



February 8, 2016

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 December 22, 2015 exposure draft entitled *Establishing Opening Balances for General Property, Plant and Equipment (PP&E)-amending Statement of Federal Financial Accounting Standards (SFFAS) 6, 10, 23 and Rescinding SFFAS 35*. The FMSB is comprised of 25 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.

The FMSB has reviewed the exposure draft and overall supports the adoption of this standard by the FASAB. In our view, allowing the use of deemed costs is a reasonable approach for establishing an initial value or after a period during which existing systems cannot provide the information necessary to produce GAAP-based financial statements. It provides an organization a cost effective and an expeditious method to move forward in implementing GAAP relating to PP&E balances.

However, we were split with regard to land and land rights as they may be excluded from the opening balance of general PP&E, allowing for expensing of future land and land right acquisitions. Indeed, it is self-evident that the cost of valuing federal lands and land rights would vastly outweigh the benefits and utility of any such measure. But other members of the FMSB believed that if FASAB is planning to begin a project on land in the future that would review existing standards and consider a consistent approach that land should initially excluded but would encourage FASAB to issue a new standard as soon as possible addressing land in order to get federal agencies compliant with GAAP-based financial statements.

We also believe that 'deemed cost' is a conceptually acceptable measure as an alternative approach. This use for such circumstances is not without precedence. For example, the Government Accounting Standards Board (GASB) allowed the use of deemed costs for the phase in of general infrastructure items, when governments adopted the GASB 34 reporting model. For impairment of capital assets, GASB-42 allows for three different approaches to measure impairment, of which the deflated depreciated replacement cost approach is similar to the replacement cost approach proposed. The proposed approach of fair value is currently not used in states and local governments for the carrying amount of capital assets, but it is used of course in exchanges. We believe that FASAB should add the term and definition of 'deemed cost' as written at the bottom of page 12 of the exposure draft to Appendix C: Glossary.

We believe that establishing in-service dates even through the use of an estimate may be difficult in many assets. Indeed if a range is known, allowing for the mid-point of a range is an acceptable alternative.



FASAB allowed deemed costs for its *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials* and the International Public Sector Accounting (IPSASB) has allowed the use of deemed costs for governments that are adopting the accrual method of accounting for the first time.

Below are our responses to the questions from the exposure draft.

Q1 (a) We agree that using a deemed cost method for establishing an opening balance or after a period during which existing system cannot provide the information necessary to produce GAAP-based financial statements is an efficient and effective means. If the Federal government and its agencies want to be more transparent about the value of general PP&E, then deemed cost with disclosed methods and assumptions (SFFAS 6, as amended, paragraph 40(g)(ii)) is the only theoretically sound way to enhance transparency.

Q1 (b) We agree the related disclosures are appropriate. In practice, they should be fairly straightforward to implement once the data is gathered.

Q2 (a) As stated above, as a group *we were split* with the proposal to allow exclusion of land from the opening balances of general PP&E. Some members of the FMSB believed that for some federal agencies the fair value of the land maybe considered immaterial but believe that land can be valued and if that is the case then the land should be included in the opening balances. However other members of the FMSB believed that if FASAB is planning to begin a project on land in the future that would review existing standards and consider a consistent approach that land should initially excluded but would encourage FASAB to issue a new standard as soon as possible addressing land in order to get federal agencies compliant with GAAP-based financial statements. In terms of the alternatives proffered by the FASAB, to value land holdings based on existing standards requiring historical cost is (of course,) a reasonable alternative as it is in practice. A set amount per acre of land cannot be used unless it is adjusted based upon location and the concept of highest and best use. For example, the land upon which the Statue of Liberty stands may be valued at a far different price than a similar amount of land area of Bureau of Land Management lands in Nevada, unless there are mineral or similar rights. Deemed cost (using replacement cost, estimated historical cost, reasonable estimates, or fair value) may yield wildly divergent perspectives from \$0 to a high value without much utility. Therefore, we ask the FASAB to defer any changes until they reexamine the appropriate basis of accounting for land. When the FASAB reexamines the accounting and financial reporting with regard to land holdings, one of our members suggested to only require land to be included if it was placed in service since a particular date (i.e. 1990) which is similar to GASB's treatment of infrastructure for GASB 34 implementation. It was also suggested that there should be an allowance for expanded footnote disclosure where specific land holdings cannot be reliably valued - which is often the case when holdings are not in urban market areas with reliable, comparable, data. For example, the previously mentioned lands in Nevada may have no comparable data that has recent transactions for many miles in any direction.

