



July 30, 2018

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Accounting and Reporting of Government Land*. The FMSB is comprised of 19 members (list attached) 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. Local AGA chapters and individual members are also encouraged to comment separately. For full disclosure and transparency, current members of the FMSB do not work with or provide consulting services with classified organizations within the Federal Government.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We have reviewed the Exposure Draft and have provided our responses below based on the questions in the Exposure Draft and have provided additional comments.

Q1. The Federal Accounting Standards Advisory Board (FASAB or "the Board") proposes reclassifying general property, plant, and equipment (G-PP&E) land as a non-capitalized asset with no dollar amounts reported on the balance sheet. Any future acquisitions of land would be expensed on the statement of net cost. Disclosures regarding G-PP&E land would be required. For the proposed amendments, refer to paragraphs 8-10 (for component reporting entities) and 16 (for the consolidated financial report of the U.S. Government). For a detailed discussion and related explanation refer to paragraphs A9–A16, A21–A24, and A39–A41 in Appendix A: Basis for Conclusions.

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

Overall, we disagree with the proposal. Traditionally, for the federal government -- as well as other sectors -- GPP&E land is a capitalized asset that is not depreciated. We do not believe a blanket exclusion of all federal land from the balance sheet is warranted. Accounting measurement of GPP&E land and land rights would be feasible in some cases. In those special cases where unique federal circumstances render such measurement impracticable, in the practical expedients contained in SFFAS 50, paragraphs 12 and 13, amending SFFAS 6 paragraphs 25, 26

and 40 (particularly 40(d) and (f) as amended) would be appropriate. Therefore, the entity is not tied to historical cost valuation of Land.

ED paragraphs A15 and A16 seem to contain the Board's rationale for not capitalizing GPP&E land and land rights. The two measurement possibilities cited by the Board, fair value and value-in-use, are rejected because they would be "cost prohibitive" and / or "lack reliability" and / or "require re-estimations that would reduce relevance and comparability and increase cost." Should the FASAB apply that rationale across the board, few complex accounting estimates would survive. Re-estimation techniques could be developed to mitigate incomparability, which is preferable to excluding an asset from the balance sheet. Reasonable exceptions could be developed to accommodate instances where more rigorous measurement is not feasible.

Assertions of current inconsistencies and incomparability seem to be an overriding consideration. Presumably these could be remedied with a reasonable approach for estimation, for example, a specified deemed cost approach

Most federal land is stewardship land, which has unique valuation issues, rather than general PP&E, where traditional accounting principles for land would be applicable. However, much GPP&E land and land rights associated with operations can be measured using traditional methods.

In SFFAC 1 and in the basis for conclusions for SFFAS 6 (paragraph 122), the Board noted the importance of cost information and the allocation of cost to periods in measuring federal performance, while explicitly excluding land from that allocation, which is the traditional accounting principle for land. GPP&E land does not factor into net results until disposal. Thus, the cost of federal land has not been a factor in measuring performance, nor has the balance sheet value of general PP&E been significant on federal balance sheets. However, transparency and accountability require assets to be reported on the balance sheet.

The following are other members' comments

The view expressed in the Basis for Conclusions seems reasonable that both historical cost and fair value are not meaningful and would (regardless) be impossible or impracticable for the majority of public land. In other words, it is our view that the current reporting of land at historical cost is:

- *not meaningful,*
- *not decision-useful and*
- *not representative of the majority of land assets for governments at all levels (not just the Federal government).*

Switching to fair value would be no better (just a different kind of meaninglessness) and has the added defect of being cost prohibitive.

However, land assets are an essential aspect of financial position, and information, about the full portfolio of land assets needs to be included in the financial reporting model.

There is a compelling reason to require land assets to be a part of the financial reporting model to demonstrate accountability for these assets. The statements should demonstrate that the government is able to identify, track and classify these assets in support of its mission.

We have answered the remaining questions as though we agreed with the Board's proposed non-capitalization of G-PP&E land.

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

We agree the information is essential to understand the entity's financial condition.

Q2. The Board has developed uniform disclosure requirements for G-PP&E land and stewardship land (SL). Both G-PP&E land and SL would be further disaggregated into three predominant use sub-categories. For each of the sub-categories, the following disclosures would be required from each component reporting entity:

- 1) a description of the entity's policies,
- 2) physical quantity information,
- 3) estimated acres of land,
- 4) estimated acres of land held for disposal or exchange,
- 5) a general description of the types of land rights acquired by the entity, and
- 6) a reference to deferred maintenance and repairs information.

Required disclosures for the government-wide financial statements include items (1), (3), and (4) above, as well as a general reference to agency reports for additional information. For the proposed amendments, refer to paragraphs 10, 13, 15, and 16. For a detailed discussion and related explanation refer to paragraphs A25, A33–A41, and A53–A54 in Appendix A: Basis for Conclusions.

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

We agree with the proposed component disclosures since the requirements reflect SFFAS 29 requirements. In particular, we agree with how land relates to an entity's mission, its policies over land, and physical unit information as well as the Board's analysis of the land task force's findings. - While we disagree with removing the G-PP&E land from the capitalized assets, several of our members liked the disclosures G-PP&E and the SL. We recommend the Board evaluate the proposed component reporting even if the GPP&E land is still capitalized.

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

We agree with the proposed disclosure since it reflects SFFAS 29 requirements (how land relates to an entity's mission, its policies over land, and physical unit information) and the Board's analysis of the land task force's findings.

