



Grant Thornton

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Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548

Via Email to fasab@fasab.gov

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Re: Comments on exposure draft of proposed SFFAS entitled *Establishing Opening Balances for General Property, Plant and Equipment*

Dear Ms. Payne:

Grant Thornton LLP appreciates the opportunity to comment on the exposure draft of a proposed Statement of Federal Financial Accounting Standards (SFFAS) entitled *Establishing Opening Balances for General Property, Plant and Equipment*. We support the Board's actions to find a cost effective manner for the Department of Defense (DoD) to comply with Generally Accepted Accounting Principles (GAAP) for general property, plant and equipment assets acquired in the past. Our response to the question for respondents follow. We expand on the comments in this section and offer other points in the Appendix.

Question 1: 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 of 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 statement without use of the alternative valuation method.

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

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

Yes, we agree with the one-time alternative valuation method for opening balances of general PP&E.



As noted by the Board, the Department of Defense (DoD) has shown little progress in implementing the accounting standards established by the Board due to numerous financial systems that don't support GAAP based accounting, inconsistent acquisition procedures for retaining source documentation and unreliable information needed to establish a valuation baseline for capital improvement projects. As such, developing a cost-effective approach to establish a baseline value for its general PP&E is in the best interest of the American public as it moves federal reporting entities to improved, consistent accountability and transparency.

This proposed first-time adoption approach has precedent at both FASAB as well as the International Public Sector Accounting Standards Board (IPSASB). As established in SFFAS 48, FASAB set the precedent for deemed cost as an alternative to historical cost valuation requirements established in SFFAS 6. As noted by the Board, IPSASB, used a similar method for the first time adoption approach for accrual based accounting.

Further, we believe that users of federal financial statements do not necessarily compare asset values among various entities in the way that users of financial statements do in a commercial setting. While this information is informative, it is not typically used to support decisions as might be done by potential investors or underwriters for state and local governments, or for-profit enterprises. Because the comparability of asset values that is so essential in the commercial, and state and local government areas, is not a key goal of the users of the financial statements of federal agencies, consistency of asset values is a less important goal of financial reporting for federal agencies. If the disclosure requirements outlined throughout the exposure draft are adopted, the users of the financial statements will be informed of the alternative valuation methods which allows sufficient comparability for the purposes typically important to users of the financial statements of federal agencies.

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

Other than concerns associated with the reporting of land discussed in our response to question 2, we agree with the disclosure requirements proposed by the Board. The proposed footnote disclosures provide information that assists financial statement users in understanding the reporting entity's prior transactions associated with acquiring general PP&E. However, under both US GAAP and SEC disclosure requirements, reporting entities may exercise discretion to fully omit or abbreviate certain aspects of the required disclosures if it is not considered material to the financial statements taken as a whole.

Question 2: 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?

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 the opening balances of general PP&E due to the current indecision the Board has regarding the long-term reporting requirements for land. It is our preference that the Board defer any changes in the reporting requirements for land until the Board completes its project to reexamine the appropriate basis of accounting for land. This will lead to a one time change across the federal government in land and land right accounting and reporting requirements thereby avoiding unnecessary rework by reporting entities and the potential for loss of support documentation.

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

We disagree with the proposed disclosures related to land as an alternative to establishing an opening balance in the financial statements as we believe the Board should defer any changes



regarding the accounting requirements for land and land rights until such time as the Board has completed its study and reached a final position on the accounting for land and land rights.

- 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 with allowing a reporting entity that excludes land from its general PP&E opening balances to continue to exclude future land acquisition amounts from the general PP&E balance. We believe the Board should defer any changes regarding the accounting requirements for land and land rights until such time as the Board has completed its study and reached a final position on the accounting for land and land rights.

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

For land, FASAB could consider an alternative similar to the proposed changes for general PP&E. Reporting entities could be permitted to use deemed costs for the opening balances of land and then record all future acquisitions at historical cost. FASAB could require the use of deemed costs for opening balances when presenting financial statements, or one of more line items addressed by this Statement, following GAAP promulgated by the 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.

Question 3: The Board proposed 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 costs 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.**

Yes, we agree with the one-time alternative valuation method for opening balances for internal use software.

Little progress made by Department of Defense (DoD) in implementing the accounting standards established by the Board has led the Board to develop a cost-effective approach for DoD to establish a baseline value for its internal use software. This proposed first-time adoption approach has precedent at both FASAB as well as the International Public Sector Accounting Standards Board (IPSASB). As established by FASAB, the release of SFFAS 48, established the precedent for deemed cost as an alternative to historical cost valuation requirements established in SFFAS 6. As noted by the Board, IPSASB, used a similar method for the first time adoption approach for accrual based accounting.