Q2 (b) We agree the related disclosures are appropriate. However, we would amend Paragraph 12, which notes that Paragraph 40 is replaced with..." to require as an additional disclosure as subparagraph (g) Disclosure Requirements (iii), which would read as follows:

A reporting entity with long-lived, non-depreciating assets should disclose:

1. The category of assets reported on the balance sheet in which such long-lived assets are housed and reported,
2. The basis for such a determination to include, but not be limited to, (a) the existence of an on-going program of condition measurement, assessment, and reporting, and / or (b) the existing of stipulations



- within law, administrative regulations, or established entity policy that requires the maintenance of such assets as long-lived and permanently in a “mission ready” condition,
3. The presence of alternate or supplementary controls over such assets, to include but not be limited to:
    - a. Controls over the existence of such assets
    - b. Established programs for identifying maintenance as “routine,” “scheduled,” and “deferred”
    - c. Established programs for distinguishing when such assets are in active operation, temporarily withdrawn from active operation while undergoing maintenance and/or modification to capabilities, or are withdrawn from active operation but are held in reserve as fully operational
    - d. Evidence that maintenance requirements are funded, including the funding the elimination of deferred maintenance in accordance with an established time schedule
  4. The disaggregated value of long-lived, non-depreciating assets in active operation, the value of assets temporarily in a non-operating basis while undergoing scheduled maintenance, and the value of assets being held in reserve and not in active operation

In conjunction with the above additional disclosure requirements it is recommended that Appendix A: Basis for Conclusions be amended to add the following paragraph immediately following what is now paragraph A 16:

16 (a) The Board acknowledge that in the case of national defense assets housed within the Departments of Defense and Energy, NASA, Homeland Security, and selected other federal agencies, there is a clear and long-standing requirement to maintain certain of those assets on a mission-ready basis at all times. These requirements are established, in some cases, under law, under formal administrative policy, and/or as well established and documented expectations on the part of the Congress, the president, the nation’s national security leadership. The Board also acknowledges the actions of the Governmental Accounting Standards Board, in the issuance of its Statement 34, through which it permitted entities to recognize the long-lived nature of certain infrastructure assets and, established certain alternative accounting and reporting mechanisms under which such entities were permitted to recognize such long-lived assets as non-depreciable.

Q2 (c) We believe that land should be included in PP&E and an agency should not have the option to include or exclude land from the opening balance but that all land should be included, unless it is considered immaterial, and all future land acquisitions should be included in the PP&E balance. In other words, it should be an ‘all’ or ‘not at all’ election.

Q2 (d) We have no suggestions at this time as we would like to respond to a proposal upon reexamination.

Q3 (a) We believe FASAB should require the federal agency to report beginning balances for internal use software however allowing the federal agency the option not to report a beginning balance if the information is not readily available to determine the beginning balance. We do not believe the federal agency should have different alternatives when establishing an opening balance for internal use software but federal agency should use the valuation method of deemed cost that is consistent with that provided for all general PP&E. While we understand that having one valuation method may not be efficient for the different agencies but we believe that allowing different alternatives would create inconsistencies within the different financial statements.

Q3 (b) We agree the related disclosures are appropriate.



Q4 (a) We agree with the proposal to rescind SFFAS 35 since the proposed guidance in the Statement includes the relevant components of SFFAS 35. There is no reason to have two Statements addressing the same issue.

Q4 (b) We agree with FASAB that reasonable estimates are permitted in the preparation of financial statements and there should not be any exclusion of reasonable estimates in the proposed Statement.

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, CGFM, FSMB Chair, at [lmiller@eidebailly.com](mailto:lmiller@eidebailly.com) or at 208-383-4756.

Sincerely,

A handwritten signature in black ink that reads "Lealan Miller". The signature is written in a cursive, flowing style.

Lealan Miller, CGFM, CPA  
Chair- AGA Financial Management Standards Board

cc: John Homan, CGFM  
AGA National President



**Association of Government Accountants  
Financial Management Standards Board**

**July 2015 - June 2016**

Lealan Miller, Chair  
Eric S. Berman  
Robert L. Childree  
Vanessa Davis  
Scott DeViney  
Richard Fontenrose  
Melanie L. Geesaman  
Stephen Gilbride  
J. Dwight Hadley  
David C. Horn  
Albert A. Hrabak  
Drummond Kahn  
Simcha Kuritzky  
Valerie A. Lindsey  
Edward J. Mazur  
Craig M. Murray, Vice Chair  
Suesan R. Patton  
Harriet Richardson  
Eric Scheetz  
Kenneth Smith  
Roger Von Elm  
Sheila Weinberg  
Brittney Williams-Spross

Ann M. Ebberts, Chief Executive Officer, (Ex-Officio Member) AGA  
'Chris Collins, Staff Liaison, AGA