

**From:** Osborne, Christopher

**Sent:** Wednesday, February 03, 2016 11:37 AM

**To:** FASAB

**Cc:** Jones-Peeler, Meshell; O'Connor, John; Yusuf, Istanbul; Westermann, Tai-Fang

**Subject:** EPA Response to Review of Exposure Draft "Establishing Opening Balances for General Property, Plant, and Equipment"

EPA is pleased to provide the attached response to questions 1-4 in the Exposure Draft.

Please contact me if you have any questions regarding this response.

Thank you.

Christopher S. Osborne, CPA  
Senior Financial Adviser  
Office of Financial Management

**Q1. 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.**

**Agree for real property.**

The EPA agrees that there is a need within the Department of Defense (DoD) community for alternative valuation methods for real property. The proposal was driven by a Department of Defense (DoD) request for guidance on establishing opening balances for general PP&E. DOD's financial management has been on GAO's High Risk List since 1995. On February 27, 1998, GAO/NSIAD-98-82 reported that the billions of dollars of DOD's real property (land, buildings, facilities...) were unreliable. On September 7, 1999, GAO published the NSIAD-99-100- Real Property Management Needs Improvement. Based on this example, the EPA supports the Board's efforts to address alternative valuation methods for the opening balance for real property.

However, the Board needs to clarify the guidance in SCOPE, paragraph 7. The term "unreserved assertion" of the ED is unclear. The concept of an "unreserved assertion" does not exist in the professional literature (AICPA, GAO, FASAB). Thus, the term should be defined with objective criteria.

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

**Agree.**

The disclosures are required by SFFAS No. 6, for general PP&E. Furthermore, OMB Bulletin No. 01-09 states "recognition and measurement criteria for general PP&E are in SFFAS No. 6. If adjustments are required to existing PP&E in the period that the standards are implemented, in order to comply with the recognition and measurement criteria, the adjustments should be made and disclosed by major class in accordance with the standard".

**Q2. 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?**

**Agree.**

The Board has proposed to begin a project on land in the near future that would review existing standards and consider a consistent approach. The EPA agrees to defer any changes to 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.

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

**Agree.**

The basic statements and the related disclosures should present balances and amounts for the current year and the prior year. The information should be appropriately disclosed.

**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.**

**Agree.**

The Board has proposed to begin a project on land in the near future that would review existing standards and consider a consistent approach. Our suggestion is that the board meetings need to periodically review land issues.

**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.**

Land has an indefinite life and is not subject to depreciation. Currently, land is reported as General Property, Plant, and Equipment, Net. We suggest that land should be reported as real property in Balance Sheet.

**Q3. 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.**

**Disagree.**

First, off the shelf software costs are readily available from third parties and or the vendor themselves. Second, internal use software has a known, finite useful life of three to five years. Finally, due to the short life of software, these asset types depreciate quickly and generally carry a Net Book Value (NBV) of \$0. Therefore, from a materiality standpoint, there is little reason to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software.

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

**Agree.**

SFFAS No.10 stated disclosures required by SFFAS No. 6, paragraph 45, for general PP&E are applicable to general PP&E software. Thus, internal use software should be disclosed in the financial statements and reporting information in notes as an integral part of the basic financial statements.

**Q4. a) Do you agree or disagree with the proposal to rescind SFFAS 35? Please provide your rationale.**

**Agree.**

The Board proposes to rescind SFFAS 35 and has incorporated the relevant components of SFFAS 35 in the proposed guidance, hence rescinding SFFAS 35 is 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.**

**Agree.**

The preparation of financial statements in conformity with GAAP requires management to make reasonable estimates and assumptions that affect reported amounts presented and disclosed in agency consolidated financial statements. Furthermore, SFFAS 35 does not alter the financial reporting requirements.