



August 3, 2017

Memorandum

To: Members of the Committee

From: Melissa Batchelor, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: *Implementation Guidance for Establishing Opening Balances -Comment Letters*¹

MEETING OBJECTIVE

The meeting objective is to review the comment letters to the exposure draft and approve the Draft Technical Release *Implementation Guidance for Establishing Opening Balances* (which required minimal changes) so that it may be submitted to FASAB for their 45-day review.

BRIEFING MATERIAL

This memorandum provides the staff summary. The staff’s summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. The summary also presents:

- A. Tally of Responses By Question.....7
- B. Quick Table of Responses By Question8

Attachment 1 provides the full text of each comment letter
Attachment 2 provides the original exposure draft with **MARKED** (suggested) edits
Attachment 3 provides the clean Draft Technical Release *Implementation Guidance for Establishing Opening Balances*
Attachment 4 provides the ballot

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

STAFF SUMMARY OF RESPONSES

STAFF SUMMARY

SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Implementation Guidance for Establishing Opening Balances*, was issued June 21, 2017 with comments requested by July 21, 2017.

Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

To encourage responses, reminder notices were provided to our Listserv.

RESULTS AND ANALYSIS

As of August 3, 2017, we have received **6 responses** from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Association/Industry Organization		
Auditors		
Individual		
Preparers and financial managers	6	

The full text of the comment letters is provided as **Attachment 1**. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

Staff determined the following from the comment letters:

- All the respondents that chose to respond to the questions², agreed with the proposals. Specifically, the respondents agreed that the TR provides clear technical guidance, clarifies the flexibility intended in selecting among methods by SFFAS 50 and explains that management is not required to select the most precise or best method.

² One of the respondents did not answer the questions specifically, but instead wrote in a letter that they did not have any significant concern or comments with the exposure draft. One other respondent also did not answer the questions, but provided comments.

STAFF SUMMARY OF RESPONSES

- When responding to the question whether the TR provides clear guidance, two respondents provided suggestions.
 - Respondent #4 suggested that programmatic based estimates be added to further enhance the guidance. The respondent explained that approved acquisition strategies and plans can reveal portions of capital acquisition programs attributable to contracts, mission partners, and in-house development. The respondent also stated that supporting documentation may consist of spend plans, internal management reviews of expenditure rates, program management reviews tracking cost, schedule, and delivered capabilities, and financial obligating documents.
Staff notes that each of the examples of potentially acceptable documentation that are included under each of reasonable estimate method (beginning with paragraph 54) contains items such as Program office analysis, acquisition contracts, Program office delivery schedule and other types of examples that would appear to cover the respondent's suggestion. The description seems very close to contract based estimates or a combination of the methods. The titles used in the document are for illustration only and may vary by agency. Further, each example list also contains the caveat that they are examples and there may be others not included on this list, because the task force recognized it could not provide all specific examples. No change required.

Respondent #4 also suggested that language be included that it is management's responsibility to (a) determine the account balances to which the standard will be applied; (b) select the valuation methods; (c) make the decisions/assumptions used; and (d) document the decisions/assumptions used by management. An auditor could then test to determine whether management applied the standard appropriately (e.g. used valuation methods stated in the standard) and that the balances derived from the application of the methodologies used by management were calculated correctly (e.g. no mathematical errors, no formula driven errors, no data input errors, etc.).

Staff notes the respondent's suggestion is a summary (their paraphrase or wording) of what is provided in the TR and/or SFFAS 50 and what an auditor may then do. No change required.

- Respondent # 5 suggested that paragraph 22 be removed from the guidance because it creates ambiguity that may introduce interpretational risk. The respondent believed that it was not apparent whether the paragraph created a technical requirement.
Staff understands the concerns raised by the respondent and notes that this paragraph has gone through several revisions. Staff removed paragraph 22.
- When responding to the question whether the TR clarifies the flexibility in selecting among methods and there is no preferred method, respondent #5 suggested revising

STAFF SUMMARY OF RESPONSES

paragraph 13 to remove the reference "...to determine that valuations are reasonable..." and add as a part of paragraph 13, that the reporting entity should describe their process (or system of internal controls) which ensures consistent applications of the selected methodology. The respondent believed that the execution of the selected method allowed by SFFAS 50 and the proposed TR produces a result that, by default, is considered reasonable. The respondent believed the requirement to document the determination of reasonableness could be construed to imply that the method selection is subject to audit.