- Q3. The Board proposes retaining both the G-PP&E land and SL categories for an entity's land holdings. For the proposed amendments, refer to paragraphs 8–14. For a detailed discussion and related explanation refer to paragraphs A17–A24 in Appendix A: Basis for Conclusions.

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

We agree with the proposal. There is a reported consensus among users as well as task force members that the two categories are meaningful and useful.

- Q4. The Board proposes to revise the G-PP&E land and permanent land rights definitions. In addition, the Board proposes definitions for the following terms: acres of land held for disposal or exchange, commercial use land, conservation and preservation land, and operational land. For the proposed amendments, refer to paragraphs 8–11. For a detailed discussion and related explanation refer to paragraphs A9–A16 and A25–A33 in Appendix A: Basis for Conclusions.

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

We agree with the proposed definitions and sub-category definitions. The Board asserts that there is a need to clarify the GPP&E definition and create and define the three sub-categories. The modifications do clarify the GPP&E definitions, and the sub-categories provide additional breakdowns. However, the ED does not include a comprehensive explanation of the rationale for the modified definitions and new sub-categories, although there is reference to task force research and asserted user needs. We recommend the Board provide a comprehensive explanation for the proposed changes in the Basis of Conclusions.

- Q5. The Board proposes amendments to the current definition of SL including footnote 16 and definitions for the following terms: acres of land held for disposal or exchange, commercial use land, conservation and preservation land, and operational land. For the proposed amendments, refer to paragraphs 12–14. For a detailed discussion and related explanation refer to paragraphs A9–A16, A21–A24, and A26–A33 in Appendix A: Basis for Conclusions.

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

We agree with the proposed definition. We also believe the Board should clarify the SL definition and create and define the three sub-categories. While the modifications to the SL definition do clarify the definitions, and the sub-categories seem reasonable we believe to further help the preparers and auditors of the financial statement the ED does not include a comprehensive explanation of the rationale for the modified definition, although there is reference to task force research and asserted user needs.

- Q6. The Board is proposing a two-year implementation period, which would make the proposed requirements effective for reporting periods beginning after September 30, 2021. For a detailed discussion and related explanation refer to paragraphs 19, A9–A12, A42–A45, and A51–A52 in Appendix A: Basis for Conclusions.

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

We agree with the proposed effective date and period of implementation.

Q7. The Board has continually noted the fundamental challenges associated with developing and documenting information regarding historical assets like land. Technical Release (TR) 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, paragraph 85 states in part that a methodology needs to be employed to develop documentation to support management's assertions of federal ownership. For a detailed discussion and related explanation refer to paragraphs A51–A54 in Appendix A: Basis for Conclusions.

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

Examples like those in TR 9 would facilitate preparation of the material. They can provide a broad range of acceptable methods consistent with the purposes and intent of the proposed standard.

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

The ED's illustrations provide very helpful guidance.

Q8. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes, but also other matters that may not have been specifically addressed in this exposure draft. In addition, the Basis for Conclusions explains the Board's goals for this proposal (see discussion beginning at par. A1) and also discusses other issues raised by task force members, as well as experts and practitioners both within and external to government (as an example, see par. A1–A12, A42–A45, and A46–A50).

Moreover, the Board is interested in receiving comments specific to the following matters:

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

- 1) Please provide your thoughts and rationale concerning the four areas noted above.**

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

Use of NFI to provide information more relevant than the financial recognition and measurement of land.

Most federal land, measured in acres, is SL and present difficult measurement challenges. Some federal entities are engaged in business-type activities for which traditional balance sheet recognition and measurement would be useful. This is the case with regard to GSA. However, other entities within the federal government may not find this information useful. For entities with SL, NFI offers much more useful information than financial recognition and measurement.

Disclosing “estimated acres of land” instead of “acres of land” ...

The ED does not contain a basis for the conclusion that estimates should be used. However, it is our view that the use of estimates seems reasonable, following the guidance contained in SFFAS 50, based upon the difficulties federal preparers confront.

The determination and application of materiality to NFI ... Whether materiality is affected by the presentation of land information as basic, RSI, or other information. ...

The proposed materiality approach seems reasonable.

Other comments

Capitalization needs to be sorted with respect to “federal” at least. Prior standards capitalize “Federal” while the ED does not, causing a jarring effect. Also, capitalization of “federal” isn’t consistent within the ED, see paragraph 16 that amends paragraph 23 of SFFAS 32.

Other members of our board recommended considering the following:

The Board may wish to consider certain carve-outs, namely:

- *Land associated with buildings used in operations that is not part of a reservation intended to be held permanently. (As an example, land associated with a building in a downtown area should be valued differently than land that is part of a military base that has a building on it or land that is on a nuclear waste reservation.)*
- *Land held for investment purposes (for example land that is part of a trust)*

There should be clarification that land rights, including rights-of-way associated with infrastructure assets, should be treated as a cost of placing the infrastructure asset into place in a similar manner to permitting costs. This is particularly important for pipelines or transmission lines.

These and other carve outs would allow stewardship land, parks, infrastructure and similar land that is the majority of all acreage to be limited to a disclosure, while retaining conventional accounting for areas that are similar to private business operations.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA

Chair- AGA Financial Management Standards Board

cc: John H. Lynskey, CGFM, CPA, AGA National President

Association of Government Accountants

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