material.
Has an appropriate measurement attribute been selected?	QUESTIONABLE	To assess the costs and benefits of recognition, we have to assume a measurement attribute has been selected. Some argue that historical cost information becomes less relevant with time. Some argue that fair value is not relevant for stewardship land intended to be preserved.
Do benefits exceed costs?	YES	At present, recognition of historical cost for general PP&E land is assumed to be at equilibrium regarding benefits and costs. However, efforts/costs to assign monetary values (other than symbolic or token) or provide additional non-financial information <sup>5</sup> can be expected to exceed benefits in the short-term.
Can a monetary amount be determined with reasonable certainty or is reasonably estimable?	QUESTIONABLE	Although monetary amounts for land can be determined with reasonable certainty, they are not always reasonably estimable. Option A is problematic because assigning a zero amount for G-PP&E is reasonably estimable but not necessarily determined with reasonable certainty; that is, how certain are we that the actual value is zero? Option B primarily reflects the status quo and is less problematic in this regard. That is, with the exception of DoD, monetary amounts reported by agencies for G-PP&E appear to be determined with reasonable certainty and are reasonably estimable.

<sup>4</sup> Ibid. SFFAC 5, Par 5.

<sup>5</sup> Such disclosure or presentation of information could include number of acres, location information, predominant use of land, condition related information, etc., and could reside in the Notes, RSI and/or OI.

## ANALYSIS OF BROAD OPTIONS

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### Recognition Criteria: Staff Analysis and Conclusion

In-general, establishing monetary amounts or values for federal land have been long-standing, fundamental problems caused by (1) the generally low relevance of historical cost amounts dating to the 1700s and 1800s, (2) the lack of underlying or corroborating documentation, and (3) the cost of arriving at market value for vast holdings not intended to be sold.

Specifically, some agency preparers struggle with supporting their completeness and valuation assertions to their auditors on historical lands because these lands were acquired at a time when historical records were not required to be retained or were not documented in the same manner as land transactions are today.

Some believe that the answer to this problem can be addressed from an operational and/or systems perspective and take the position that over time, with dedicated agency focus, monetary amounts to land can be satisfactorily asserted to and documented.

A contrary view and simply put is that if this were the case, it would have already happened given the government's renewed focus on real property issues dating back to the creation of the Federal Real Property Council (FRPC).<sup>6</sup>

In staff's opinion, regardless of how our standards categorize or classify land (that is, as SL or G-PP&E), these assertion problems are common to all federal land and not just G-PP&E. The root cause of the problem is that monetary amounts in many cases cannot be determined with reasonable certainty or reasonably estimated because understandably, management cannot fully satisfy their completeness and valuation assertions given the non-existent or deficient nature of the documentation.

As such, in staff's opinion, a key criterion for recognition (assignment of a monetary amount in accordance with SFFAS 6; acquisition/historical cost) cannot in all cases be satisfactorily met and is therefore questionable. Further, even if met, the result may be information that lacks relevance with the passage of time.

Accordingly, staff concludes that Option B is less problematic than Option A because with the exception of DoD, monetary amounts reported by other agencies for G-PP&E appear to be determined with reasonable certainty and are reasonably estimable.

Conversely, Option A is more problematic because assigning a zero amount for G-PP&E might be reasonably estimable but not necessarily determined with reasonable certainty; that is, how certain are we that G-PP&E has no value? Moreover, if we were to suggest that a zero amount or balance was a placeholder for an unknown value, are we implying that the G-PP&E land is priceless and if so, that begs the question why do we even have a G-PP&E category? And if not priceless, then why not fair valued?

Lastly, staff notes that differences among agencies that report land arise primarily from significant differences in their missions and not in the underlying selection of accounting

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<sup>6</sup> The FRPC is an interagency council established by Executive Order 13327, "Federal Real Property Asset Management," to promote the efficient and economical use of America's real property assets and to assure management accountability for implementing federal real property reforms. Source: Executive Order 13327 of February 4, 2004. <https://www.gsa.gov/portal/category/21274>

## ANALYSIS OF BROAD OPTIONS

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principles or methods. That is, any lack of comparability in land reporting can be explained as resulting from how they acquired the land as opposed to the selection of different accounting alternatives.

Staff makes this last point to underscore that differences in land reporting brought about by SFFAS 50 fundamentally reflect and acknowledge the differences in agency missions. In DoD's case, significant amounts of their land holdings can be traced to the founding of our Nation and (1) include land that was part of the Public Domain and if managed by Interior today would be reported as SL and (2) would also qualify as SL using FASAB guidance; that is, if the land does not have an identifiable cost or where the cost is nominal or insignificant; note that this last point is regardless of whether the land is acquired for or in connection with other general PP&E.

### **Recognition Criteria: Staff Conclusion**

**Option B is preferred when analyzed strictly in connection to the other (than basic) recognition criteria. Although assigning an historical/acquisition cost to federal land is questionable, most agencies have been able to adequately meet the recognition criteria and related management assertions. Option B maintains the current level of financial reporting whereas Option A would regress reporting in light of gains achieved by the federal financial reporting community at-large.**

## ANALYSIS OF BROAD OPTIONS

### Reporting Objectives

The Board has previously noted that land is not a depreciable asset and does not directly factor into the cost of services and that measurement attributes reflecting estimates of historical land costs have very little, if any informational value.<sup>7</sup> As such, an appropriate measurement attribute for land should help reflect the economic benefits that can be used in the future. Because selections of a measurement attribute can affect the usefulness of reported information for decision making, our concepts also remind us that selecting a measurement attribute depends on at least in part, users' needs.

However, in selecting an appropriate measurement attribute, SFFAC 5<sup>8</sup> notes that the Board expects that the selection of an attribute in specific circumstances will be based on the reporting objectives, qualitative characteristics, and cost-benefit constraints applicable to financial information, all of which are analyzed beginning with Table 2.0 below which analyzes the two broad options in connection to the reporting objectives identified in SFFAC 1.<sup>9</sup>

**Table 2.0**  
**Selecting an Appropriate Measurement Attribute – Reporting Objectives**

Criteria	Broad Option A	Broad Option B	Comments
<b>Reporting Objectives:</b>			
<b>Budgetary Integrity</b>	<b>Negative-effect</b>	<b>Positive-effect</b>	<b>Land values contribute to a comprehensive understanding of how an entity's budgetary resources have been used and how information on the use of budgetary resources relates to information on</b>

<sup>7</sup> November 1995 SFFAS 6. Par 136: The Federal Government owns vast amounts of land and its use of land is diverse. In some instances Federal Land is integral to the ownership of general PP&E. For example, the cost of Land upon which an office building is sited is integral to the cost of that building. Land acquired for or in connection with general PP&E will be recognized on the balance sheet to provide a more comprehensive measure of the assets devoted to general government operations. However, since land is not a depreciating asset, depreciation expense will not be recognized on Land included in general PP&E.

<sup>8</sup> Ibid. SFFAC 5, Par.8

<sup>9</sup> Reporting objectives and qualitative characteristics can be found at Statement of Federal Financial Accounting Concepts 1: *Objectives of Federal Financial Reporting*, beginning at Paragraphs 105 and 156, respectively.

## ANALYSIS OF BROAD OPTIONS

Criteria	Broad Option A	Broad Option B	Comments
			the costs of program operations. Allowing for exclusion of land from reporting on the balance sheet prevents users of financial statements to obtain sufficient information on how budgetary resources were used (e.g., that they were used to acquire land).
Operating Performance	Negative-effect	Positive-effect	Land value information can assist users in evaluating service efforts, costs, and accomplishments. Option A prevents users from (1) knowing the full costs of agency programs and (2) determining the efficiency and effectiveness of government programs since a large volume of the assets would not be presented.
Stewardship	Negative-effect	Positive-effect	Land value information can assist users in assessing the government's operations and investments; e.g., has government's financial position improved?, and whether future budgetary resources are sufficient to sustain public services and to meet obligations?

## ANALYSIS OF BROAD OPTIONS

Criteria	Broad Option A		Broad Option B		Comments
					Option A has the potential to confuse users regarding the agency's financial position if such assets are not clearly and quantitatively displayed.
Systems and Control	<b>Negative-effect</b>		<b>Positive-effect</b>		Requiring the accounting for land values can foster and bolster entity systems and internal controls to help ensure for example that (1) transactions are executed appropriately, (2) are in accord with the purposes authorized, and (3) assets are properly safeguarded.
<b>Total</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>0</b>	

## **ANALYSIS OF BROAD OPTIONS**

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### **Reporting Objectives: Staff Analysis and Conclusion**

Not considering and putting aside Board decisions concerning the use of non-financial information (NFI) to meet our financial reporting objectives, in staff's opinion, Option A regresses on financial reporting progress made to-date and significantly departs from our conceptual framework.

### **Reporting Objectives: Staff Conclusion**

**Option B is preferred when analyzed strictly in connection to the financial reporting objectives. Option A regresses on financial reporting progress made to-date and significantly departs from our conceptual framework.**

# ANALYSIS OF BROAD OPTIONS

## Qualitative Characteristics

SFFAC 1<sup>10</sup> reminds us that financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have these six basic characteristics: (1) understandability, (2) reliability, (3) relevance, (4) timeliness, (5) consistency, and (6) comparability. Table 3.0 below analyzes the two broad options in connection to each of the six qualitative characteristics of information identified in SFFAC 1.

**Table 3.0**  
**Selecting an Appropriate Measurement Attribute – Qualitative Characteristics**

Criteria	Broad Option A	Broad Option B	Comments
<b>Qualitative Characteristics:</b>			
<b>Relevance<sup>11</sup></b>	<b>Questionable effect</b>	<b>Questionable effect</b>	<p><b>Option A - Failure to report values that have been previously reported and coupled with the fact that other public entities report such information could undermine the Public's faith in the overall financial report making the resultant reporting in Option A irrelevant.</b></p> <p><b>Option B - Assigning values that measure historical cost and do not reflect the asset's embodied economic benefits provide little to no user benefit. However, capitalizing the cost of new land acquisitions does provide improve the relevance of accrual basis operating costs.</b></p>
<b>Understandability</b>	<b>Positive-effect</b>	<b>Negative effect</b>	<b>To assist user comprehension, information should be</b>

<sup>10</sup> Statement of Federal Financial Accounting Concepts 1: *Objectives of Federal Financial Reporting*, Par. 156.

