

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

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Organization: Department of the Interior

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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.**

Bureau of Indian Affairs (BIA): Agree, this allows for consolidation of possibly several valuations methods and is a cost effective way for an entity to establish opening balances.

Bureau of Land Management (BLM): Agree. Create auditable general PP&E general ledger & sub-ledger balances. This should enable those organizations who utilize 'deemed cost' to get off of go and move forward. Those organizations can then refine their general PP&E accounting going forward.

Bureau of Ocean Energy Management (BOEM)/Bureau of Safety and Environmental Enforcement (BSEE): Agree – seems reasonable.

Bureau of Reclamation (BOR): Reclamation agrees with the proposal to permit basing opening balances of general PP&E on deemed costs. Reclamation strongly suggests not replacing SFFAS 6 paragraph 40 because the new proposed paragraph only pertains to opening balances and one-time corrections to line items. At times entities require estimates on previously reported miscellaneous PP&E assets.

Because the bullets are the same in both paragraphs, Reclamation suggests keeping the first sentence of the current SFFAS 6 paragraph 40 which states, "although the measurement for valuing G-PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of G-PP&E, in accordance with the asset recognition and measurement provisions herein." This clarification is essential. Loss of the guidance to use reasonable estimates when historical costs are not available could leave entities vulnerable to the

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auditor's interpretation for existing balances where they have used estimates to establish costs for PP&E.

Reclamation does not agree with proposed paragraph 12 (40)f.ii. Reclamation feels identifying in-service dates on material improvements separately from the base unit is essential to minimizing the distortion of depreciation and future year expenses. Also, using the in-service date of just the base unit distorts the comparability between entities and does not comply with the concept of operating performance in SFACC1.

National Park Service (NPS): Agree. It is unclear if "deemed cost" is a consolidating term for one or more Alternate Valuation Methods or if "deemed cost" is a Valuation Method in and of itself or is the specific estimated number that is reported once a method(s) is applied. In any event deemed cost appears to support the use of "reasonable estimates" and should be allowed. It is questionable how expanding the standard to include the deemed cost concept assists with solving the underlying Cost-Benefit justification and overcoming the inherent limitations of applying current day standards to transactions that lack the data elements to readily comply with the standard. The valuation method must still be applied to a known quantity of assets, the accuracy of which may be uncertain.

Office of Financial Management (PFM): Agree. "Deemed cost" is a reasonable and cost effective means in establishing opening balances for general PP&E. The proposed standard allows entities with problems establishing historical cost to move forward. It is consistent with SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

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

BIA: Agree. This additional information is needed to allow the users of Financial Statements understand the methodology being used.

BLM: Agree. Management's unreserved assertion that the reporting entity's "financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP.

BOEM/BSEE: Agree – seems reasonable.

BOR: Reclamation agrees the disclosures are appropriate provided FASAB also requires compliance with paragraph 13 of SFFAS 21.

NPS: Concur.

PFM: Agree. Disclosing the fact and the method used in establishing opening balances for general PP&E only in the first reporting period is sufficient as

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“deemed cost” is a reasonable method of valuing general PP&E, and reporting the prior period adjustment will disclose the impact of the method chosen on prior periods.

- 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.

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?**

BIA: Agree, reduces costs and efforts of adopting GAAP Financial Statements and/or Line items.

BLM: Disagree.

BOEM/BSEE: N/A for BOEM and BSEE.

BOR: Disagree.

NPS: Disagree.

Office of Acquisition and Property Management (PAM): Disagree.

PFM: Disagree. The proposal will create inconsistencies among reporting entities.

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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.

BLM: (2) Deferral. I would think it is premature to implement any changes to allow exclusion of land from opening balances of general PP&E since the Board anticipates a project on land. Save the confusion and unnecessary work that this potentially temporary solution could generate.

