

From: Simpson, Cynthia - OCFO

Sent: Thursday, February 04, 2016 11:53 AM

To: FASAB

Cc: Brown, Kevin L - OCFO; Tekleberhan, Karen - OCFO; Kenyon, Geoffrey - OCFO; Balin, Robert - OCFO; Sacchetti, Dylan M - OCFO; DiGiantommaso, Jen - OCFO

Subject: Comments on Exposure Draft, Statement of Federal Financial Accounting Standards, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Re

This e-mail sent by

Cynthia D. Simpson

Accountant

U.S. Department of Labor

Office of the Chief Financial Officer

Sent on behalf of

Mr. Kevin L. Brown

U.S. Department of Labor

Office of the Chief Financial Officer

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Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), on the exposure draft of proposed Statement of Federal Financial Accounting Standards, "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 (December 22, 2015)." Comments were requested by February 4, 2016.

Although DOL reports general PP&E in compliance with existing generally accepted accounting principles, DOL/OCFO appreciates the opportunity to provide comments. If there are any questions, please contact me at [brown.kevin.l@dol.gov](mailto:brown.kevin.l@dol.gov) or Cynthia Simpson at [simpson.cynthia@dol.gov](mailto:simpson.cynthia@dol.gov); both may be reached at 202-693-6800.

Regards,

Kevin L. Brown

Associate Deputy Chief Financial Officer for Fiscal Integrity

U.S. Department of Labor

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**Comments on Exposure Draft, Statement of Federal Financial Accounting Standards, "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 (December 22, 2015)"**

- 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.**

DOL/OCFO Response:

1. DOL/OCFO agrees with the proposal to permit opening balances of general PP&E to be valued based on deemed cost because this will allow the presentation to be in compliance with U.S. generally accepted accounting principles (GAAP).

2. The DoD FY 2015 AFR, financial statements, Note 1.A, Basis of Presentation states:

“The financial statements have been prepared from the books and records of the Department in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; . . . ”

and

“The Department is unable to fully implement all elements of USGAAP and *OMB Circular No. A-136*, due to limitations of financial and nonfinancial management processes and systems supporting the financial statements.”

From this wording it is unclear whether the proposed standard’s conditions of

“ . . . (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 . . . ”

whether condition

(1) for first-time implementation of GAAP to the G-PPE item(s) or

(2) due to the systems

would apply.

Therefore, the standard should provide examples for each of the conditions.

3. The standard should be written in a manner to make clearer:

-- that the standard applies to both the component reporting entities and the government-wide reporting entity and

-- the definition of a “line item”; e.g., whether or not the standard may be applied to the individual line items (but not all line items) as presented in the PP&E notes to the financial statements. If the standard may be applied for each item separately (as presented in the notes), then this should be made clearer in the standard.

4. From page 12:

“In the event different alternatives are applied by component reporting entities consolidated into a larger reporting entity, the alternative adopted by each significant component should be disclosed.”

it is unclear at what level a combination of alternatives may be used, e.g., whether a significant component may use multiple alternatives to estimate deemed cost for buildings. Please be clearer about the level at which multiple alternatives may be used; examples would be helpful.

5. The standard is unclear regarding the treatment for opening balances for accumulated depreciation.

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

DOL/OCFO Response:

1. The disclosures should include references to condition (2) [“ . . . after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements . . . ”] if the condition is applicable.

2. The disclosures should include how accumulated depreciation was derived.

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?**

**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.**

DOL/OCFO Response:

1. The standard should allow for exclusion of land from the opening balances. Because land has an unlimited life, the land excluded from the opening balance should be presented on the balance sheet as a line item with no value (with reference to a note) and in note disclosures in a manner similar to stewardship land.

2. The note disclosure should present the categories of land based on how the land is used and provide unit counts within each category for beginning balance, increases, decreases, and ending balance and unit counts. The number of acres and/or a value per acre may be difficult to audit; furthermore, land rights may have no value and no acreage.

3. The standard should describe whether a reporting entity at a higher level of consolidation may elect a different alternative in applying the standard. For example, for a component reporting entity that chooses to report land at deemed cost, whether the government-wide entity may choose to exclude land from the opening balance.

**b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**  
DOL/OCFO Response: Please refer to the response in Q2.a.

**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.**

DOL/OCFO Response: Future land acquisition amounts should be capitalized because the historical cost is known. If the historical cost is not known (e.g., land acquired through transfer), because of the lower number of acquisitions, estimates may be easier to make and more timely.

**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.**

DOL/OCFO Response: No comment at this time.

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.**

DOL/OCFO Response:

1. DOL/OCFO agrees with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software because this will allow the presentation to be in compliance with US GAAP.

In general, the comments made in response to Q1.a and Q1.b are applicable to Q3.a. and Q3.b.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**  
 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.**  
 DOL/OCFO Response: SFFAS 35 should be rescinded if the proposed standard allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E.

- 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.**  
 DOL/OCFO Response: The standard should specifically allow for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E. An example from page 86 of OMB Circular No. A-136 (August 4, 2015) is presented below:

Reporting entities that prepare a Statement of Social Insurance (SOSI) should provide a brief statement explaining that SOSI amounts are estimates based on current conditions, that such conditions may change in the future, and that actual cost may vary, sometimes greatly, from estimates per SFFAS No. 37, *Social Insurance, Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*. This statement may be placed in Note 1 and below is a sample statement from SFFAS No. 37.

**APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.