<sup>11</sup> *Ibid.* SFFAC 1, Par. 161. Relevance encompasses many of the other characteristics. For example, if the information provided in a financial report is not timely or reliable, it is not relevant.

## ANALYSIS OF BROAD OPTIONS

Criteria	Broad Option A	Broad Option B	Comments
			expressed as simply as possible. In this regard, a zero amount or balance for all Land may be easier to comprehend than explaining the rationale and basis for different agency values. Current practices have allowed agencies like DoD to assign values from multiple information sources for identical/similar land holdings. This seems to lack a logical underpinning.
Reliability	Questionable effect	Little to no positive-effect	Reliability implies that information should be derived from systems that produce controlled and verifiable data. Information should be verifiable, free from bias and represent what it purports to be. In this regard, a zero balance may be more reliable than assigning values that may come from multiple sources for identical/similar land holdings. However, the failure to report values that have been previously reported and the fact that other public entities report land could undermine user faith in the overall financial report.
Comparability <sup>12</sup>	Positive-effect	Negative-effect	Reporting differences between entities should reflect underlying transactions rather than selection of different accounting

<sup>12</sup> Per SFFAC 1, Par.164. Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices.

## ANALYSIS OF BROAD OPTIONS

Criteria	Broad Option A	Broad Option B	Comments					
			procedures/practices. A zero balance across all agencies would have a positive effect on comparability.					
Consistency	Little to no effect	Little to no effect	Either of these options should have little to no affect regarding consistency as they are intended for continual application.					
Timeliness <sup>13</sup>	Positive-effect	Little to no positive-effect	Assigning values may adversely sacrifice timeliness. Given constrained resources, the effort required to analyze and compile information may not only take longer to produce, but impact other major financial statement preparation initiatives.					
<b>Total</b>	3	0	2	1	0	2	1	3

### Color Legend:

	Positive-effect
	Negative-effect
	Questionable effect
	Little to no effect

<sup>13</sup> Ibid Footnote 12, Par.161.

## ANALYSIS OF BROAD OPTIONS

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### **Qualitative Characteristics: Staff Analysis and Conclusion**

Option A seems preferred when considered in connection to the qualitative characteristics because it has a positive effect on understandability, comparability<sup>14</sup>, and timeliness.

However, Option A also poses a risk inasmuch as the relevance and reliability characteristics are concerned. Specifically, failure to report land values that have been previously reported coupled with the fact that other public entities report land, could undermine user faith, confidence and reliability in the overall financial report making the resultant reporting in Option A irrelevant and therefore unreliable.

On the other hand, Option B seems to suffer from the questionable and negative effects of relevance, understandability and comparability.<sup>12</sup> However, in staff's opinion these adverse effects can be satisfactorily addressed via clearer guidance that would better describe differences in agency missions and land categorizations.

### **Qualitative Characteristics: Staff Conclusion**

**Option A is preferred when analyzed strictly in connection to the qualitative characteristics. However, Option A poses a risk to financial reporting vis-à-vis potential adverse effects to the qualitative characteristics of relevance and possibly reliability due to land not being valued on the balance sheet. However, ensuring that the appropriate types of NFI are disclosed/presented this risk could be significantly mitigated or even eliminated.**

**In this context, NFI would need to include information that helps users understand the potential for value that exists in land or data-points to help them determine such a value. For example, NFI could include location, condition, use, restrictions, land eligible for disposal, etc.**

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<sup>14</sup> Staff has noted earlier that lack of comparability in regards to land reporting is more a function of differences in agency missions than it is in the selection of different accounting methods. As such, Option A's impact on comparability could be somewhat discounted because lack of comparability can be satisfactorily addressed via clearer guidance provided for in Option B that would better describe differences in agency missions and land categorizations.

## ANALYSIS OF BROAD OPTIONS

### Agency Cost Benefit Constraints

Accounting and financial reporting cannot satisfy every need for information and accountability. For many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or may be more cost effective.<sup>15</sup> Table 4.0 and Table 4.1 analyze the two broad options in connection to the cost benefit constraint from preparer and user perspectives, respectively.

**Table 4.0**  
**Selecting an Appropriate Measurement Attribute – Agency Cost Benefit Constraints**

Criteria	Broad Option A	Broad Option B	Comments
Agency Perspective Cost-benefit Constraints	Questionable effect	Negative-effect	<p>Option A – Although costs incurred to gather and display NFI will be incurred especially if NFI needs to be disclosed in the Notes or as part of RSI, they could be offset by the benefits gained from not having to report land values on the balance sheet.</p> <p>However, a word of a caution is in order. Option A assumes that associated costs to remove land from the balance sheet (that is, staff (re)training, changes to agency business policies and processes, and financial module IT systems changes), are negligible.</p> <p>Option B - Costs incurred to gather and display NFI may exceed agency benefits especially if NFI needs to be disclosed in the Notes or as part of RSI. For the agency, this is an added burden causing a negative effect with no apparent agency benefit.</p> <p>For either option – Effort and related costs to assign monetary values (apart from symbolic or token amounts) for land held for disposal can be expected to be negligible because such valuations are typically Congressionally required; i.e., in most cases costs to fair value land will be incurred regardless of what we decide.</p>

<sup>15</sup> Ibid. SFFAC 1, Par. 155.

# ANALYSIS OF BROAD OPTIONS

## User Cost Benefit Constraints

Table 4.1  
Selecting an Appropriate Measurement Attribute – User Cost Benefit Constraints

Criteria	Broad Option A	Broad Option B	Comments
User Perspective Cost-benefit Constraints	Positive-effect; user benefits expected to exceed user costs	Positive-effect; user benefits expected to exceed user costs	For either option - Users will not incur a significant loss of information (historical cost) but stand to gain significant benefits from the identification of NFI and valuation of land held for disposal.  Incorporation of NFI may also help increase reader appeal and broaden the user-base.

### Cost Benefit Constraints: Staff Analysis and Conclusion

In analyzing cost-benefit considerations, staff advises that we take a close look at SFFAC 1’s discussion entitled, “*Dual Focus On Internal And External Users.*”<sup>16</sup> The Board made the following (paraphrased) points:

1. **The Board** has a dual focus perspective and **must consider both external and internal users** because it is the agent of officials who, in turn, are agents of the public.
2. Virtually **all federal financial information is of interest to at least some segments** of the public.
3. **There could be a danger of emphasizing “comparable consistency”** for uniform reporting to users who want comparable information across agencies. **This might interfere with “relevant customization”** of information systems to meet the unique needs of agencies in response to their specific environments.
4. Administrative resources for information processing systems are limited and because new systems take time to install, **externally-imposed requirements for comparable consistency could compete with addressing internally perceived needs for relevant customization.** The Board acknowledges this trade-off. This is just one of many cost-benefit factors that the Board will need to consider as it addresses each specific issue in subsequent projects.
5. **Individual preparers are aware of the costs they incur to produce information but often are not aware of the potential benefit** of producing that

<sup>16</sup> Ibid. SFFAC 1. Paragraphs 242 through 247.

## **ANALYSIS OF BROAD OPTIONS**

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information. Neither are they in a position to establish standards that would produce such information.

### **Cost Benefit Constraints: Staff Conclusion**

**Given that users stand to benefit from either option, a cost-benefit decision should be made from an agency point of view.**

**When analyzing the uncertainty over Option A's potential benefit to agencies and Option B's negative effects on agencies, it's apparent that the deciding factor will be whether an agency will accrue savings or incur costs from Option A's proposal to not value GPP&E land on the balance sheet. Obviously, because the identification and valuation of land held for disposal as well as other NFI are the same under each option, this cost criterion is less relevant as a deciding factor.**

**As such and given that presently equilibrium exists regarding benefits and costs, staff suggests that we explore this area further by soliciting preparer comments during the exposure draft stage of our deliberations.**

**Notwithstanding the above caveat and considering the Board's comments in SFFAC 1 (see items 3 and 4 above), Option B is preferred because it retains relevant agency customization albeit at the expense of comparability.**

## INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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### INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

#### Discrete NFI Data-Points

Staff identified five “Favored” NFI Data-points.<sup>17</sup> The five “Favored” NFI Data-points along with reasons they were included follow:

1. Broad Acreage – without broad acreage, any financial information on land becomes less meaningful and much more limited in value. Also seen as critical to meeting the reporting objectives. Highest score for Disclosure of all data-points analyzed. Benefits expected to exceed costs.
2. Held (eligible) for Disposal - valuing and reporting on land held for disposal would have a positive effect on Operating Performance, Stewardship and Systems and Controls. Also, increases accountability and transparency. High scores for Disclosure and RSI. Benefits expected to exceed costs.
3. Predominant Use - useful information for academic or commercial analyses of public land that would allow for more uses of financial statement information. Also, increases comparability in land reporting across agencies. High score for RSI. Benefits expected to exceed costs.
4. Revenue-generating Land - essential information for analyses of public land options and needed for transparency and visibility to understand Federal revenues reported in the financials. Also, would allow for more uses of financial statement information and would make connecting land acreage and value to other entries in the financials more straightforward. High scores for Disclosure and RSI. Benefits expected to exceed costs.
5. Unit count information - High scores for Disclosure and RSI. Value of this information increases significantly when combined with acreage and any one of the other above “favored” data-points. Benefits expected to exceed costs.