BOR: Disagree. Excluding land would cause inconsistent reporting amongst entities. Reporting only changes in acreage does not meet the objective of operating performance in SFFAC 1. Additionally, if the entity disposes of the land, it would not record the gain or loss required by SFFAS 6 and 7.

1. Reclamation suggests valuing land holdings based on existing standards which require historical cost of land but allow estimates when historical costs are not available. For opening balances, we suggest including land with the general PP&E requirements. Because land costs vary tremendously, Reclamation opposes assigning a set amount per acre. When disposing of land, the set amount will cause entities to report inaccurate gains or losses. Not recording land acquisition cost may impact Reclamation's requirement to recoup full repayment of construction costs. Reporting only acres or a set amount will distort the value of assets devoted to governmental operations. Reporting only acres or a set amount may distort the entity's service efforts, costs, and accomplishments. Although the government may not plan on selling the land in the near future, holding onto the land ties up resources and is part of the inherent cost of operations.
2. Reclamation suggests deferring changes to avoid unnecessary work and adjustments to later statements. Reclamation suggests including land with the new standard for general PP&E and changing the land requirements after the reexamination, if needed.
3. Reclamation does not have a suggestion for another option.

NPS: Disagree. Recommend that the Board consider, if it hasn't already, Executive Order (EO) 13327, Federal Real Property Asset Management and adopt the Property Reporting Exclusions; especially related to Land. The EO was created to promote efficient and economical use of the federal government's real property. Do not concur with applying a set dollar amount per acre of land. Valuation is important when selling, which is not usually the case with federal lands and may not be representative of acquisition cost.

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PAM: FASAB should hold off on any changes to standards affecting land until the larger proposed effort is underway. It won't be practical to implement changes now only to make additional changes after that FASAB effort is complete.

PFM: FASAB should defer making any changes to the requirements for reporting land until further reexamination to avoid wasteful efforts.

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

BIA: Agree. The inventory of Land and Land Rights is valuable information to the users of the Financial Statements.

BLM: Disagree on the grounds of deferral.

BOEM/BSEE: N/A for BOEM and BSEE.

BOR: Disagree. Disclosing only the acreage does not provide enough information regarding the value of the land associated with general PP&E. When historical costs are not available, estimating these costs more accurately depicts the value of the assets. Not recording land acquisition cost may impact Reclamation's requirement to recoup full repayment of construction costs. Reporting only acres or a set amount may distort the entity's service efforts, costs, and accomplishments. Although the government may not plan on selling the land in the near future, holding onto the land ties up resources and is part of the inherent cost of operations.

NPS: No opinion is offered because of the disagreement expressed in (a) above.

PFM: Need to examine land further to make the determination.

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.

BIA: Agree. For consistency purposes the entity should continue to report acres only.

BLM: Disagree on the grounds of deferral.

BOEM/BSEE: N/A for BOEM and BSEE.

BOR: Disagree. Because Reclamation believes excluding land acquisitions does not provide a true picture of the entity's assets, costs, operating performance, etc., we suggest the entity include future land acquisition amounts. If historic information is not available, the entity should estimate the costs using general PP&E guidelines.

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NPS: Disagree. Once current acquisition amounts are known they should be reported to provide a more accurate reflection of costs incurred during the reporting period.

PFM: Need to examine land further to make the determination.

- 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.**

BIA: No comment.

BLM: The Board should not exclude general PP&E land from the balance sheet since the balance sheet is supposed to represent assets of value.

BOEM/BSEE: N/A for BOEM and BSEE.

BOR: Reclamation does not have any suggestions at this time.

NPS: No suggestions. Land reporting is symptomatic of the challenges entities face when applying modern day reporting standards to historic information. In light of ongoing resource constraints, would recommend that the Board undertake a project to quantify the perceived costs the Board considers when adopting new and/or updating current Standards. It is unclear what specific "user needs" are being addressed and how they were identified.

