# Issue

Artifacts are subject to depreciation, which is in contrast to GAAP guidance, and may also distort the financial statements by increasing depreciation expense without any corresponding decline in the functionality or value of the artifact. Since this issue was discussed verbally at early Working Group meetings, each Service’s precise positions and concerns were not available and thus are not documented. However, it was noted that the Services had verbally concurred with the recommendations at the time of these discussions.

# Research

Below outlines the current treatment of how each service complies and what the regulations, accounting guidance and industry standards are for this area.

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| --- | --- | --- | --- | --- |
| Artifact Guidelines | Air Force | Army | Navy | Marines |
| DoDI 1015.10 and DoDI 1015.15: Silent on treatment | N/A | N/A | N/A | N/A |
| FMR Volume 13: Silent on treatment | N/A | N/A | N/A | N/A |
| FMR Volume 4, Chapter 6, 060301. General (June 2009):  A., Stewardship PP&E is property owned by DoD that meets the definition of one of the following two categories:   1. Heritage Assets. PP&E of historical, natural, cultural, educational or artistic significance (e.g., aesthetic); or with significant architectural characteristics. Heritage Assets are expected to be preserved. Heritage Assets consist of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. The nature of these items, however, differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.   B. The Statement of Federal Financial Accounting Standards 29 (SFFAS 29) reclassifies the reporting of all Heritage Assets and Stewardship Land from Required Supplemental Stewardship Information (RSSI) to basic information in the financial statements. The standard requires that entities reference a note on the balance sheet that discloses information about Heritage Assets and Stewardship Land, but does not require the reporting of acquisition cost. This standard is effective for reporting periods beginning after September 30, 2005.  C. The costs of acquiring Heritage Assets (except for Multi-Use Heritage Assets) and Stewardship Land are expensed in the period incurred. | Unclear | Unclear | Unclear | Unclear |
| GAAP: ASC 958-360-25-3:  An NFP that holds works of art, historical treasures, and similar items that meet the definition of a collection has the following three alternative policies for reporting that collection:  a. Capitalization of all collection items  b. Capitalization of all collection items on a prospective basis (that is, all items acquired after a stated date)  c. No capitalization.  Definition of a Collection: FAS 116, paragraph 209  Works of art, historical treasures, or similar assets that meet all of the following criteria:  a. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.  b. They are protected, kept unencumbered, cared for, and preserved.  c. They are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections. | Unclear | Unclear | Unclear | Unclear |
| FASAB Handbook version 12: Silent on treatment | N/A | N/A | N/A | N/A |
| Industry Practice: Non-profit usually do not record donated collections since there is no reporting requirement if they meet the criteria of a collection. | N/A | N/A | N/A | N/A |

# Discussion

In the context of the NAFSGL, an Artifact is defined as a historical treasure or a Heritage asset as such that would be held primarily for educational purposes in a museum, with measures taken to preserve the asset. The FMR provides definitive guidance that such assets should be expensed rather than capitalized and depreciated. GAAP, in the context of non-profits, provides the option to depreciate a collection or not report it in the financials at all, particularly if the asset is acquired by donation. Functionally speaking, a Heritage asset (not a multi-use Heritage asset or a military weapons system) appears to meet the GAAP criteria of a collection, as both are meant to be preserved for educational purposes and are of little financial meaning. This paper does not make any recommendations for accounting for military systems or multi-use Heritage assets.

# Recommendation

With the understanding that artifacts in the NAFSGL context are the historical assets held and preserved in museums and similar facilities primarily for educational purposes, we recommend that policy be created to require Services to expense any costs incurred in acquiring these artifacts as a non-operating expense, with no asset recognized. We further recommend that donated artifacts not be included in the financial statements, unless the NAFI 1) uses or intends to use the artifact in its primary operations outside of its educational function, 2) the NAFI sells or intends to sell the artifact and use the proceeds for something other than purchasing another artifact for educational purposes. As a result, receiving an artifact will have no effect on the income statement, except via the acquisition costs.

While we recognize that some NAFIs do operate with a profit-seeking function, we argue that the GAAP guidance for non-profits is still applicable in regards to historical collections. The NAFIs are unique in that they have a large number of functionalities and activities that few, if any, private companies would have, and thus the NAFIs have characteristics of both nonprofits and for-profit companies. The Services run historical museums which operate similarly to a nonprofit (features such as free admission), and thus we find the GAAP guidance appropriate.

Volume 13 of the FMR be changed to reflect this policy, as Volume 13 of the FMR contains no information regarding historical artifacts.

No change to DoDI 1015.15.

# Service Concurrence

|  |  |  |
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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence on 1/17/2014. **Re-concurred 10/19/2018.** |  |
| Army | Concurred on 1/17/2014. **Re-concurred 11/2/2018.** |  |
| Marines | Concurred on 1/17/2014. **Re-concurred 10/31/2018.** |  |
| Navy | Concurred on 1/17/2014. **Re-concurred 11/2/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 3 to recognize Artifacts.

# Forward to DoDIG?

No DoDIG equities