Data-points that did not make the final cut along with reasons they were excluded follows:

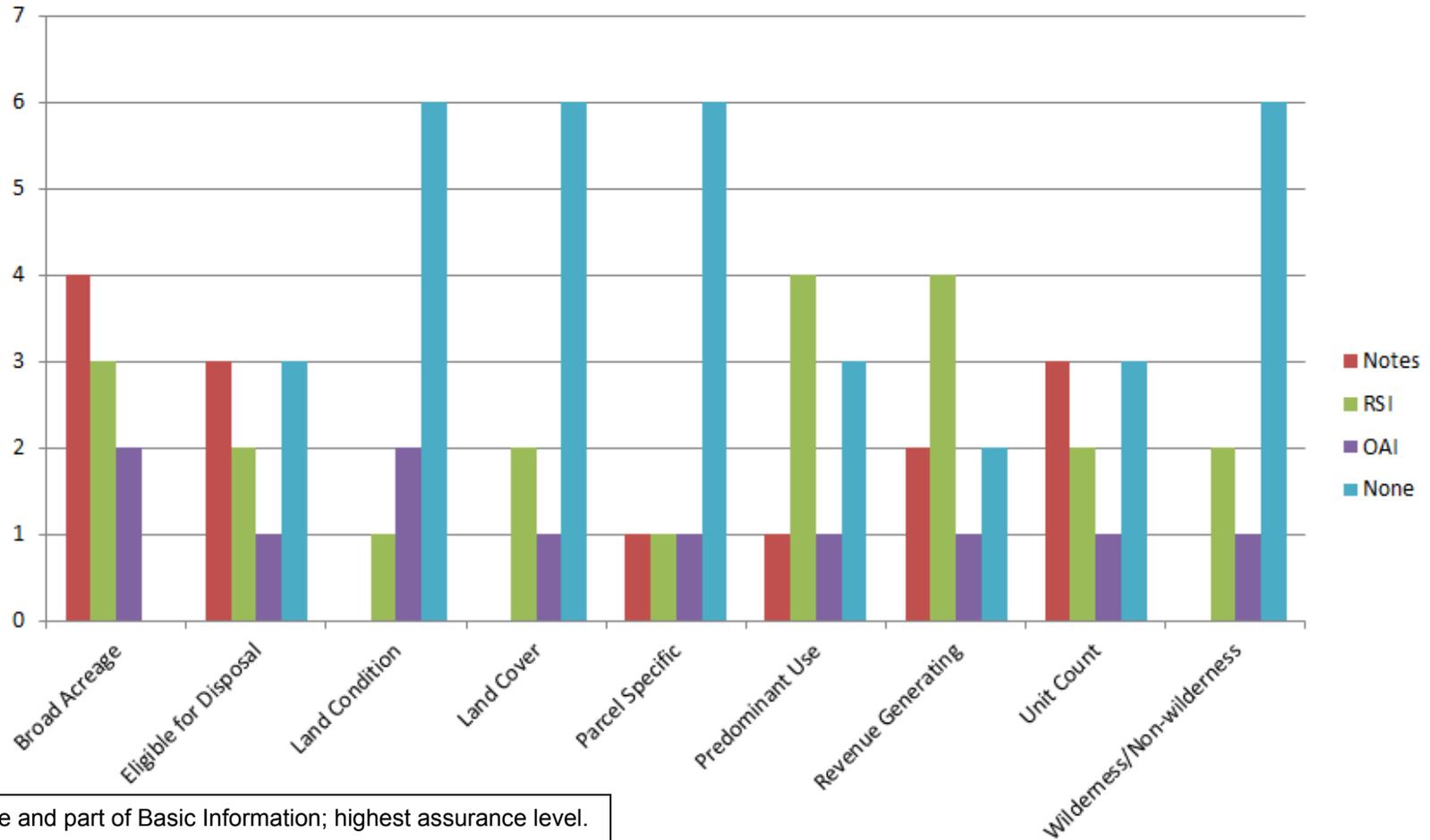
1. Land condition – subjective agency judgments that change frequently make this difficult to audit. No score for Disclosure and high score for Other Information (OI) Presentation. Costs expected to exceed benefits.
2. Land cover – a valid data-point that may be of interest to a limited amount of users. No score for Disclosure. Costs expected to exceed benefits.
3. Parcel specific - a valid data-point that is much too granular and variable in nature for financial reporting. Equally low scores for Disclosure, RSI and OI presentations. Costs expected to exceed benefits.
4. Wilderness/non-wilderness - a valid data-point that may be of interest to a limited amount of users. No score for Disclosure. Costs expected to exceed benefits.

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<sup>17</sup> Task force feedback is summarized for your consideration but does not provide a valid survey result.

Discrete NFI Data-Points

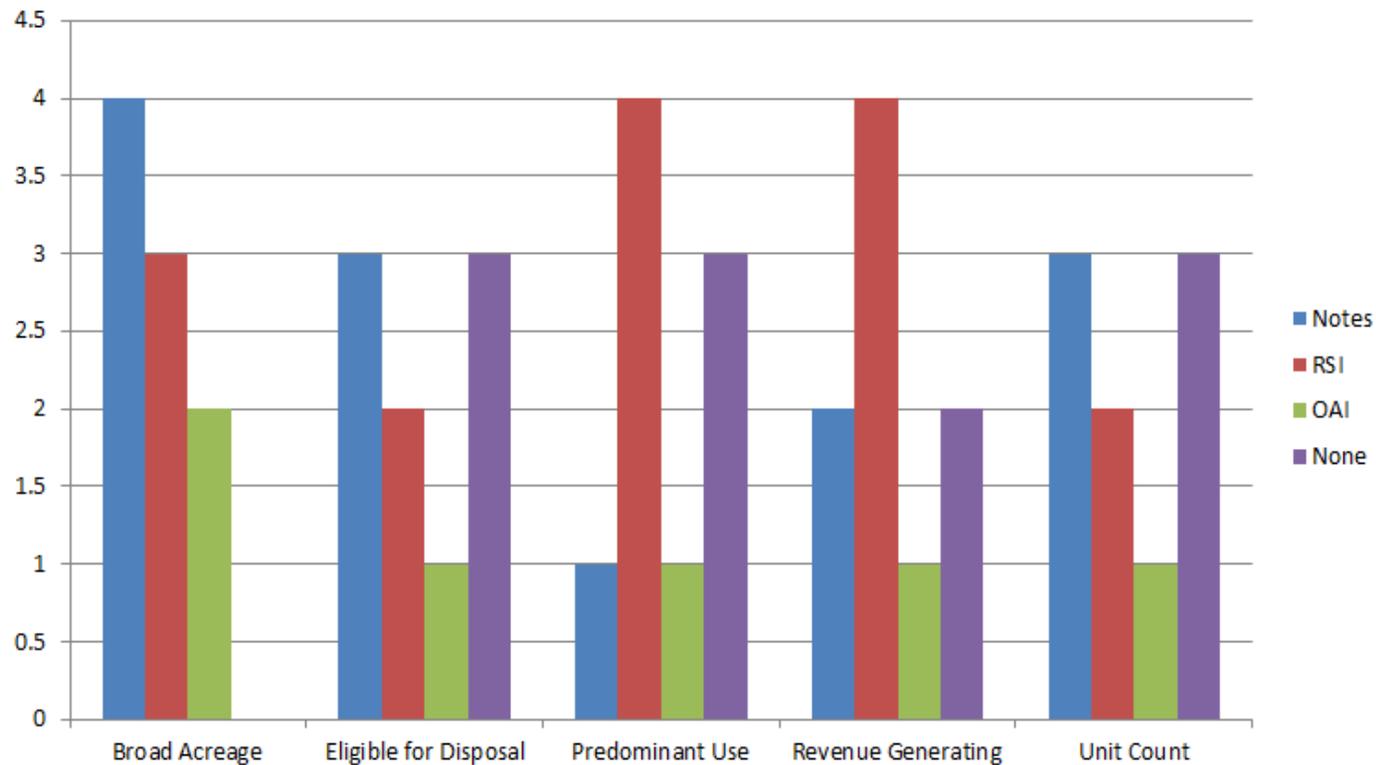
# Presentation Type



**Notes** – Disclosure and part of Basic Information; highest assurance level.  
**RSI** – Required Supplementary Information not considered basic; moderate assurance level.  
**OAI or OI** – Other (Accompanying) Information; no assurance.  
**None** – Do not consider as part of NFI.

Discrete NFI Data-Points

# “Favored” NFI Data-points & Presentation Preferences



**Notes** – Disclosure and part of Basic Information; highest assurance level.

**RSI** – Required Supplementary Information not considered basic; moderate assurance level.

**OAI or OI** – Other (Accompanying) Information; no assurance.

**None** – Do not consider as part of NFI.

# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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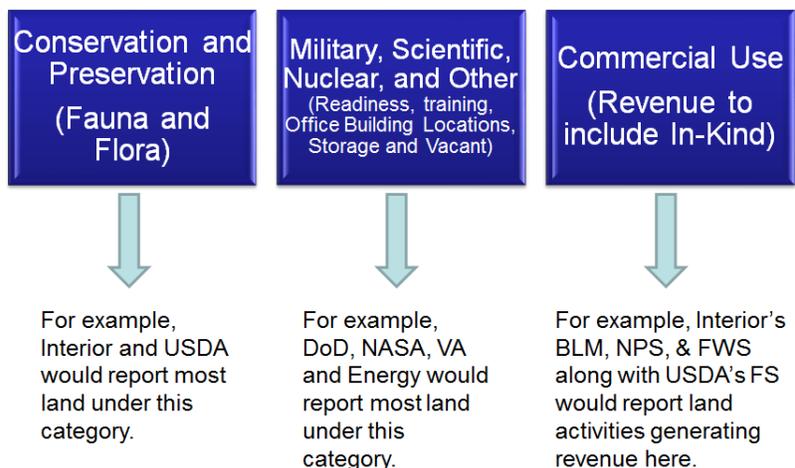
## **Categorizing Land** – predicated on predominant land-use

Some Board members as well as the task force have noted the potential need to have additional or broader categories than the land categories currently in use; Stewardship Land (SL) and General Property, Plant, and Equipment (G-PP&E) land. As noted in the Executive Summary, because one of the NFI candidates, specifically, “predominant use” lends itself as a basis for developing more meaningful categories or sub-categories of land, it can serve as a reporting framework or umbrella for the other discrete NFI data-points.

After several iterations and separate analyses begun nearly a year ago, the task force and its user sub-group have narrowed down land classification to 3 broad areas predicated on land-use<sup>18</sup>. The 3 broad areas follow:

- (1) **Conservation and Preservation** (Fauna and Flora)
- (2) **Military, Scientific, Nuclear, and Other Related** (Readiness and training, Office Building Locations, Storage and Vacant)
- (3) **Commercial Use** (Revenue to include In-Kind)

## Land-Use Reporting Categories



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<sup>18</sup> As members may recall, there are two primary federal sources that address land use designations for federal lands: Federal Real Property Inventory Reporting from the General Services Administration (GSA) and a Government Accountability Office (GAO) report entitled Federal Land Management: Availability and Potential Reliability of Selected Data Elements at Five Agencies (2011). The GSA reporting guidelines currently identify 24 (plus “all other”) discrete land-use designations and the GAO report examined 57 discrete land and resource data elements collected by five federal agencies; Forest Service (USDA) and Interior’s Bureau of Land Management (BLM), Fish and Wildlife Service (FWS), National Park Service (NPS), and Bureau of Reclamation and Department of Defense (DOD).

