



January 20, 2021

Mr. George A. Scott, Chair
Federal Accounting Standards Advisory Board
441 G Street NW
Suite 1155
Washington, DC 20548

Via email to fasab@fasab.gov

Dear Mr. Scott:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its three-year plan for its technical agenda. We have reviewed the plan and appreciate FASAB's continued efforts furthering federal financial standards. The FMSB concurs with the content and relative prioritization of the projects on the agenda. We have the following comments regarding selected projects:

Land – Accounting and Reporting

We encourage FASAB to continue its implementation guidance research with the goal to have complete and comparable reporting among federal entities once the exposure draft is finalized.

Leases

We appreciate the omnibus amendments and implementation guidance, as they should provide preparers detailed instructions for properly implementing the standards and enhancing comparability between federal agencies. We found helpful FASAB's effort to expand its communication strategy through podcasts and videos related to this complex topic that will require significant implementation efforts by federal agencies. We hope that the implementation guidance will also provide instructions on the budgetary entries that federal agencies – both component entities and the federal government as a whole – must record for lease transactions, especially obligations for non- GSA (General Services Administration) leases with a cancellation clause.

An FMSB member who works in public accounting has noted contradictory guidance in the Government Accountability Office's (GAO's) *Principles of Federal Appropriations Law* and Office of Management and Budget's (OMB's) Circular A-11 Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*, regarding the amount of the obligation that must be recorded for non-GSA multi-year leases with cancellation clauses.

According to OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*, “For operating leases, budget authority is required to be obligated up front in the amount necessary to cover the Government's legal obligations, consistent with the

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requirements of the Antideficiency Act. This will include the estimated total payments expected to arise under the full term of the contract or, if the contract includes a cancellation clause, an amount sufficient to cover the lease and other contractually required payments for the first year plus an amount sufficient to cover the costs associated with cancellation of the contract. For each subsequent year, sufficient budget authority is required to be obligated to cover the annual lease payment for that year plus any additional cancellation costs. For operating leases funded by the General Services Administration's Federal Buildings Fund (which is self-insuring under existing authority), only the amount of budget authority needed to cover the annual lease payment is required to be obligated.”

According to GAO’s Principles of Federal Appropriations Law-Volume II (Third Edition), “an obligation arises when the definite commitment is made, even though the actual payment may not take place until a future fiscal year. ... For appropriations law purposes, the term “obligation” includes both matured and unmatured commitments. A matured commitment is a legal liability that is currently payable. An unmatured commitment is a liability which is not yet payable but for which a definite commitment nevertheless exists. For example, a contractual liability to pay for goods which have been delivered and accepted has “matured.” The liability for monthly rental payments under a lease is largely unmatured although the legal liability covers the entire rental period. Both types of liability are “obligations.” The fact that an unmatured liability may be subject to a right of cancellation does not negate the obligation.”

This GAO interpretation contradicts the OMB Circular A-11 guidance regarding the recording of obligations for non-GSA leases with a cancellation clause. In GAO's opinion, there is an important difference in financial accounting and reporting between a 20-year cancellable lease and a one-year lease with 19 renewal options. Although OMB Circular A-11 suggests that both could be obligated for annually, GAO’s interpretation does not support that position. Therefore, we hope that the preparation of the leases implementation guidance will open a dialogue between FASAB, GAO, and OMB that will help eliminate the contradictory guidance in the publications related to this topic.

Public Private Partnerships (P3s)

We believe FASAB’s research regarding recognition and measurement will consider the body of evidence gathered by other standard setting bodies and will generally result in similar treatment of P3s between the federal government and state and local governments, except for matters unique to the federal government that must be individually researched and concluded upon.

Reporting Model – Budgetary Information

Historically, federal budgeting and the related reporting has been under the purview of OMB, with FASAB having minimal input. Therefore, we consider this project a move in the right direction for better integrating budgetary reporting within the overall financial reporting framework.

According to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, federal financial reporting should provide information that helps readers determine:

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- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
- the status of budgetary resources, and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

We note the GASB requires disclosure of the original and final appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances stated on the government's budgetary basis. Some FMSB members think Congress and users of federal financial information may find the equivalent federal information essential.

Reporting Model – Management Discussion and Analysis (MD&A)

We encourage FASAB to continue this project with the goal of eliminating duplicative content and the density of non-financial information that does not provide informative context for the financial statements.

Reporting Model – Note Disclosures

We believe that the note disclosures project will add significant value to the understandability of the financial statements. Providing concepts on the types of information to include in the note disclosures, in addition to the model note disclosures included in OMB Circular A-136, *Financial Reporting Requirements*, would increase the relevance, clarity, consistency, and comparability of note disclosures.

Potential Projects

Reexamination of Existing Standards

The FMSB continues to support this important project. As we have observed from the GASB, reexamining existing standards is a necessary and appropriate use of resources that ensure standards are operating as intended and address current transactions, law, and technology, as well as removing outdated and contradictory guidance or terminology. We strongly encourage the FASAB to provide the necessary resources to this project.

Intangibles and Subscription Based Information Technology Arrangements (SBITA)

The FASAB Annual Report identifies certain shortcomings and inconsistencies in the current guidance related to accounting and reporting for intangible assets. We agree that clarification and guidance in this area is needed. We also agree that federal accounting guidance for SBITA is necessary given the prevalence and valuation issues related to these transactions.

The FMSB is comprised of 24 members (listed below) with accounting and auditing backgrounds in federal, state, and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

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Sincerely,

A handwritten signature in black ink that reads "Craig M. Murray". The signature is written in a cursive, flowing style.

Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President

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