

**Federal Accounting Standards Advisory Board *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 of Respondent:** **Carla A. Krabbe, Deputy Chief Financial Officer**

**Organization:** **Social Security Administration (SSA)**

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.

**SSA Response: We agree with permitting opening balances of general PP&E to be valued using deemed costs. Deemed costs, based on alternative valuation methods, allow agencies to move forward with a valid starting point and a reasonable cost basis for their general PP&E reporting.**

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

**SSA Response: We agree that the related disclosures are appropriate for the circumstances in which an entity is using deemed costs. These disclosures provide the reader with the information needed to gain an understanding of the financial statements taken as a whole. In addition, the disclosures provide the reader with information on the deemed cost methodology used to create the opening balances and information on any exclusions to the beginning balances for land.**

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.

**SSA Response: While we do not have land to report on our Balance Sheet, we do agree with the proposed exclusion of land from the opening balances if an entity cannot determine a meaningful valuation for past acquisitions of land. However, we do not agree that if an entity does not provide an opening balance and decides to disclose the acreage instead, they are required to use disclosure to capture any new and future land acquisitions. While there may be an issue of consistency, we believe it would be beneficial to disclose the issue and data concerning the opening balances, but then capitalize new land acquisitions moving forward. The entity should ensure it obtains the information necessary for capitalization on any new land acquisitions. While this methodology would create a disconnect in having some land values capitalized and other land covered only by disclosures, it would allow for the expenses to be more accurately reflected in the period that the land is acquired, and allow for as much financial data as possible to be recorded in the financial statements. In addition, we do not agree with using a set amount per acre due to the wide disparity of monetary differences in land values.**

**However as the Board intends to begin a project on land in the near future, consideration should be given to delaying the land aspect of this Exposure Draft (ED) until such time as the Board's project on land is completed.**

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

**SSA Response: If a meaningful valuation for land cannot be determined on past land acquisitions, we agree with the disclosure requirements as they provide useful information to the reader on understanding the entity's land assets.**

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.

**SSA Response: We disagree with this approach. Going forward, the entity should make every effort to obtain valid cost information and capitalize new land acquisitions as they occur, which would ensure better financial reporting and the recording of the most complete information on the financial statements. If the entity does not capitalize new assets and expenses the land, the entity's expenses would be overstated. In addition, by not recording land assets moving forward just compounds the issue of eventually recording the opening balance in the future, if the Board changes the Standards.**

**As the Board intends to begin a project on land in the near future that would review existing Standards and consider a consistent approach, which may revise the reporting of land as contained in this ED, consideration should be given to delaying the land aspect of this ED until such time as the Board's project on land is completed.**

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.

**SSA Response: We do not have any suggestions, as we currently do not have land to report on our Balance Sheet. However, as stated above, we believe that since the Board plans to begin a project on land that consideration should be given to excluding any land action in this ED until the land project is complete.**

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.

**SSA Response: We agree with the proposal to allow entities the option of choosing among alternatives in establishing an opening balance for internal use software due to the complexities involved with tracking and reporting this activity.**

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

**SSA Response: We agree that the related disclosures are appropriate. The disclosures provide the reader with key information that is important to gain an understanding of the balances on the financial statements. In addition, the disclosures provide the reader with information on the methodology used to create opening balances of internal use software.**

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.

**SSA Response: We agree with the proposal to rescind SFFAS 35 based on the proposed amendments to the other Property standards documented in this 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.

**SSA Response: We agree that reasonable estimates are permitted in the preparation of financial statements without the existence of SFFAS 35, as such guidance will be documented in the other Property standards.**