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Mark A. Rose

Federal - Preparer

U.S. Department of  
Homeland Security

United States  
Coast Guard



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7320  
February 4, 2016

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 Coast Guard's Chief Financial Officer, enclosed are our responses to questions posed in the exposure draft entitled "Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35."

Being the Coast Guard was a principal participant in the development of SFFAS 35 and this remains a critical issue to the Coast Guard that could impact current audit opinions, I request your careful consideration of our response.

If you have any questions or need additional information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "M. A. Rose", written over a horizontal line.

M. A. ROSE  
Director of Financial Operations/Comptroller  
U.S. Coast Guard

Enclosure

Copy: DHS Financial Management and Policy Division

**Exposure Draft- Questions for Respondents due February 4, 2016**

*Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*

Name: [Mark A. Rose](#)

Organization: [United States Coast Guard](#)

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- Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for general property, plant, and equipment (PP&E) when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (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 valuation method.

The proposed Statement describes the alternative valuation method and related disclosures.

- a) Do you agree or disagree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost? Please provide your rationale.**

We agree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost. As stated in the board discussions, due to past practices and the existing financial system of record, historical cost and the supporting records may not exist or be reliable. In many instances, neither the financial system of record nor the procurement contracts were configured to collect construction or development costs for assets. In addition, the documentation to support historical valuations may not have been retained in their entirety. The ability to differentiate improvement cost from the cost for the original asset may be completely unidentifiable due to system constraints and past data collection practices.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

We agree that the related disclosures as to the use of deemed costs to establish opening balances and a description of the methods that were used are appropriate. We also agree that an entity using deemed costs to establish opening balances should not require a break out amount. We do not believe the inclusion of a breakout amount would add any additional benefits to the user of the financial statements and the cost to provide an accurate accounting by method would outweigh the benefit derived by the user. The risk of a misstatement in a disclosure requiring breakout details would outweigh any derived benefit.

- Q2. The Board proposes to amend Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, so that land categorized as general PP&E may be excluded from the opening balances of general PP&E. Instead, disclosures would reveal the acres of land and changes in those acres over time. A reporting entity electing to exclude land from its general PP&E opening balance should continue to exclude future land acquisition amounts and provide the disclosures.

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Some members suggested valuing existing land holdings based on a set amount per acre of land or deemed cost. For example, one study estimated the land value in the United States at roughly \$4.5 trillion in the third quarter of 2009. Since the number of acres in the United States is almost 2.3 billion, this equates to approximately \$2,000 per acre. (Land values vary greatly based on location, potential use, and availability and cost of financing.) These members are interested in receiving comments on the usefulness of a general valuation approach that could be applied government-wide.

The Board intends to begin a project on land in the near future that would review existing standards and consider a consistent approach. Based on the results of that project, the decisions made for opening balances and future acquisitions of land in this Statement may be revised. Also, some members suggested deferring any changes in the historical basis for land acquired for use in operations until the Board completes a re-examination of the appropriate basis of accounting for land.

(See par. 12.d. and 12.g. for relevant standards and par. A27- A34 for a discussion of certain members' concerns and A55 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow exclusion of land from the opening balances of general PP&E even though other component reporting entities will report the cost of certain land in general PP&E?**

**If you disagree, do you prefer (1) to value land holdings based on existing standards requiring historical cost of land acquired in connection with other general PP&E to be capitalized, a set amount per acre of land, deemed cost, or another valuation method, (2) to defer any changes in the current requirements until the Board completes a reexamination of the appropriate basis of accounting for land, or (3) to adopt another option? Please provide your rationale.**

We disagree with the proposal to allow the exclusion of land from opening balances. Although, we agree with the board that the benefits of capitalizing land are primarily in the period of acquisition, we also believe that the board should **defer** any changes in the current requirements until the board completes a reexamination of the appropriate basis of accounting for land.

