

Exposure Draft- Questions for Respondents due February 4, 2016

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

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Organization: National Geospatial-Intelligence Agency (NGA)

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.

NGA Comment:

We both agree and disagree with permitting opening balances of general PP&E to be valued based on deemed cost.

NGA Rationale:

We believe that many agencies, especially those within DoD, have encountered challenges locating invoices sufficient to support the historical cost of the assets on their books. These challenges have necessitated the development of alternative methods of asset valuation or deemed cost.

However, we also believe that a reasonable estimate of historical cost could be used. When the opening balance is based on replacement cost or fair value, then it seems reasonable that the values should be discounted to the time of acquisition.

NGA recommended resolution:

We believe that if alternative methods of asset valuation or deemed cost are used, these alternative methods must be consistently applied and fully disclosed in the notes to the

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financial statements. However, if discounting the values is not a cost effective solution, then this fact should also be disclosed in the notes to the financial statements.

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

NGA Comment:

Based on our comments to FASAB's Q1(a) above, we agree that the related disclosures are appropriate, but only on the basis of a reasonable estimate of historical cost for opening balances is adopted.

NGA Rationale:

If a reasonable estimate of historical cost could be used, and is the only methodology used, then it may limit the disclosure needed in the notes to the financial statements.

- 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.)

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- 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.

NGA Comment:

We disagree with the proposal to allow the exclusion of land from the opening balances of general PP&E.

NGA Rationale:

Our preference would be 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." Although we believe a historical cost estimate should be reported, we also believe that adopting a "set amount" value per acre of land could cause a potentially material misstatement based on the wide variation of land values across the country and in some cases, the world. The proposed exclusion could result in a potentially material misstatement for entities who own significant amounts of land, especially if that land is located in high value areas (e.g. New York City, the District of Columbia, etc.).

NGA recommended resolution:

We would prefer to defer any changes in the current requirements until the Board completes its reexamination of the appropriate basis for accounting. We believe changes now would significantly impair consistency of the information being reported.

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

NGA Comment:

We agree that the disclosures related to land are appropriate.

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- 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.**

NGA Comment:

We have stated that we do not agree with allowing the exclusion of land from the opening balances.

NGA Rationale:

Same rationale as provided for Q2(a) NGA response - We believe that this exclusion could result in a potentially material misstatement for entities who own significant amounts of land, especially if that land is located in high value areas (e.g. New York City, the District of Columbia, etc...). We also believe that adopting a "set amount" value per acre of land could cause a potentially material misstatement based on the wide variation of land values across the country and in some cases, the world.

NGA recommended resolution:

However, we believe if a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts is to be permitted, we agree that it would be appropriate for entities electing to exclude the land from the opening balances to continue to do so by carrying the acquisition amounts at historical costs for future land acquisitions. In addition, applying GAAP prospectively should be required.

- 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.**

- 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.

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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.**

NGA Comment:

Yes, we agree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software if the historical cost cannot be reasonably estimated, or the cost to do so is cost prohibitive - this would then appear reasonable that the focus should be on prospective capitalization.

NGA Rationale:

Same rationale as provided for Q1(a) NGA response - As mentioned in the answer to Q1(a), many agencies have encountered challenges with locating sufficient supporting documentation. This is even more so in the case of internal use software. New paradigms for the development of internal use software have made determining the proper treatment of such activities extremely complex. When the lack of sufficient documentation is added to the highly complex nature of recognition of these costs, some flexibility is needed.

NGA recommended resolution:

We also believe that if alternative methods of asset valuation or deemed cost are used, these alternative methods must be consistently applied and fully disclosed.

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

NGA Comment:

We agree that the related disclosures are appropriate.

NGA Rationale:

The disclosure of more information is necessary where amounts that may be expected are excluded or based upon something other than the conventional supporting documentation.

Disclosing the application of an alternative valuation methodology is necessary.

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- 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.**

NGA Comment:

We both agree and disagree with the proposal to rescind SFFAS 35.

NGA Rationale:

On one hand, we believe that SFFAS 35 should remain in force. However, integrating the opening balance approach into SFFAS 6 and 10, could be easier to apply.

If the Board is concerned that the standard has been misinterpreted or misapplied, then SFFAS 35 should be clarified as appropriate.

- 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.**

NGA Comment:

We agree that reasonable estimates are permitted in the preparation of financial statements, as they are commonly utilized in applying GAAP.

NGA Rationale:

We also believe that SFFAS 35 provides important specific guidance that should be retained and further clarified if necessary.

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Paragraph 12. - Establishing in-service dates.

i. In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified then the mid-point of the range is an acceptable estimate of the in-service date.

ii. It is not necessary to separately identify the in-service date for material improvements to a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service.

NGA Comment:

Paragraph 12f in the exposure draft states that there is no requirement for in-service dates to be separately identified for material improvements and that all material improvements should be treated as if they were placed in-service at the date the base unit was placed in-service.

NGA Rationale:

NGA possesses buildings and other real property that was constructed many years ago. There has also been many material improvements to these buildings and real property as time as passed.

NGA question requesting clarification:

Is the exposure draft suggesting that the agency should assume the in-service date for material improvements are the same as the base unit when establishing asset value? How should the agency approach this issue if the in-service dates for material improvements is known but the in-service date for the base unit is not known? Should the agency still disregard the in-service dates for material improvements?

Paragraphs A60. and A61.

Paragraphs A60-A61, prescribe entities to treat the conditions specified in this exposure draft as a change in accounting principle. The cumulative effect of the change in prior periods would be reported as a "change in accounting principle" and adjustments would

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be made to the beginning balance of cumulative results of operations in the statement of changes in net position. Prior period financial statements should not be modified.

NGA question requesting clarification:

According to this guidance, the change to the beginning balance of Cumulative Results of Operations to reflect a change in accounting principle must be shown in the quarterly financial statements as well. Is this correct?