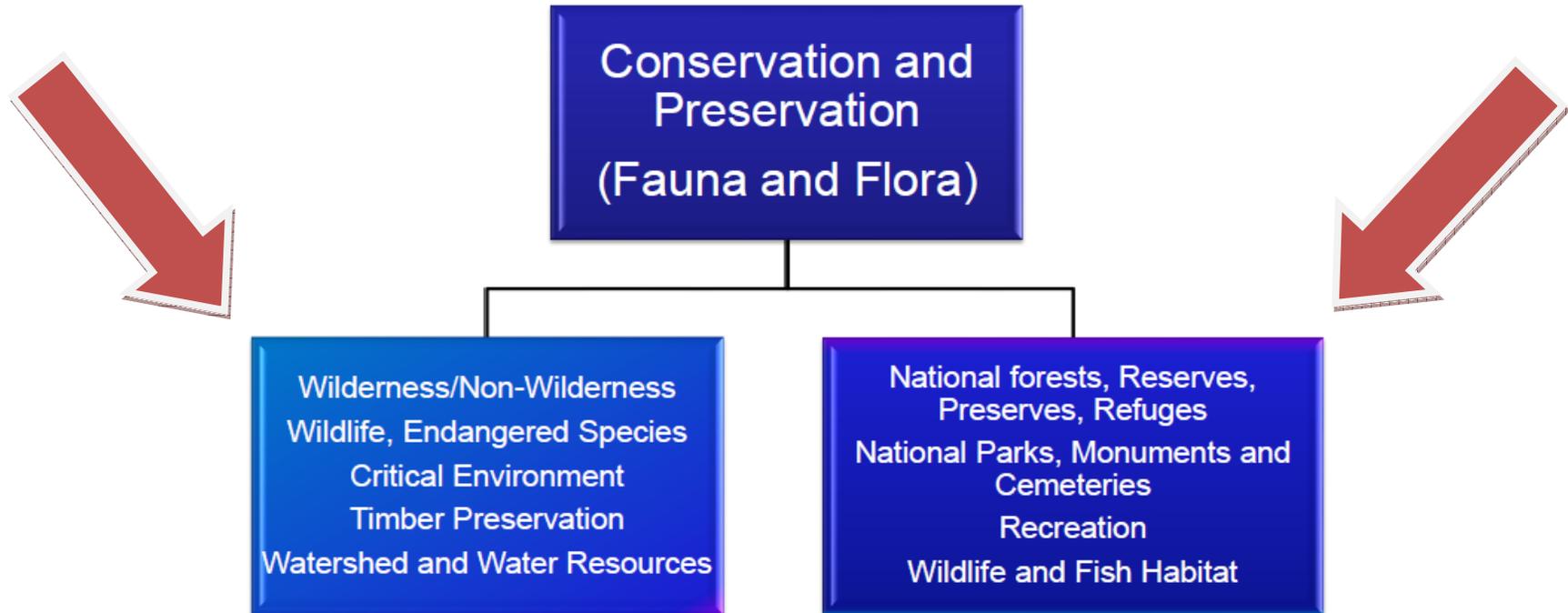
# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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## Conservation and Preservation Land Use Sub-categories

The following illustration shows what sub-categories or activities could be included within the Conservation and Preservation Land Use Category.

### Conservation and Preservation Land Use Sub-categories

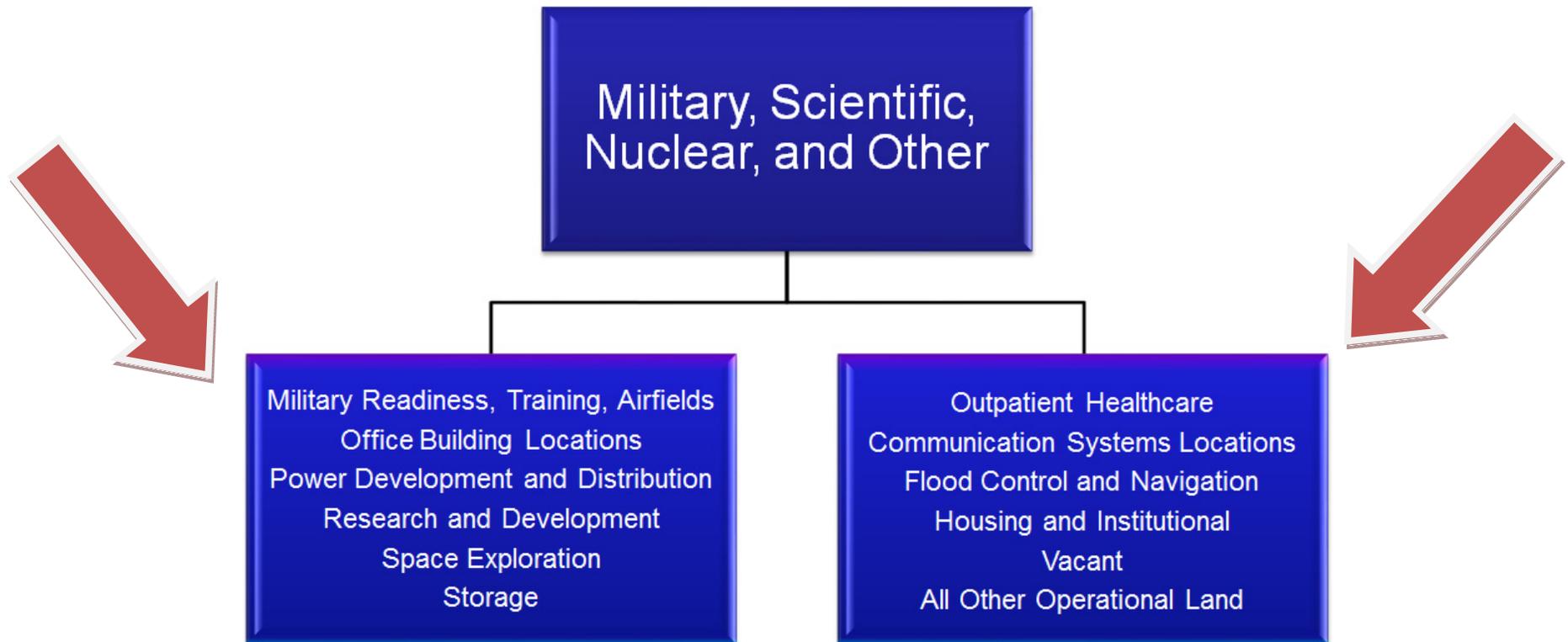


# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

## Military, Scientific, Nuclear, and Other Related Land Use Sub-categories

The following illustration shows what sub-categories or activities could be included within the Military, Scientific, Nuclear, and Other Related Land Use Category.

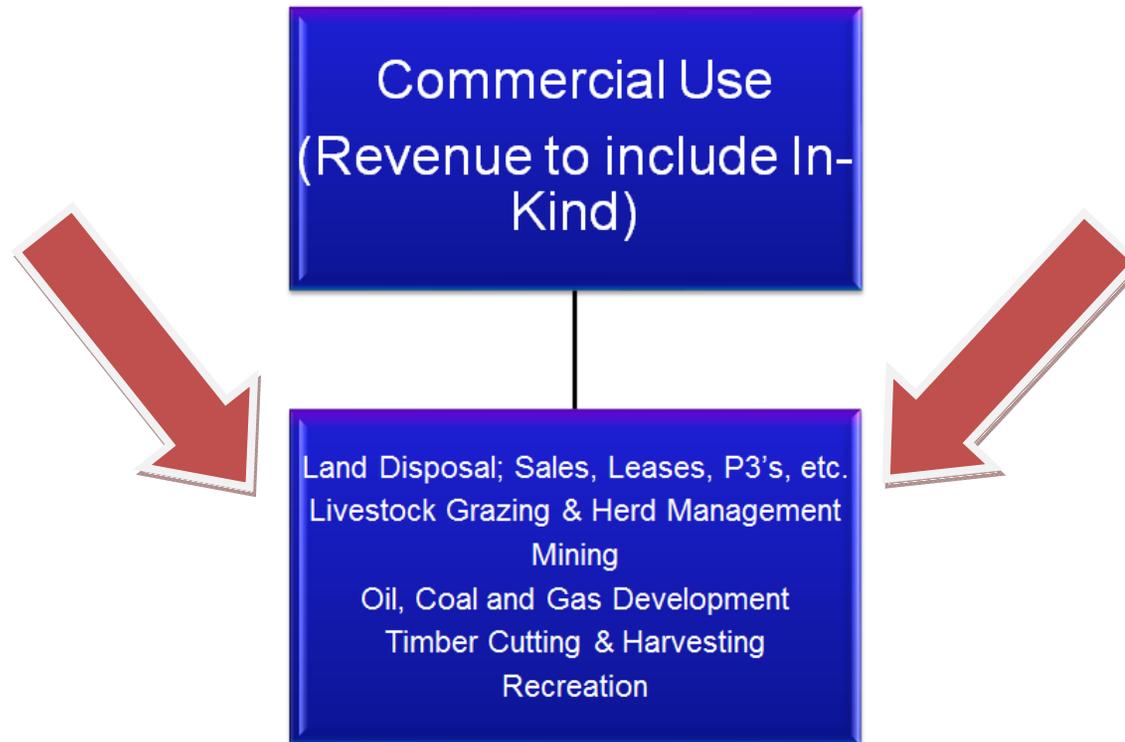
### Military, Scientific, Nuclear, and Other Land Use Sub-categories



**Commercial Use Land Use Sub-categories**

The following illustration shows what sub-categories or activities could be included within the Commercial Use Land Use Category.

