



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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ALEXANDRIA, VIRGINIA 22350-1500

February 9, 2016

MEMORANDUM FOR EXECUTIVE DIRECTOR, FEDERAL ACCOUNTING STANDARDS  
ADVISORY BOARD

SUBJECT: Proposed Statement of Federal Financial Accounting Standards "Opening Balances  
for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials"

We appreciate the opportunity to respond to the proposed Statement of Federal Accounting Standards, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials – the exposure draft (ED) and answers to questions from respondents. We have reviewed the document as requested and we concur with comment as indicated in the attached matrix; the matrix also contains our response to the "Question to Respondents." Should you have any questions or require additional assistance, please contact me or Charlie Boring of my staff at 703-602-2702.

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Carolyn R. Hantz  
Assistant Inspector General  
Audit Policy and Oversight

FMR Comments on the Statement of Federal Financial Accounting Standards Exposure Draft  
“Establishing Opening Balances for General Property, Plant, and Equipment”

1. Overall Comment

**Recommended Change.** Consider adding guidance to clarify whether the entity is supposed to have systems in place that can provide the information necessary to produce financial statements that are based on generally accepted accounting principles (GAAP) before using the alternative valuation method.

**Rationale.** To add clarity. Since this alternative method is only supposed to be used one-time, if the systems cannot provide the necessary information after implementation of the alternative method, then the entity will still be unable to comply with the standards. If DoD entities tried to use this methodology during the FY 2018 statutorily required audit, there still will be several legacy systems in use that have not been able to produce the required information in the past. The guidance should be very clear about what systems need to be in place prior to creating the baseline.

2. Page 6, “Purpose,” para. 2

**Recommended Change.** Consider adding a discussion to clearly define what is meant by “line items” in the exposure draft.

**Rationale.** To add comprehensive guidance. In the past, DoD has asserted to the audit readiness of sub-sets of assets. The proposed standard should clearly state whether it applies only to the line items as reported on the financial statements (i.e., General Property, Plant, and Equipment) or to the categories broken out in the footnotes. The proposed standard needs to clarify the definition of “line item” so entities do not apply the standards in a piece-meal fashion.

3. Page 6, “Purpose,” para. 3, 1<sup>st</sup> sentence and page 8, “Scope,” para. 7, 1<sup>st</sup> sentence

**Recommended Change.** Consider adding the following guidance to the end of the first sentence in paragraphs 3 and 7:

“and for the periods during which it is necessary to correct errors in the opening balances that are discovered in later reporting periods.”

**Rationale.** To provide consistent guidance. The additional phrase is included in paragraph 12 on page 9 regarding the proposed amendments to paragraph 40.a. of SFFAS 6, “Accounting for Property, Plant, and Equipment.”

**FMR Responses to the "Exposure Draft- Questions for Respondents"**

*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:

Organization:

- 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 which may provide a cost effective alternative to reporting historical costs. The proposed standard should assist DoD in complying with GAAP reporting requirements while lessening the Department's financial burden in recreating historical cost data that it has been unable to previously produce using its existing financial management systems. This proposed standard will assist DoD in its efforts to produce audit-ready financial statements. However, the proposal should specifically state that the use of deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available. As currently written, the proposed guidance is allowing entities to use deemed cost for all of its assets instead of only for those assets for which it does not have supporting documentation.

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

We agree that the related disclosures are appropriate and would provide adequate information regarding the method chosen by the entity.

- 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

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*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*  
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 exclude land from the opening balances of general PP&E and disclose the acres of land and changes in acres over time. The land may be a material amount to the financial statements and omitting the cost (or value) of land would significantly understate an entity's assets on the financial statements. We believe that any changes in the current requirements should be deferred until the Board completes a reexamination of the appropriate basis of accounting for land. Further, we do not agree with the option to simply record all land at a set amount per acre of land. This method would not address the variations in market values in different geographic locations and could distort information that is needed to make management decisions regarding land disposal.

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

We agree that the related disclosures are appropriate for the proposed standards as stated in the exposure draft and should provide adequate disclosure to financial statement users.

- 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.

We disagree that a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts. Land acquisition amounts should be reported when supporting documentation is available in order to make as much reliable cost data as possible available for decision making.

- 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.

In reviewing existing standards and considering a consistent approach for all component reporting entities, the Board should take into consideration the

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different purposes for which the financial statements and account balances are used in making decisions. Making general assumptions regarding land values could have negative consequences on such things as management decisions regarding land disposals.

- 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 use deemed cost as an alternative valuation method. However, we are concerned about the "prospective capitalization" proposal for Internal Use Software. DoD has spent billions of dollars to implement financial accounting Enterprise Resource Planning systems (ERPs) for the last decade. This proposal could mean that most of these costs will not be included on the financial statements.

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

We agree that the related disclosures are appropriate. A full disclosure should be made regarding how the reporting entity arrived at their opening balances.

- 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.

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We agree with the proposal to rescind SFFAS 35. If portions of the SFFAS are no longer relevant, to avoid confusion and misinterpretation, it should be removed and the relevant section be incorporated into new guidance.

- 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 agree that reasonable estimates should be permitted when historical cost data does not exist and that standards should clearly allow for the use of reasonable estimates.