Staff notes this is under the documentation section of the TR and the sentence appears to be clear that it is referring to the valuations and not the method selection. Further, staff believes the TR is clear that any method may be selected. No change required.

- When responding to the question whether there are additional issues the AAPC should consider in the TR, respondent #4 suggested that the AAPC consider allowing for limited due diligence for valuing assets which are fully depreciated and have a net book value of zero. Respondent #4 stated they did not believe it would be cost effective to spend significant costs and resources in determining values for those assets which would not impact the opening balance and it would allow for reporting entities to allocate additional resources and enhance precision for valuing assets with a positive NBV which do impact as well as focus on needed improvements to systems and controls process transactions going forward.

Staff notes the task force sent data calls through FASAB's listserv for all potential SFFAS 50 implementation issues to be addressed in the TR. The task force was requested to address useful life and zero net book value issues in the guidance. However, the decision was made that those topics would not be addressed in the proposed technical release for several reasons. In summary, the issue is a result of the clarity of SFFAS 6 itself (it says little about useful life estimates) and the added flexibilities afforded by SFFAS 50. FASAB staff believed an explanation or additional guidance may not lead to cost effective solutions because a TR cannot alter standards. Instead, preparers should consider their unique circumstances and apply materiality considerations when implementing the standards. No change required.

- Staff was also contacted by Chairman Scott Showalter of the FASAB Board because he wanted to share a general comment that language in the TR could be strengthened in certain areas. Though not intentional, he believed some may interpret the TR to be in conflict with certain auditing standards. Specifically, he suggested that staff review the draft as it relates to AU-C Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and standards relating to information produced by the entity or "IPE."

Based on his suggestion, staff suggests combining certain paragraphs that were previously included under "Alternative Methods" that provided for management to determine which method with the "Documentation" section into one section entitled "Management Responsibility and Documentation." Staff also clarified language to explain management should expect to provide adequate

STAFF SUMMARY OF RESPONSES

documentation that is consistent with the method used and supports the overall reasonableness of the valuation. Other small clarifications were made throughout where appropriate.

- The respondents provided “other comments or suggestions” that were not included with a specific question for respondent. These are included on pages 7-13. Most of the suggestions were minor (addition of footnote or other small wording change) and did not result in significant changes to the TR.
- Additional small changes may be noted based on staff’s review and our communication analyst’s review of the document.

Staff Recommendation:

As noted above, the comment letters did not result in significant changes to the TR. Therefore, staff recommends the following language in the basis for conclusions and the committee to approve the TR.

Summary of Outreach Efforts and Responses

The exposure draft (ED), *Implementation Guidance for Establishing Opening Balances*, was issued June 21, 2017, with comments requested by July 21, 2017.

Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

The AAPC received six responses from preparers and users of federal financial information. The majority of respondents agreed with the proposals provided in the TR.

The AAPC considered responses to the ED at its August 17, 2017, public meeting. The AAPC did not rely on the number in favor of or opposed to a given position. Information about the respondents majority view is provided only as a means of summarizing the comments. The AAPC considered the arguments in each response and weighed the merits of the points raised.

STAFF SUMMARY OF RESPONSES

Of the six responses, four agreed with the proposals. Specifically, the respondents agreed that the TR provides clear technical guidance, clarifies the flexibility intended in selecting among methods by SFFAS 50, and explains that management is not required to select the most precise or best method. Two respondents neither agreed nor disagreed with the proposal. One respondent provided a letter indicating they had no comments. The other respondent provided editorial comments.

Certain respondents provided suggestions and editorial comments. The respondents' comments were carefully considered by the Committee and several were adopted.

AAPC & Board Approval

The TR was TBD [approved] by the AAPC for release to FASAB for issuance. The Board has reviewed this TR and a majority of its members do not object to its issuance. Written ballots are available for public inspection at the FASAB office.