# Commercial Use Land Use Sub-categories



# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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## Obtaining Reasonable Audit Support

Agency preparers are concerned that audit burden will be excessive and outweigh any potential benefits that NFI could achieve for users. From the very beginning, the task force was clear that information needs to be reliable and verified but not to the degree that basic information is subjected to. Accordingly, that task force has opened the door for the Board to consider RSI as a potential “middle-ground” compromise between information risk to users and preparer burden.<sup>19</sup>

For each “Favored” NFI, the below table identifies (1) commonly expected audit procedures where preparers/users and auditors/consultants seem to have mutual agreement and (2) differences among preparers/users and auditors/consultants.

As can be readily seen, audit expectations are not necessarily mutual.

Auditors/consultants emphasize the testing of controls and resultant substantive testing and physical inspection of assets whereas preparers/users seem to expect that auditors would employ scanning of documents, inquiries, use of analytical procedures, recalculations, and observation as procedures to obtain reasonable audit support.

Obviously, the audit procedures applied would depend upon the Board’s decision as to a data-point’s location within the financial report; that is, Disclosure, RSI or OI. The below table is merely a starting point to assist members in better understanding where differences among the constituencies exist.

**Table 5.0  
Audit Procedure Expectations**

<b>Data-Point</b>	<b>Commonly or Mutually Expected Audit Procedures</b>	<b>Differences Among Auditors/Consultants and Others</b>
<b>Broad Acreage</b>	Inspection of documents	<u>Auditors cite</u> – Risk assessments, Tests of controls, Test of controls and substantive tests, inspection of documents and physical inspection of asset.  <u>Others cite</u> - Inspection of documents, recalculation,

<sup>19</sup> However, staff reminds members that a SFFAS 29 key Board conclusion at Par. 54 states the following: “The Board believed that information on HA and SL (except for condition) should be basic information because: a. Information was deemed essential to fair presentation and may be crucial to understanding the entirety of an entity’s financial condition. b. Accountability for HA and SL requires more audit scrutiny than would be afforded if they were considered RSI. c. The classification was deemed consistent with GASB (reporting on art and historical treasures) and FASB specific (collections, other works of art and historical treasures).”

## INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

Data-Point	Commonly or Mutually Expected Audit Procedures	Differences Among Auditors/Consultants and Others
		scanning and inquiry.
<b>Eligible for Disposal</b>	Inspection of documents and substantive tests	<p><u>Auditors cite</u> – Inspection of documents and substantive tests.</p> <p><u>Others cite</u> - Risk assessments, Inspection of documents, tests of controls and substantive tests, inquiry.</p>
<b>Predominant Use</b>	Inspection of documents	<p><u>Auditors cite</u> – Test of controls and substantive procedures, physical inspection of assets, and Inspection of documents.</p> <p><u>Others cite</u> - Recalculation, scanning and Inspection of documents.</p>
<b>Revenue Generating</b>	Risk assessments, tests of controls and substantive procedures	<p><u>Auditors cite</u> – Risk assessments, test of controls, Test of controls and substantive tests, recalculation, inspection of documents and physical inspection.</p> <p><u>Others cite</u> - Risk assessments, Test of controls and substantive tests, recalculation, observation, and analytical.</p>
<b>Unit Count</b>	NONE	<p><u>Auditors cite</u> – Tests of controls, Test of controls and substantive tests.</p> <p><u>Others cite</u> - Observation, recalculation.</p>

# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

## Rough-order Assessment of Burden

With the assistance of the task force, staff analyzed and found that out of the 5 “Favored” NFI data-points, the most audit-intensive data-points appear to be broad acreage, predominant use and identifying revenue-generating land. This is because each seems to require a physical inspection audit procedure; on site visit in other words.

Identifying land that is eligible for disposal and unit count information do not appear to be as audit intensive. These last two data-points appear to be satisfactorily covered via testing of controls, inspection of documents, substantive testing, observation, and recalculation procedures.

Taking the information from the above table and doing a “back-of-an envelope” analysis, it appears that auditors would apply more procedures to the revenue-generating and broad acreage data-points, ranked 1<sup>st</sup> and 2<sup>nd</sup> respectively, than they would for the eligible for disposal or unit count data-points each ranked 4<sup>th</sup> in audit intensity.

Again, the below table is only a starting point to assist members in better understanding where (1) auditors may focus more attention to and (2) differences among the constituencies.

**Table 6.0**  
**Applied Audit Procedures by NFI Data-Point**

<u>Non-financial Information Data-point</u>	<u>Number of Applied Procedures to get Documentation or Proof (auditor/consultants vs. all others)</u>	<u>Ranking of Auditor's Most audit intensive Areas</u>
Broad Acreage	5 vs. 4, Unfavorable	2
Eligible for Disposal	2 vs. 4, Favorable	4
Predominant Use	3 vs. 3, Par	3
Revenue Generating	6 vs. 5, Unfavorable	1
Unit Count	2 vs. 2, Par	4

# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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## Preparer, User, and Auditor Concerns

Of the five NFI Data-points identified immediately above, staff has identified three that appear to be the most burdensome to the financial reporting community at-large. Accordingly, individual Task Force member concerns related to each along with staff and/or preliminary Task Force assessments follow:

### 1. Broad acreage - Concerns

**Concern #1** - *Broad acreage may be available in non-financial databases but is not consistently captured or auditable given the history and vast areas included.*

**Concern #2** - *We do not believe it would be cost effective, and would in fact be wasteful, to require on site reviews or re-measurement of selected land parcels.*

**Concern #3** - *Acreage is reported as part of DOE's FRPP....duplicative.*

**Concern #6** - *Obtaining evidence if the agency does not have effective controls or does not have adequate documentation of additions and dispositions.*

### Assessment of Concerns

- The physical inspection of assets will not always be needed especially if adequate controls are in-place and working. However, some sampling of assets can be expected but once base-line acreage is confirmed, audit costs/burden will be reduced in future years.
- Some auditors may rely on their testing to confirm ownership along with rights and obligations via document inspection to imply existence.
- Existence and completeness also can be achieved via GIS technology.
- Some deeds of ownership will contain survey information thus reducing/eliminating the need for actual surveys.

**Concern #4** - *Without broad acreage any financial information on land is of much more limited value.*

### Assessment of Concern

This implies that users are disadvantaged if we do not disclose acreage information.

# INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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**Concern #7** - *Supporting rights for non-standard fee simple owned land.*

## Assessment of Concern

- Underlying lease or contractual documents should document rights/obligations.
- Control of an asset and the ability to deny others such control or access can be sufficient evidence to support rights (of ownership).

**Concern #5** - *Not all agencies use the same unit of measure (acreage, unit, square feet, etc) to account for their land holdings. Therefore, it would be difficult to compare similar land holdings between agencies.*

**Concern #8** - *I would not be adverse to using square miles or KM. Ideally, we would link this to a number in the balance sheet ....that may not be realistic. So instead we should shoot for the integrity of the number and comparability among agencies. I think this is a pretty basic information which we could verify using GPS or some other advanced measuring system as long as it is consistently used across the federal government.*

## Assessment of Concerns

- Differences in estimating techniques such as those used in depreciation are not in and of themselves the primary contributor to lack of comparability.
- We could increase comparability and consistency in agency reporting by establishing uniform reporting formats or suggesting preferred measurement methods such as unit of measurements, using GIS technology.
- In those cases where revenues or operating costs are both material and separately displayed, linkage would exist.

## **2. Eligible for disposal – Concerns**

**Concern #1** - *DOI's role is to preserve public land and the Secretary of the Interior has limited authority to dispose of land. Statute prohibits DOI from disposing the vast majority of our lands, which are Stewardship lands (e.g., national parks, national wildlife refuges, etc). If any non-stewardship lands are eligible for disposal, they are reported as such through the Department's annual Federal Real Property Profile (FRPP) submission. Disclosing Market Value prior to sale would affect negotiations. In addition, reporting value would create inconsistency for transfers of stewardship land. As*

## INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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*stewardship land would be reported as zero value prior to disposal, then reporting value when it's eligible for sale, and following the sale it may be reported by another agency at zero value. Also data improves, acreage may increase or decrease but may not reflect purchases or disposal. DOI believes information is more relevant and timely when the land is actually sold, transferred, leased, etc. Actual gains, losses and revenue are more reliable and should be reported when the asset is disposed or the revenue is earned.*

### Assessment of Concern

- Reporting would be limited to material transactions and/or amounts.
- Reporting is aggregated/summarized as such, individual parcel values or discrete sales would not in most cases be ascertained.
- Because market values already known by the market per se, it is hard to see how they would be prejudicial to an agency.
- Transfers of stewardship land are covered at SSFAS 6, Par. 31.: *“The cost of general PP&E transferred from other Federal entities shall be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred.”*

**Concern # 2** - *Land eligible for disposal is captured in DOE's Federal Real Property Profile "FRPP. Any additional reporting requirements will be duplicative.*

### Assessment of Concern

- If GSA/FRRP in fact allows for public access, this could be a consideration. That is, given that accounting standards are not typically tied to other entity requirements/definitions, this might be a candidate for Other Information presentation.
- If intended audiences are different, reporting is not necessarily duplicative.
- If access to information is restricted (for other than national security or privacy concerns) users will be disadvantaged.

**Concern # 3** – *This is where valuing land is most sensitive and where greatest scrutiny is needed. It is acutely important to Systems and Control.*

### Assessment of Concern

- Requiring as a minimum RSI presentation may in fact improve internal processes and systems especially given that DOI states and admits that *“As data improves, acreage may increase or decrease but may not reflect purchases or disposal.”*

## INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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- It is not unreasonable to expect that an agency's increases/decreases to acreage be reflected as purchases/disposals. In fact, DOI's BLM already makes this information available annually.

**Concern # 4** - *Land being eligible for disposal via land transfer or community re-use does not become relevant until the land is actually selected for disposal. Information on "land eligible for disposal" by itself is meaningless without the additional complementary NFI components such as acreage.*

### Assessment of Concern

- Information displayed on the financial statements are typically accompanied by narrative information either in a Note, RSI or OAI.

### 3. Revenue generating – Concerns

**Concerns #1 and #4** - *Revenue from natural resources is already reported and disclosed; double counting revenue.*

**Concern # 8** - *Obtaining evidence; if the agency does not have effective controls or does not have adequate documentation; lack of clear guidance for recognizing revenue.*

### Assessment of Concerns

- Reporting acreage or land units that generate revenue (not necessarily their dollar-revenue) is not double-counting.
- SFFAS 7 provides detailed guidance on revenue recognition.