We question the impact of excluding land from opening balances and future balances on the overall Federal Government Financial statements. Permitting agencies to use multiple standards for recording or disclosing land will result in a lack of comparability across the entire Federal Government. Further, there is no discussion over the impact of inconsistent reporting among reporting entities.

The use of a standard cost for land across the entire Federal Government does not take into account the wide ranging value or cost of land nor land received or purchased in foreign countries. (Removing cost further reduces comparability in this way.) Furthermore, it also marks land value to current market costs and would significantly overstate actual historic costs for reporting entities.

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We believe all entities should identify the acreage as described in the exposure draft until a final accounting basis is identified. This will ensure land assets are accounted for and the supporting documentation is available and ready for valuation using the approved method.

If the board determines that a disclosure for acreage is appropriate, we believe for future land acquisitions, the amount disclosed should include the cost of any new land acquisitions in the current year and the comparable statements.

**b) Do you agree or disagree that the related disclosures are appropriate?  
Please provide your rationale.**

We agree with the related disclosures. If an entity excludes land from opening balances, we believe it would be useful for financial statement users to understand the land holdings as “accountable” assets of the entity if not capitalized assets. Consistent reporting would aid with financial statement understandability.

**c) Do you agree or disagree that a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts? Please provide your rationale.**

If the board determines that an entity may exclude land from General PP&E opening balances, then we also agree that future land acquisition amounts should continue to be reported in the same manner. Consistent reporting would aid with financial statement understandability. We would add an additional disclosure requirement for future land acquisitions. As the board stated in their discussion, the benefits of capitalizing land are primarily in the period of acquisition; therefore, we believe it would be beneficial to include a disclosure for costs associated with the future land acquisition.

**d) The Board anticipates a project on land to review existing standards and to consider a consistent approach for all component reporting entities. Please provide any suggestions you have for improving current reporting on land.**

We offer that an approach should consider regional variations in cost per acre and consider foreign land and land rights. Land’s value is impacted by location (e.g., inland vs coastal), habitability, region, use, geography, etc. A regional designation (e.g., mid west plains vs southwestern coastal) may provide a more accurate “average” cost for acre, but even that does not account for significant variations within each zone.

In addition, it may be necessary to determine if the land should be identified as “stewardship”. Applying an average cost per acre for stewardship land holdings, (e.g., preserved forest, marsh lands, national cemeteries, underwater land holdings) may overstate the value of the entities asset value. Is there an accurate fair value that could be assigned to “stewardship” land?

Additionally, given that much of federal land was acquired under federal authority (Article Four, Section 3, Clause 2 of the Constitution) at no cost, or was acquired some time ago at what would now be considered a low cost, we are amenable to permitting the recording of land acquired or purchased before the modern era (e.g., prior to WWII or some other logical date) to

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be recorded at \$0 given establishment of ownership before then. This would be generally allowable due to the relatively minimal and probably immaterial impact from the low cost of acquisition, if any, prior to a specified date and the low likelihood of available cost documentation when applicable. A FASAB study into the history of large federal facility establishments should be able to establish a date or provide additional guidance to reporting entities. After an established limit, land would be recorded at cost. This would help maintain the comparability of financial statements across the Federal Government.

- Q3. The Board proposes to amend SFFAS 10, *Accounting for Internal Use Software*, to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (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 valuation method. The Statement provides for selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all general PP&E and (2) prospective capitalization of internal use software.