Further, we believe that users of federal financial statements do not necessarily compare asset values among various entities in the way that users of financial statements do in a commercial setting. While this information is informative, it is not typically used to support decisions as might be done by potential investors or underwriters for state and local governments, or for-profit enterprises. Because the comparability of asset values that is so essential in the commercial, and state and local government areas, is not a key goal of the users of the financial statements of federal agencies, consistency of asset values is a less important goal of financial reporting for federal agencies. If the disclosure requirements outlined throughout this exposure draft are adopted, then the users of the financial statements will be informed of the alternative method which will allow sufficient comparability for the purposes typically held by the users of the financial statements of federal agencies.

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

We agree with the disclosure requirements proposed by the Board. The proposed footnote disclosures provide information that assists financial statement users in understanding the reporting entity's prior transactions associated with internal use software. However, under both US GAAP and SEC disclosure requirements, reporting entities may exercise discretion to fully omit or abbreviate certain aspects of the required disclosures if it is not considered material to the financial statements taken as a whole..

Question 4: 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 accepted without guidance from the Board. (See par. 18-19 for relevant standards and par. A-43 – A51 in the Basis for Conclusions.)

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

Yes, we agree with the proposal to rescind SFFAS 35. As presently presented in the SFFAS, the guidance for valuing general PP&E is found in several SFFAS. This can lead to confusion and difficulty in locating all applicable requirements. Having all guidance associated with valuing general PP&E in one SFFAS provides a comprehensive “one-stop shop” where federal entities can obtain the necessary requirements. It is our belief that having the guidance in one SFFAS increases the likely of successful application of the standard.

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.

Yes, we agree that reasonable estimates are permitted in the preparation of financial statements. However, it is our position that the use of estimates is reserved for valuing items whose measurement is subject to estimation by their nature. For example allowance for doubtful accounts, depreciation etc. To permit the use of estimates on all general PP&E procured in the future could lead to a lack of focus by all federal entities to maintain accounting systems that support the capturing and recording actual cost information for future procurements of general PP&E. In addition, it could lead DoD to continue to not capture and record the actual cost of purchased general PP&E.

The practices of not capturing and recording the actual cost of acquired general PP&E it not just an accounting problem, it is a management problem. If DoD does not capture and record the costs of the general PP&E it acquires, it cannot appropriately (1) monitor the use of the appropriations provided to them by Congress, (2) manage the contractors from whom the general PP&E is acquired and (3) manage its business to ensure they are getting fair, reasonable consistent prices for like items of general PP&E being procured across the federal government.

The proposed provisions of SFFAS 6, to allow for the one-time use of deemed costs to help the DoD overcome cost prohibitive obstacles associated with implementing a set of accounting standards for the first time, provides much needed relief for DoD. Once DoD adheres to the requirements in the SFFAS 6 Exposure Draft and applies these deemed costs on a one time basis and ensures they have appropriate systems, policies and procedures to adhere to the historical cost requirements of SFFAS 6, it will be in a better position to manage its business effectively and efficiently to capture and record the historical cost. We do not believe that reporting entities should be allowed to use estimates to report the value of general PP&E except for the opening balances of a reporting period when the reporting entity is presenting



financial statements, or one of more line items addressed by this Statement, following GAAP promulgated by 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.

We would be pleased to discuss our comments with you. If you have any questions, please contact Tracy Greene, Partner, 703-837-4463, tracy.greene@us.gt.com.

Sincerely,

Grant Thornton LLP



Appendix

Detailed comments and suggestions

In addition to our previous response, we offer the following detailed comments and drafting suggestions.

Materiality

As stated in paragraph 5, provisions of this Statement need not be applied to immaterial items. Professionals using this standard may become confused if “items” is referring to individual items of general PP&E or the general PP&E line item on the reporting entity’s financial statement. Misinterpreting this could result in a federal reporting entity applying the immateriality item concept to individual items of general PP&E which could result in material items being omitted at the aggregate level. We suggest that the Board consider adding language to clarify at what level the concept of immateriality should be applied.

Scope

Throughout the document the Board states the alternative valuation method may be used either (1) the first time a reporting entity makes an unreserved assertion that its financial statements or one or more of the line items addressed by this proposed Statement are following GAAP or (2) after a period during which existing systems could not provide information necessary to produce GAAP-based financial statements without the use of the alternative valuation method. As noted in the proposed standard, the use of alternative valuation methods for opening balances can only be used one time per reporting entity. Given that many first time attestation engagements of federal entities, often result in disclaimers of opinions, we believe the Board may want to allow reporting entities to use alternative valuation methods for opening balances until such time as that balance is considered audited. For example, if a federal reporting entity asserts that its FY 2015 balance sheet, which reports general PP&E and internal use software at deemed costs, is prepared following GAAP and the auditor issues a disclaimer of opinion on the FY 2015 balance sheet, would the reporting entity need to report the FY 2016 general PP&E and internal use software beginning balance at historical cost per SFFAS 6 or would the one time criteria associated with beginning balances continue to apply until the beginning balance became audited? We believe it would be beneficial to add clarification to the proposed standard that would assist the reporting entity in applying the standard when a disclaimer of opinion is issued on the financial statement or the line items discussed in this Standard are the basis for a modification to the opinion.