**Concern #2** - *Variable commodity/market prices.*

### Assessment of Concern

- Audit procedures don't appear to substantially differ if revenue is earned on a variable versus fixed basis. Also, isn't all revenue (in theory) already being tested?

**Concern #3** - *NASA does receive limited revenue.*

### Assessment of Concern

- We are not concerned about "limited" revenue that would be immaterial to the financial statements.

## INCORPORATING NON-FINANCIAL INFORMATION (NFI) INTO THE FINANCIAL REPORT

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**Concern #5** - *Would open up more uses for the data and would make connecting land acreage and value to other entries in the financials more straightforward.*

### Assessment of Concern

- This implies that users are disadvantaged if we do not disclose acreage that generates revenue.

**Concerns #6** - *This requirement is more stringent than reporting requirements for other PP&E.*

### Assessment of Concern

- Land is different. That is, what other PP&E can we point to that we don't routinely depreciate/amortize/impair? Also, what other PP&E or asset is being considered for balance sheet removal?

**Concerns #7** - *The auditors may request additional supporting documentation for the amount of revenue generated through our land holdings to ensure its accuracy, regardless of whether the amount of income is material.*

### Assessment of Concern

- Revenue is routinely audited.
- Aren't audit procedures already being performed on royalties? Could it not be possible that small parcels of land generate material revenues?

## NEXT STEPS

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### NEXT STEPS

Pending Board deliberations, staff expects the Board to develop and expose guidance in calendar year 2017 and finalizing the Statement during the early part of calendar year 2018.

#### PROPOSED PROJECT TIMELINE – with March 2017 revisions highlighted

##### May 2017 – August 2017

- Begin developing draft exposure draft<sup>20</sup>
- Finalize and issue exposure draft

##### December 2017 – April 2018

- Finalize guidance or standards

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<sup>20</sup> Development of Exposure Draft has been delayed primarily due to completion of staff's field work that included engaging additional users to supplement task force results in order to assist Board deliberations. This deliverable has slipped into the early part of 2017.

## QUESTIONS FOR THE BOARD

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### QUESTIONS FOR THE BOARD

#### **Question 1 – Does the Board prefer to suspend the Land project until such time that budget uncertainty subsides?**

As previously noted, the “status quo” theme arose mostly from federal preparers and some auditors who questioned the very need for this project from its inception. This camp believes that SFFAS 6 (as amended by SFFAS 50), SFFAS 29, and SFFAS 31 contain sufficiently clear guidance that meets the federal reporting objectives; especially stewardship.

It is most interesting to note that during the course of the task force’s work, the auditors in this camp seem to have embraced a need for change because of the user-benefit to be derived from NFI and identifying land eligible for disposal. However, the same cannot be said of certain preparers who remain steadfast in their belief that costs and burdens will not be outweighed by benefits.

Staff believes that given the potential budget cuts, preparers’ concerns will only increase and resistance to change will harden in what some believe to be uncertain times. As such, staff asks the Board to carefully consider if this project should be suspended until such time budget uncertainty is lessened.

Staff submits the following for your consideration:

#### **Reasons to Suspend:**

1. Allow time for key agency principals and budget resources to be in place and agency priorities to become clearer.
2. Provide time for OMB to work with the CFO Council to better identify pan-governmental preparer concerns.
3. Provide time for Treasury to work with its agency counter-parts to assess any and all touch-points that may be impacted by proposed changes.
4. Avoid protracted (re-deliberations) delays during the Exposure Draft stage that could cause project slippage adversely impacting SFFAS 49, *Public-Private Partnership*, implementation and Phase 2 measurement and recognition issues both scheduled for FY 2018 work.

#### **Reasons Not to Suspend:**

1. Agency uncertainties can be addressed via selecting a later implementation date or by using a phased-in requirements approach.
2. Improvements to financial reporting and related benefits to users are needed and delays will only prolong needed improvements and require a second-round of start-up costs.

## QUESTIONS FOR THE BOARD

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3. OMB and Treasury can use the Exposure Draft comment period to work with its constituencies.
4. Members are willing to accept potential project slippage adversely impacting SFFAS 49 implementation and Phase 2 measurement and recognition issues.

### Question 1

**Does the Board prefer to suspend the Land project until such time that budget uncertainty subsides?**

**Question 2 – Does the Board agree that development of a draft Exposure Draft (ED) should begin? If not, please identify reasons or areas that members would like the task force or staff to address before proceeding with a draft ED?**

Developing a draft ED would involve deliberating on the details of (1) the three broad categories of predominant use identified on page 28, (2) the five “Favored” NFI data-points and presentation preferences as shown on page 25, and (3) soliciting comments concerning a cost-benefit evaluation exploring comparable consistency versus relevant customization. Staff would incorporate feedback from the April meeting when framing questions for the specific provisions of the draft ED.

### Question 2

**Does the Board agree that development of a draft Exposure Draft (ED) should begin? If not, please identify reasons or areas that members would like the task force or staff to address before proceeding with a draft ED?**

**Question 3 – Does the Board generally agree with staff’s that Option B seems preferable notwithstanding further cost/benefit evaluation? If not, what would members advise staff to (re)consider?**

Staff concludes that Option B is preferred because Option A (1) regresses reporting in light of gains achieved by the federal financial reporting community at-large and (2) significantly departs from our conceptual framework. In staff’s opinion, any positive effect Option A could have on the qualitative characteristics of understandability, comparability, and timeliness may very well be out-weighed by a risk to financial

## QUESTIONS FOR THE BOARD

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reporting vis-à-vis potential adverse effects to the qualitative characteristics of relevance and possibly reliability due to land not being valued on the balance sheet.

Option B is preferred because it retains relevant agency customization and provides users with meaningful (NFI) information. In staff's opinion, from an agency perspective there is uncertainty if Option A's benefits would exceed its costs.

### Question 3

**Does the Board generally agree with staff that Option B seems preferable not withstanding further cost/benefit evaluation? If not, what would members advise staff to (re)consider?**

**Question 4 – Given that the Board has previously noted that information on HA and SL (except for condition) should be basic information, what classification (basic, RSI or OI) would be appropriate for each of the five “favored” NFI?**

Input from the task force was not conclusive but implies the following placement for each of the five “Favored” NFI Data-points:

- a. Broad acreage - Disclosure (Note) information
- b. Eligible for disposal - Disclosure (Note) information
- c. Predominant use - Required Supplementary Information
- d. Revenue generating - Required Supplementary Information
- e. Unit count - Disclosure (Note) information

### Question 4

**Given that the Board has previously noted that information on HA and SL (except for condition) should be basic information, what classification (basic, RSI or OI) would be appropriate for each of the five “favored” NFI?**

**Question 5 – Of the concerns noted on pages 35 - 39, are there any in particular that the Board wishes the task force and/or staff to further explore prior to drafting the ED? If so, please identify those concerns.**

## QUESTIONS FOR THE BOARD

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Staff wishes to point out that certain member comments or concerns expressed at the February meeting are specifically addressed in this memorandum. Staff hopes that its efforts to address these matters are deemed satisfactory. The below list summarizes these matters and refers to where they have been addressed:

### a. Consistency in application among agencies.

- i. **Page 18** - Table 3.0 Qualitative characteristics discussion – Consistency and Comparability.
- ii. **Page 23** - SFFAC 1, *Objectives of Federal Financial Reporting* – Paraphrased Board points #3 and #4 concerning “comparable consistency” and “relevant customization”.
- iii. **Page 51** - Attachment 1, Task Force Analysis, Broad Option A, Other Benefits #1.
- iv. **Pages 25 and 28** - Discrete NFI Data-Points, Predominant Use.
- v. **Page 21** - Staff Analysis of Broad Options and Footnote 14; differences due to missions and not accounting practices.

### b. More debate on the different choices.

- i. **Pages 11 - 24** - Tables 1 through 4.1 along with staff conclusions should provide for sufficient debate concerning the application of FASAB’s conceptual framework to include cost-benefit considerations.
- ii. **Page 56** - Appendix 1, G-PP&E Land Baseline; SFFAS 6 and SFFAS 50 – Key Board Conclusions.
- iii. **Page 60** - Appendix 2, Stewardship Land Baseline; SFFAS 29 – Key Board Conclusions.

### c. People care about where land is located.

- i. **Pages 25 - 31** - Please refer to the discussions “Discrete NFI Data-Points” and “Categorizing Land.” Agencies could be required to report NFI by Region or State<sup>21</sup>.

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<sup>21</sup> For example, the 2015 edition of Public Land Statistics (PLS), published by the U.S. Department of the Interior, Bureau of Land Management (BLM) provides both financial (e.g., pages 62-65, 175, and Tables 1.4 and 3.33) and non-financial information (e.g., acres) by State.

## QUESTIONS FOR THE BOARD

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**d. Financial information seems of limited use whereas users need information other than historical cost information.**

- i. **Pages 48 – 50** - Attachment 1, Task Force Analysis of Broad Options – NFI Benefits and Drawbacks and Held-for-Disposal Benefits and Drawbacks.
- ii. **Page 52** - Attachment 1, Task Force Analysis: Broad Option A, Cost-Benefit Comparison.
- iii. **Page 54** - Attachment 1, Task Force Analysis: Broad Option B, Other Benefits and Cost-Benefit Comparison.

**e. In what ways are we possibly disadvantaging users?**

- i. **Page 51** - Attachment 1, Task Force Analysis of Broad Options - Broad Option A: Preliminary Task Force Assessment.
- ii. **Page 51** - Attachment 1, Task Force Analysis: Preliminary Task Force Assessment - Broad Option A and Other Benefits and Other Drawbacks.
- iii. **Page 53** - Attachment 1, Task Force Analysis: Preliminary Task Force Assessment - Broad Option B.
- iv. **Page 56** - Appendix 1, G-PP&E Land Baseline; SFFAS 6 – Par. 133.
- v. **Page 19** - Footnote 12: SFFAC 1, Par.164
- vi. **Pages 11 and 23** - Tables 1 and 4.1.