STAFF SUMMARY OF RESPONSES

A. Tally of Responses By Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT Or RNAD=Respondent Neither agreed nor Disagreed
<p>1. Statement of Federal Financial Accounting Standards (SFFAS) 50, Establishing Opening Balances for General Property, Plant, and Equipment, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, Accounting for Property, Plant, and Equipment, as amended.</p> <p>Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.</p>	<p>4 Agree</p>		<p>2 RNAD (Respondent Neither agreed nor Disagreed)</p>
<p>2. This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.</p> <p>Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.</p>	<p>4 Agree</p>		<p>2 RNAD (Respondent Neither agreed nor Disagreed)</p>
<p>3. Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them? Respondents may consult the AAPC project page for additional information about other issues considered during the deliberation of this TR. Please provide the rationale for your answer.</p>	<p>1-yes</p>	<p>3-No</p>	<p>2 RNAD (Respondent Neither agreed nor Disagreed)</p>

STAFF SUMMARY OF RESPONSES

B. Quick Table of Responses By Question (A= Agrees NC=No additional issues or comments RNAD=Respondent Neither agreed nor Disagreed)

<u>Respondent</u>	<u>QUESTION 1</u> Do you agree or disagree that this TR provides clear technical guidance?	<u>QUESTION 2</u> Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods?	<u>QUESTION 3</u> Are there additional issues that the AAPC should consider in this TR?
#1 SSA-OCFO	A	A	NC
#2 DOC-CFO	RNAD	RNAD	RNAD
#3 DHS –CFO	A	A	NC
#4 OGA	A	A	NC
#5 DoD	A	A	NC
#6 GSA	RNAD	RNAD	RNAD

Additional Comments Provided by Respondents:

Respondent #4- Other Comments:

- Deleting the reference to Board's basis for conclusions of SFFAS 50 that appear at the top of page 6, paragraph 5 (items A6 and A7), at the bottom of page 14 (paragraph 49), and in footnote 14 on page 15. The respondent stated it wasn't technical guidance.

Staff notes that SFFAS 50 language included in paragraph 5 is important to maintain because it sets up the tone of the guidance and established that it was based on the premise that the alternative methods provided in SFFAS 50 were meant to be less costly options. Therefore staff believes it should be maintained at the beginning. However, staff agrees that paragraph 49 could be removed and there is no change in meaning. With the removal of paragraph 49, staff believes footnote 14 on page 49 should remain as a reference for readers.

- Guidance for prospective capitalization of internal use software is not described in a similar manner as other alternative valuation methods

STAFF SUMMARY OF RESPONSES

As noted above, the task force sent data calls through FASAB's listserv for all potential SFFAS 50 implementation issues to be addressed in the TR. No specific areas related to prospective capitalization of internal use software were identified for guidance during the development of the TR. Staff also notes that at its August 2016 meeting, the Board considered a letter from the Department of Defense (DoD) requesting an interpretation of SFFAS 50. DoD questioned how future costs relating to IUS under development at the time the opening balance is established should be treated (specifically, paragraph 36.d.ii.a of SFFAS 10, as amended by SFFAS 50). The Board considered the matter but decided that no Board action was required. Members believe SFFAS 50 was clear that SFFAS 10 provisions would apply to future costs of IUS projects under development at the opening balance date. The FASAB chairman later sent a letter to DoD summarizing these views. Issue Paper for August 2016 – [Tab C](#) No change required.

- Will AUs provide cost/benefit analysis for each of the alternative methods suggested (i.e. deemed cost, prospective capitalization, etc.)?
Staff notes the TR allows reporting entities to choose any of the allowed methods and there is no preferred method. No change required.
- Please explain why management would not be required to select the most precise or best method.
The TR acknowledges that the reporting entity may select any of the SFFAS 50 methods and that there is no preferred method. No change required.
- Change wording page 7, paragraph 11, last sentence "...SFFAS 6, as amended, for each asset or class of assets..."
This section relates to documentation. The guidance need not repeat the requirements of SFFAS 50 in each area. Further if it did, it should use consistent terminology or it may raise questions. No change required.
- On page 7, paragraph 15: respondent believes that a reasonable estimate of historical cost could be used, but 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. Has the board considered this and if so, please provide an example scenario?
Staff is unclear how the comment relates to the paragraph. There are additional sections that address each of the areas (replacement cost) and provides language regarding each. No change required.
- On page 7, is component level entity defined at the Agency level and then sub-component reporting entity would be an AU, like FAC? Therefore, if an AU was considered a sub-component, is the sub- component allowed to choose more than

STAFF SUMMARY OF RESPONSES

one alternative valuation methodology depending on the representative asset scenarios or do all assets in an AU have to use the same alternative valuation methodology?