PFM: FASAB's Land Project should maintain the distinction between general PP&E land and Stewardship land. The Stewardship lands that DOI manages are priceless and unique. Any value assigned to the Stewardship land would be arbitrary and meaningless to the readers of DOI's financial statements. Stewardship information is specifically not measured, or measurable, in financial terms. Stewardship information is sum of over 200 years of events which, for the most part, are not captured in the general ledger. DOI's current reporting of Stewardship land is based on Land Management Categories. If the Board were to require that Stewardship land now be reported in acres the costs of the annual financial audit would increase dramatically. In addition, this non-financial data is not captured in our financial systems and the cost of developing auditable support for Stewardship land reported in acres would be prohibitive.

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

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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.

BIA: Agree, as long as the alternatives are applied consistently.

BLM: Agree due to Cost-Benefit constraint & the limited usefulness of these often short-lived assets.

BOEM/BSEE: Agree – seems reasonable.

BOR: Reclamation disagrees with paragraph 36 section d.i.(a) which allows the exclusion of software under development but we agree with the remaining alternatives. The costs associated with software under development should be readily available and thus should be included in the opening balance.

NPS: Yes. If reasonable estimates are already allowed, they should continue to be applied.

PFM: Agree. This provides a reasonable and cost-effective way for entities unable to comply with the existing valuation standards to move forward. It's also consistent with the proposed standard for opening balance for general PP&E and SFFAS 48.

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

BIA: Agree, as described in section e of paragraph 36.

BLM: Agree. Management's unreserved assertion that the reporting entity's "financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP.

BOEM/BSEE: Agree – seems reasonable.

BOR: Reclamation agrees the disclosures are appropriate provided FASAB also requires compliance with paragraph 13 of SFFAS 21.

NPS: Agree.

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PFM: Agree. Consistent application of a particular alternative by the component reporting entity will allow comparability.

- Q3. 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.**

BIA: Agree, in light of this Statement, SFFAS 35 is not needed.

BLM: Agree. Duplicity of guidance is confusing and unnecessary.

BOEM/BSEE: Agree – seems reasonable.

BOR: Disagree. SFFAS 35 clarifies the option of using estimates and the requirements for doing so. Entities relied on SFFAS 35 in the past. The rescission of SFFAS 35 removes necessary guidance and may leave the entity open to consequences due to changes in interpretation. Without the specifics in the original guidance, auditors may interpret the new guidance differently from the guidance the entity relied on when making past decisions. Paragraph 9 and 10 of SFFAS 35 specifies that entities who previously implemented general PP&E accounting may use estimates. Paragraph 11 allows estimates when an entity finds revaluing general PP&E assets is necessary.

NPS: Agree as long as Paragraph 19 is included within the Standard and not just referenced in Appendix A: Basis for Conclusions. Per the text in Appendix A, “The standards enunciated in the Statement--not the material in this appendix--should govern the accounting for specific transactions, events, or conditions.”

PFM: “Reasonable estimate” is implied in this proposed standard so SFFAS 35 is redundant. However, suggest that the board adds explicit language regarding reasonable estimate to avoid confusion.

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- 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.**

BIA: Agree. This is incorporated in SFFAS 6.

BLM: Agree. Reasonable estimates are permitted out of necessity. Sometimes a reasonable estimate is the only way in which to quantify and amount; for instance, certain inventories, allowances for bad debt and others.

BOEM/BSEE: Agree – seems reasonable.

BOR: SFFAS 35 is necessary to permit reasonable estimates in the financial statements. The proposed paragraph 40 only applies to opening balances or a one-time adjustment to a line item. Loss of the guidance to use reasonable estimates when historical costs are not available could leave entities vulnerable to auditor's interpretation for existing balances where they have used estimates to establish costs for PP&E.

NPS: Agree. However, it is preferred to have a specific statement contained within the standard(s) to document that reasonable estimates are permitted. If this is what the Board intends, it should be stated as such and not left to interpretation.

PFM: Agree that reasonable estimate is implied but prefer explicit language in the standard to avoid misinterpretation.