**Question 5**

**Of the concerns noted on pages 35 - 39, are there any in particular that the Board wishes the task force and/or staff to further explore prior to drafting the ED? If so, please identify those concerns.**

## QUESTIONS FOR THE BOARD

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**Question 1 – Does the Board prefer to suspend the Land project until such time that budget uncertainty subsides?**

**Question 2 - Does the Board agree that development of a draft Exposure Draft (ED) should begin? If not, please identify reasons or areas that members would like the task force or staff to address before proceeding with a draft ED?**

**Question 3 - Does the Board generally agree with staff that Option B seems preferable notwithstanding further cost/benefit evaluation? If not, what would members advise staff to (re)consider?**

**Question 4 – Given that the Board has previously noted that information on HA and SL (except for condition) should be basic information, what classification (basic, RSI or OI) would be appropriate for each of the five “favored” NFI?**

**Question 5 - Of the concerns noted on pages 35 - 39, are there any in particular that the Board wishes the task force and/or staff to further explore prior to drafting the ED? If so, please identify those concerns.**

The objective is for the Board to make preliminary decisions based on staff's analysis concerning (1) February's Broad Options A and B and (2) the incorporation of non-financial information (NFI) into the financial report.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff will be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512- 6841 or by e-mail at [savinid@fasab.gov](mailto:savinid@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

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### ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

At the February 2017 meeting, staff presented two possible broad options that balance preparer concerns and user needs. Either one can be considered for development of an exposure draft. The two possible broad options follow:

#### **Broad Option A: Focus on non-financial information for land**

- e. All land, to include Stewardship and GPP&E, would be (re)classified as a non-capitalized asset; that is, zero dollar amounts on the balance sheet.
- f. Acreage, predominant use, and land cover would be reported.
- g. When land assets are identified for disposal, the fair value would be reported on the balance sheet. [Note that SFFAS 6, *Accounting for Property, Plant, and Equipment*, calls for net realizable value to be reported for GPP&E held for disposal.]
- h. Separable land rights would be amortized over the shorter of their useful lives or contractual period.

#### **Broad Option B: Modify and clarify SFFAS 6 and SFFAS 29 reporting requirements**

- d. Retain the current recognition requirements for GPP&E land not held for disposal
- e. Require both GPP&E and SL held for disposal to be recognized on the balance sheet at fair value
- f. Improve non-financial information requirements for GPP&E and SL by requiring information regarding (i) acreage, (ii) predominant use, and (iii) land cover.

Each of the broad options represents two different themes or schools of thought. Broad Option A arises from the Uniform Accounting theme and Broad Option B reflects a Status Quo theme. Both can be summarized as follow:

1. **Broad Option A: Uniform Accounting** – This theme arose from a general (non-specific) sense that **“less is more” and that “land-is-land”** when it comes to guidance addressing the accounting and reporting of government land. Users of federal financial statements indicate that the lack of consistent rules governing land makes it difficult to understand what the government owns/manages in this asset class and they believe that accounting and reporting should be simplified and uniform.
2. **Broad Option B: Status Quo** – This theme arose mostly from federal preparers and some auditors who questioned what was broken that needed to be fixed; **“if it ain’t broke, don’t fix it.”** This camp believes that SFFAS 6 (as amended by SFFAS 50), SFFAS 29, and SFFAS 31 contain sufficiently clear guidance that meets the federal reporting objectives; especially stewardship.

## ATTACHMENT 1, LAND TASK FORCE ANALYSIS OF BROAD OPTIONS

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Please note that because the benefits/drawbacks associated with the use of NFI and the requirement to recognize on the balance sheet at fair value both GPP&E and SL held for disposal are common to both options, they are considered irrelevant factors for decision-making purposes. They are presented below for informational purposes only.

### **NFI Benefits:**

1. Users will still receive audited (reliability) non-financial information regarding the assets, and the information will be reviewed periodically (timeliness). Non-financial information such as acres will also be understandable, comparable, relevant, and consistent.
2. Presenting non-financial information (NFI) will aid coarse/aggregated comparisons of \$-values with information such as biophysical data.
3. Inclusion of NFI seems to be primarily about "cross-walking" \$-data to other data provided by agencies. The cross-walking process will increase Operating Performance.
4. Presuming note disclosure is selected, non-financial measures on land will receive greater audit visibility if it is reported as a note disclosure or in the RSI. As a result, agencies have more of an incentive to ensure the non-financial information is reported accurately.

### **NFI Drawbacks:**

1. Inconsistency of requiring a lower or different disaggregation for land than that required of other types of PP&E.
2. Increased financial statement and auditing workload accompanied by increased process and system changes.
3. Reporting non-financial information on land in OAI is not subject to the same level of audit review as a note disclosure or RSI resulting in incorrectly reported information by an agency that does not affect that agency's audit opinion.

## ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

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### Held-for-Disposal Benefits:

1. Fair value for land held for disposal provides a more relevant and timely measure of the asset as a financial resource.
2. Limiting valuation (either fair value or value-in-use) to those assets held for disposal provides the user with an understanding of the monetary value of assets the Government may convert to cash or transfer to another owner such as a state government.
3. Appraisals for potential disposals are needed regardless of whether the values are in the financial statements. No additional cost.
4. Increased transparency over land that is held for sale and gives clear guidance for how to handle those parcels.
5. Establishes line-item uniformity among agencies for "similar" categories (e.g. USDA disposed of 3 parks, totaling 10K acres of non-contaminated land; DOE disposed 5 parks; totaling 25K acres of non-contaminated land).

### Held-for-Disposal Drawbacks:

1. An agency periodically re-evaluating only "land" will lead to inconsistent financial reporting treatment if the other financial statement line items are not also "re-evaluated".
2. Increased financial statement and auditing workload accompanied by increased process and system changes.
3. The categorizing or "re-categorizing" of land into "buckets" or original reporting status (non-disposal) is subject to interpretation by individual agency personnel. As a result, assets reported in the land "buckets" may change more often than intended.
4. This seems an inadequate solution, as there is a significant inventory of Federal land which could be sold, transferred, leased, etc., and the full value of this inventory would not be recognized.
5. The Held-for-Disposal solution does not address the value of other Federal lands. Policies and criteria change over time, and land which may not be considered for sale or transfer today may be so considered in the future. While we can all probably agree with the extreme examples ("We'll never sell the Grand Canyon"), there are certainly tracts of stewardship land which could appropriately be considered for land swaps or development, and where understanding the value of the land would be useful.
6. Inconsistency of requiring fair value for just one part of PP&E.

## ATTACHMENT 1, LAND TASK FORCE ANALYSIS OF BROAD OPTIONS

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7. An agency periodically re-evaluating only "land" will lead to inconsistent financial reporting treatment if the other financial statement line items are not also "re-evaluated".
8. This does not take into consideration other types of land disposal such as transfers to community reuse organizations at less than fair market value.
9. This does not take into consideration other types of land disposal such as transfers to community reuse organizations at less than fair market value.

The task force's preliminary assessment, detailed analysis of both options focusing on the other benefits and drawbacks, as well as cost-benefit comparison begins on the next page.

As previously noted, because the use of NFI and the requirement to recognize on the balance sheet at fair value both GPP&E and SL held for disposal are common to both options, members may consider the other benefits/drawbacks and cost-benefit comparisons to be the (most) relevant factors for decision-making purposes when considering the task force's work in this regard.

## ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

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### FASAB Land Accounting and Reporting Task Force

#### Task Force Analysis – Broad Option A: Uniform accounting: No land is valued: with 2 additions.

**Proposed scenario details:** Extend the SFFAS 50 Carve-out (Amend SFFAS 29 and SFFAS 6) and allow all entities to exclude land as per SFFAS 50; allowing an exclusion of land and land rights from balance sheets with disclosure of acreage information and expensing of future acquisitions. Also, add a “Held-for-disposal” category.

**Preliminary Task Force Assessment:** **The majority of the task force agreed that this option should be off the table because it fails to help meet the reporting objectives and disadvantages users.** Budgetary integrity, stewardship, and systems and control are key ideas to keep in mind especially when looking at stewardship land. Assigning a cost or value to land helps achieves the objectives of financial reporting. As such, by providing or associating a cost or value to land, users can also gauge value. Users can look at the value of land and see where an agency invests its resources and equate expenditures to the value of property being managed. Also, by reporting a cost, there is a basis for measuring an agency’s operating performance.

#### Other Benefits:

1. Removes valuation uncertainty and inconsistency in how federal land is reported vs. the current situation of Stewardship Land and G-PP&E land with only some G-PP&E land currently on the federal balance sheet.
2. Would create efficiency of words and reduce volume of regulations surrounding land accounting and reporting.
3. Streamlined recognition method for all land because NFI will assist users because city center land is worth more than mountain land in the middle of nowhere.
4. Less burden to manage and maintain financial records and reduced audit costs.

#### Other Drawbacks:

1. Deviation of not having land on the balance sheet.
2. Deviation from other standards-setters such as compared to FASB/GASB.
3. Lack of differentiation could cause loss of fidelity in real property data.

## ATTACHMENT 1, LAND TASK FORCE ANALYSIS OF BROAD OPTIONS

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4. Expensing of future acquisitions and the exclusion of land and/or land rights creates confusion not to mention exclusions of this asset from the balance sheet.
5. Deviation from the general accounting practice of recognizing, valuing, and reporting of G-PP&E that are acquired and held for operational use.
6. Would require the removal from the financial statements of existing land values being reported as G-PP&E which would impact the government's ability to report accurate performance measures as some business operations do result in revenues from certain land functions (timber, mineral mining rights).
7. Would negatively impact the matching of revenues to relevant assets (e.g., there would be no ability for such match if G-PP&E were removed from the books).
8. Reporting would not be simplified as Financial Statement users would require enhanced narrative/RSI details to gain an understanding of G-PP&E land once valuations were removed from the financial statements.
9. Lack of transparency over the agency's land holdings if SFFAS 50 was open to all entities with existing land on its financial statements.
10. Period costs may end up being significantly overstated due to unnecessary expensing of acquired PP&E.
11. The FASAB SFFAC 1 on stewardship requires both financial and non-financial information on land. Unless SFFAC 1 is revised, it would be impossible to not value land at all and disclose only the non-financial information pertaining to stewardship land.

### **Cost-Benefit Comparison:**

1. While this is a low-cost solution, it dramatically reduces transparency and impedes independent analysis of land holdings.
2. Disposal valuation could be very useful for decision-making, but only if acquisition cost (historical value) is available to compare to (after inflation adjustment, etc.) along with revenue generated by the property (as applicable) and some sort of notional value for government. Periodic reevaluation and moving between buckets can become cumbersome, non-transparent, and difficult to read and manage. High cost for evaluations.

## ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

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### FASAB Land Accounting and Reporting Task Force

#### Task Force Analysis – Broad Option B: Status Quo: with 2 additions

**Proposed scenario details:** Add a “Held-for-disposal” category and require disclosure of non-financial information.

Specifically, separately report and value land held for disposal. Provide disclosures that identify the method of disposal such as land held for sale, transfer, lease, concession, etc.

Require periodic evaluation of all land (both general PP&E and SL) to determine its intended use (i.e., the "bucket" where the land should reside) and establish criteria for re-categorizing land among "buckets" and back to its "dormant" or original reporting not-for-disposal state. Also, determine the types of non-financial measures that should be reported by bucket and set minimum requirements (e.g., units [number of National Parks] and/or acreage for each bucket including those categorized as general PP&E). Lastly, identify where information should be reported; e.g., note disclosure, RSI or OAI.

**Preliminary Task Force Assessment:** **The majority of the task force who were not committed to this option was primarily comprised of agency preparers whereas the users seemed to agree that this option improved reporting only noting that more than the 2 existing categories (SL and G-PP&E) may be needed.**

**Setting minimum disclosure requirements for SL non-financial measures would have a positive effect on Operating Performance and Stewardship. However, this positive effect could be minimal if an entity decides to report at a minimum aggregation level that is not useful. This option should have a positive effect on Systems and Controls by increasing agency accountability.**

#### **Other Benefits:**

1. Retains historical cost which is useful for decision-making.
2. Historical cost provides a notional value.
3. Continues to help meet the reporting objectives.

**Other Drawbacks: None identified**

## ATTACHMENT 1, TASK FORCE ANALYSIS OF BROAD OPTIONS

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### **Cost-Benefit Comparison:**

1. Disposal valuation could be very useful for decision-making, but only if acquisition cost (historical value) is available to compare to (after inflation adjustment, etc.) along with revenue generated by the property (as applicable) and some sort of notional value for government. Periodic reevaluation and moving between buckets can become cumbersome, non-transparent, and difficult to read and manage. High cost for evaluations.
2. This alternative has the potential to present the most information in the most relevant format where valuation would have an impact on the user. Unfortunately, there could be complications in the implementation phase that could add costs to gathering and reporting this information.

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## APPENDIX 1, G-PP&E LAND BASELINE – SFFAS 6 and SFFAS 50

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### APPENDIX 1, G-PP&E LAND BASELINE – SFFAS 6 and SFFAS 50

#### **SFFAS 6, *Accounting for Property, Plant, and Equipment.***

Issued November 30, 1995 with implementation beginning in FY1998

#### **SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment (short title)***

Issued August 4, 2016 with implementation beginning in FY2017

#### **KEY FEATURES**

##### **SFFAS 6 –**

- PP&E is defined as: Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.
- Created three categories of PP&E: (1) general PP&E are PP&E used to provide general government services or goods; (2) heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and (3) stewardship land (i.e., land other than that included in general PP&E).
- Land acquired for or in connection with general PP&E would be included in the general PP&E category whereas land not associated with general PP&E would be considered stewardship land.

##### **SFFAS 50 –**

- Amends SFFAS 6 and SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, and rescinds SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*
- Allows a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E).
- The alternative methods include (1) using deemed cost to establish opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.
- The alternative methods are permitted when presenting financial statements, or one or more line items addressed by SFFAS 50, following GAAP promulgated by FASAB 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 methods. The application of SFFAS 50 based on the second condition is available to each reporting entity only once per line item addressed in SFFAS 50.

## APPENDIX 1, G-PP&E LAND BASELINE – SFFAS 6 and SFFAS 50

### KEY NOTES

#### SFFAS 6 –

- Acquired for or in connection with other general PP&E is defined as land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E’s common grounds.
- Land rights are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.
- Land and land rights acquired for or in connection with other general PP&E shall be included in general PP&E. In some instance, general PP&E may be built on existing Federal lands. In this case, the land cost would often not be identifiable. In these instances, general PP&E shall include only land and land rights with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E.
- Software and land [See SFFAS 10 for standard regarding internally developed software] rights, while associated with tangible assets, may be classified as intangible assets by some entities. In this event, they would be subject to amortization rather than depreciation. “Amortization” is applied to intangible assets in the same manner that depreciation is applied to general PP&E—tangible assets.
- Land rights that are for a specified period of time shall be depreciated or amortized over that time period.
- The requirements concerning Heritage Assets and Stewardship Land were rescinded and replaced by SSFAS 29.

#### SFFAS 50 -

- Allows an exclusion of land and land rights from the opening balances with disclosure of acreage information and expensing of future acquisitions.
- Amends SFFAS 6, paragraph 26 by adding the following language as the second sentence: “Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein.”
- A reporting entity should choose among the following alternative methods for establishing an opening balance for land and land rights: (1) the reporting entity may exclude land and land rights from the opening balance of general PP&E. If this alternative method is applied, the reporting entity should expense future land and land right acquisitions or (2) land and land rights may be recognized in opening balances based on the provisions of the alternative valuation method (deemed cost) provided in paragraph 40.d.

### KEY BOARD CONCLUSIONS

#### SFFAS 6 –

- Par. 122 - Allocation of the cost of general PP&E, excluding land, among accounting periods is essential to assessing operating performance. The Board's concepts statement, Objectives of Federal Financial Reporting, focuses on relating cost to accomplishments in reporting an entity's operating performance. Cost information is of fundamental importance both to program managers in operating their activities efficiently and effectively and to executive and congressional decision makers in deciding on resource allocation. General PP&E will be capitalized and depreciated to provide this information.
- Par. 123 - For stewardship PP&E, the predominant reporting objective is stewardship. This is in contrast to general PP&E, for which the Board is concerned with providing information to assess operating performance and, therefore, provided for depreciation accounting. The most relevant information is about the existence of stewardship PP&E and that information can be provided through a new type of reporting—supplementary stewardship reporting.
- Par. 125 - Despite the preference for nonfinancial performance measures for stewardship PP&E, the government must demonstrate that it is being an appropriate “steward” for these assets. To meet the stewardship objective, the government must be able to answer basic questions such as: • What and where are the important assets?, • Is the government effectively managing and safeguarding its assets?
- Par. 126 - Answers to these questions can be provided through supplementary stewardship reporting. The stewardship information provided would not necessarily have the same measurement basis as information shown on the balance sheet. Information could include value, quantity, and capacity depending on the category being reported on. These types of information are not typically found in balance sheet reporting.
- Par. 133 - Heritage assets are held for their cultural, architectural, or aesthetic characteristics. Users have identified nonfinancial information as being relevant for these assets. For assessing operating performance, the Board believes that relevant cost information is provided through reporting of periodic maintenance cost since heritage assets are intended to be preserved as national treasures. It is anticipated that they will be maintained in reasonable repair and that there will be no diminution in their usefulness over time.
- Par. 137 - Most Federal land is not directly related to general PP&E. For example, the national parks and forests are not used to support general PP&E. The Board concluded that land other than that acquired for or in connection with other general PP&E should not be reported on the balance sheet. This is consistent with the Board's treatment of heritage assets in that much of the government's land is held for the general welfare of the nation and is intended to be preserved and protected.

## APPENDIX 1, G-PP&E LAND BASELINE – SFFAS 6 and SFFAS 50

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### SFFAS 50 –

- Par. A16 - Because land is not depreciated due to its infinite useful life, the benefits of capitalizing land are primarily in the period of acquisition. That is, the cost of the land is identified so the acquisition can be evaluated and capitalized. In doing so, the period operating costs are not overstated. In future periods, the ongoing benefit is that accountability for the asset is established.
- Par. A17 - 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. The Board proposed that the reporting entity disclose, with a note reference on the balance sheet, the number of acres of land held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period.
- Par. A18 - Some members who supported excluding land expressed concern regarding the resulting inconsistency in reporting and suggested the Board begin a project on land in the near future to review existing standards, to explore options to improve reporting on land, and to seek a consistent approach. Other members wanted to explore valuing existing land holdings based on deemed cost (consistent with general PP&E) or on a set amount per acre of land.
- Par. A23 - Although respondents' conveyed that inconsistency was a concern, the Board notes that current standards are not consistent because they differentiate between stewardship land and land acquired in connection with development or construction of an item of general PP&E.
- Par. A24 - The land project is being initiated to address such inconsistencies, and Board members showed a strong commitment to moving forward and expediting the project to resolve inconsistencies.
- Par. A29 - The Board reiterates that decisions made within this Statement regarding land and land rights are subject to change based upon the results of the land project.

## APPENDIX 2, STEWARDSHIP LAND BASELINE - SFFAS 29

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### **SFFAS 29, *Heritage Assets and Stewardship Land***

**Issued July 7, 2005 with implementation beginning in FY2008**

#### **KEY FEATURES**

- Reclassified HA & SL as basic information from RSSI
- Reclassified condition Information as RSI
  - Include reference to DM&R information
- Disclosure only with no asset dollar amounts
  - Disclose entity stewardship policies
  - Explain how HA & SL relate to mission
  - Stewardship PP&E expensed if purchased and no amount is recognized if it is received as a donation
  - For multi-use HA's, transfers between agencies are recorded at book value (BV) and if BV is not provided, the HA should be recorded at its estimated fair value

#### **KEY NOTES**

- Board did not reconsider the definition, recognition and measurement provisions of the existing standards.
- Standard based on the importance of the data in meeting the stewardship reporting objective
- HA should be quantified in terms of physical units

#### **KEY BOARD CONCLUSIONS**

Par. 53 – *“In the future, the Board may reconsider the recognition and measurement issues for heritage assets and stewardship land.”*

Par. 54 - The Board believed that information on HA and SL (except for condition) should be basic information because:

- a. Information was deemed essential to fair presentation and may be crucial to understanding the entirety of an entity's financial condition.
- b. Accountability for HA and SL requires more audit scrutiny than would be afforded if they were considered RSI.
- c. The classification was deemed consistent with GASB (reporting on art and historical treasures) and FASB specific (collections, other works of art and historical treasures).