The proposed Statement describes the alternatives and related disclosures. (See par. 13-14 for relevant standards and par. A35- A39 and A56 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software? Please provide your rationale.**

We agree with the proposal to allow a reporting entity to choose among alternatives in establishing opening balances for internal use software. As stated in the board discussions, due to past practices and the financial system of record, historical cost, and the supporting records may not exist or be reliable. In many instances, neither the financial system of record nor the procurement contracts were configured to collect construction or development costs associated with internal use software. In addition, the documentation to support historical valuations for software and subsequent improvements may not have been retained in their entirety. The ability to differentiate improvement cost from the cost for the original asset may be completely unidentifiable due to system constraints and past data collection practices. In addition, the three phases for software development are not always consistent with operational practices for determining the start and end of development for internal use software. Development can be "fluid" and past practices for cost collection and contract support may not provide the entity with the ability to distinguish costs associated with the development phase as defined by SFFAS 10.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

We agree that the related disclosures as to the use of deemed costs to establish opening balances and a description of the methods that were used is appropriate. We also agree that an entity using deemed costs to establish opening balances should not require a break out amount.

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We do not believe the inclusion of a breakout amount would add any additional benefits to the user of the financial statements and the cost to provide an accurate accounting by method would outweigh the benefit derived by the user. The risk of a misstatement in a disclosure requiring breakout details would outweigh any derived benefit.

- Q4. The Board proposes to rescind SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Accounting Standards 6 and 23*, because this Statement would provide comprehensive guidance for establishing opening balances. The Board has incorporated the relevant components of SFFAS 35 in the proposed guidance in this Statement. The Board did not incorporate language from SFFAS 35 that explicitly allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E.

Instead, the Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35, and are acceptable without guidance from the Board. (See par.18-19 for relevant standards and par. A43- A51 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to rescind SFFAS 35?  
Please provide your rationale.**

Based on the board discussion, we agree with the rescission of SFFAS 35, provided that clarification is provided in SFFAS 6 on the ability to use reasonable estimates. The replacement of paragraph 40 in SFFAS 6, that contains specific reference to opening balances only, removes the clear guidance given on those instances where existing system or contract limitations do not allow for exclusive use of historical cost.

Making SFFAS 6 refer only to opening balances will cause confusion and disagreement on an entity's ability to use reasonable estimates.

Consolidation of the guidance, including providing a clearer definition of reasonable estimates for use in constructing the financial statements, not just opening balance, will aid in use and implementation of federal accounting guidance. We recommend specifically allowing the use of reasonable estimates prospectively. (See below for further discussion.)

- b) Do you agree or disagree that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35? Please provide your rationale.**

We believe use of reasonable estimates should be allowed in the preparation of financial statements, with or without the existence of SFFAS 35, however, the proposed changes make the guidance for use of reasonable estimates too vague and leaves too much up to interpretation. We believe the Board is trying to allow entities to use them, but recommend a much more direct approach by including such language in SFFAS 6.

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With the replacement of paragraph 40, SFFAS 6 loses clear language that allows the use of reasonable estimates. Reporting entities would benefit from the inclusion of paragraph 19 of this exposure draft into both SFFAS 6 and SFFAS 10 in conjunction with the effort to consolidate standards.

Paragraph A45 in Appendix A, states the Board believes there was “overreliance” on the use of estimates resulting in the use of “something other than reasonable estimates.” We believe maintaining language in the standards that clarifies what makes a “reasonable estimate” would prove beneficial to reporting entities to ensure consistent and repeatable compliance across federal entities, including specific examples provided by the Board.

Of equal concern, is that the revised paragraph 40 explicitly applies to opening balances and only allows an entity to apply condition (2) once per line item. Seeing as how financial system modernization efforts are both complicated and time consuming, the revised standard would prevent reporting entities from applying any alternate valuation procedures, and thus valuing impacted assets, in the interim (after opening balances are established).

As an example, the Coast Guard, with an unqualified opinion on the financial statements, is working to resolve a specific set of system limitations that impact cost accounting in a subsidiary ledger that supports specific property and construction in progress balances. The inability to use an alternate valuation methodology to address the limited, albeit material, amount processed in a subsidiary system would impact the Coast Guard’s and therefore the Department of Homeland Security’s ability to make an unreserved assertion over the property and construction in progress balances until the issue is resolved, despite the use of an alternate valuation methodology that is compliant with the current SFFAS 35 and provides a reasonable estimate of the acquisition costs.