Staff agrees that component reporting entity should be defined consistently with SFFAS 50. A footnote has been added to paragraph 16 with a reference to SFFAS 47 definition, this is consistent with SFFAS 50. The revised paragraph is as follows (new language underlined):

Deemed cost may include several valuation methods because the reporting entity may have multiple component or subcomponent reporting entities(FN3) (1) using different methods simultaneously and/or (2) adopting a method permitted under SFFAS 6, as amended, at different times prior to establishing opening balances. Large and complex reporting entities, such as the Department of Defense (DoD), may have used a variety of valuation methods.

(FN 3)SFFAS 47, Reporting Entity, provides that “component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity. Examples of component reporting entities include organizations such as executive departments and agencies. Component reporting entities would also include subcomponents that may themselves prepare general purpose federal financial reports (GPFFRs). One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

- On page 7, para 17 (line 4), it indicates that "... (2) estimated historical costs" is a valuation method permitted by SFFAS 6 as an option (either alone or in combination). Based on this, if a reasonable estimate of historical cost for opening balances is adopted by an agency, what is the disclosure requirement in the financial statements? The respondent also noted that if a reasonable estimate of historical cost is used then it may limit the disclosure needed in the financial statements.

Staff notes that TR does not specifically address disclosures because that was not identified as an area requiring additional guidance. However, paragraph 18 of the TR does provide a high level summary that describes where the flexibilities offered in SFFAS 50, some require additional disclosures. Therefore, staff believes it is more appropriate to say that certain situations require additional disclosures not that some limit them. Paragraph 18 also refers the reader to the appropriate areas of SFFAS 50 for information about required disclosures. No change required.

- Consider providing example scenario and calculation for each alternative costing method.
The TR had to be developed and issued in an extremely short amount of time. Based on discussions with the task force, the scope was determined and the focus of this TR was on the valuation methods and acceptable documentation methods. To expand the scope at this point, the issuance would be delayed. A separate TR could be issued in the future to address additional topics or provide examples. No change required.

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- On page 8, paragraph 21, in reference to the statement that "... there is no expectation that deemed cost will be updated or changed for the passage of time, except for error corrections..." - what about retrospectively applying the best method? The respondent believed it was confusing that the standard will not be applied retrospectively, the opening balances are not expected to be updated at a later point and that the deemed cost will not be trued up. The respondent added that it seems to contradict paragraph 19 that says there is no "precise means of measurement" for the initial amount.
Staff is uncertain where the respondent believes there appears to be contradictory language. Deemed cost is a one-time valuation for opening balances. The value won't be reassessed against a value in the future. While the language the respondent refers to in that deemed cost will not be updated, it is that after it is established and assertions are made, costs going forward are recorded in accordance with GAAP. No change required.
- On page 8, paragraph 21, in reference to the statement that "no expectation the deemed cost will be updated or changed for the passage of time, except for error corrections." During the life of an asset, what if capital costs are incurred against an asset with a deemed cost valuation?
Staff will assume an unreserved assertion has been made, That said, costs should be recorded in accordance with SFFAS 6, as amended. SFFAS 50 was very clear that after the assertion is made deemed cost is considered GAAP and costs after that would be recorded in accordance with GAAP. There is nothing specific that needs to be addressed in TR about this. No change required.
- Include statement that the calculation for PRV is not limited to the FRPP methodology in paragraph 29, on page 10.
Staff agrees. Suggest adding a footnote to the Figure 1 Plant Replacement Value Factors and stating "PRV is not limited to the factors included in this figure and described in the following paragraphs. There may be others not included."
- "PRV may be an appropriate starting point in establishing replacement cost for real property." Is PRV an acceptable method of valuation? If it is only the starting point as stated in paragraph 29, what other factors need to be considered in order to establish a beginning balance?
The paragraphs in the section explain that and how it is considered a replacement cost method. No change required.
- Add wording: "...but is acceptable" on page 11 paragraph 30.
Change made.
- Recommend adding GSA schedules to the list of sources for researching current replacement costs amounts on page 12.

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Staff added General Service Administration Schedule to paragraph 36.a.

- Clarify, "but for which" or reword sentence on page 13, paragraph 40.
Staff inserted the word "information" so that it would be clearer.
- Recommend adding completed re-programming's to the budgetary documents on page 16, paragraph 55
Staff added "reprogramming."
- Will AUs document market research analysis to provide to CFO to validate their fair value process? Would this documentation be required by auditors during the financial audit?
Staff notes that supporting documentation is required for all the deemed cost methods. FASAB cannot comment on a reporting entity's internal control processes such as those requested by the respondent. No change required.
- The ED states that an informed opinion of an expert cost estimator may be used to support reasonable estimates for establishing asset opening balances. However, if a reporting entity elects to establish its PPE opening balances using the fair value model of appraisal, the appraisal must be performed by an independent, qualified professional in accordance with the Uniform Standards of Professional Appraisal Practice to be considered compliant. From a cost/benefit analysis viewpoint, why would it not be acceptable to use an expert cost estimator in the Fair Value model; assuming cost estimators are usually government employees?

SFFAS 50 seeks cost effective approaches for one time and if the use of an expert cost estimator could be used in the fair value model, then it would also be permitted in these circumstances. Added cost estimator to fair value.

Respondent #6 Other Comments:

- Staff grouped the following two comments by the respondent because they were similar.
 - Terms such as cost and benefits, benefit and costs, cost-benefit/cost-beneficial and benefit versus cost are not used consistently. Respondent suggested one term be used throughout the document.
 - Suggest clarifying when cost-effective applies over the term "cost-beneficial" with footnote. If it is meant to have same meaning as cost-beneficial then suggest replacing "cost-effective" with "cost-beneficial."

Staff reviewed the document and ensured both "cost and benefit" or cost-benefit was used consistently throughout. Changes were made to remove terms such as "benefits and costs for consistency. Staff notes that

STAFF SUMMARY OF RESPONSES

SFFAS 50 uses both terms “cost effective” and “cost-beneficial.” Therefore, staff believes both terms should remain in this guidance.

- Staff grouped the following two comments by the respondent because they were similar and related to changing the word inappropriate.
 - Suggest replacing the word "inappropriate" with "unnecessary" in the sentence "Therefore, making comparisons among the methods or attempting to identify the most cost-effective method is inappropriate." On page 6.
 - Suggest replacing the word "inappropriate" with "unnecessary" on page 20 "However, making comparisons among the methods or attempting to identify the most cost-effective method would be inappropriate."

The definitions for inappropriate and unnecessary are below. There’s a bit of gray area with these two—it appears that both could work. The tone of “inappropriate” is a bit stronger. Based on that, staff believes “inappropriate” is best for the sentence.

• ***Unnecessary—not needed; more than is needed; excessive; (of a remark) not appropriate and likely to be offensive or impertinent***

• ***Inappropriate—not suitable or proper in the circumstances***

No change required.

- Reliable historical information" and "reliable historical data" are not wholly consistent. Suggest using either "historical information" or "historical data" on page 7.
Staff agrees. Staff reviewed the document and ensured that historical cost information was used throughout. Staff removed terms data and records.

- Staff grouped the following two comments by the respondent because they were similar and related to defining the term “significant.”

- Suggest defining "significant" as used on page 8 it is unclear which alternatives adopted by each subcomponent would need to be disclosed. ["SFFAS 6, as amended, provides that in the event a different alternative method is applied by a subcomponent reporting entity consolidated into a larger reporting entity, the alternative adopted by each significant subcomponent should be disclosed."]

- Suggest defining "significant" on page 21 as it is unclear which assets appraisals would be used for "Although appraisals require the expenditure of resources, they may be justified for significant assets..."

Staff notes that the FASAB Board has not defined or provided guidance on “significance.” Staff believes this may be because it generally, would be considered similar to materiality and an assessment would be required that should consider both quantitative and qualitative factors. No change required.

STAFF SUMMARY OF RESPONSES

- Staff grouped the following three comments by the respondent because they were similar and related to language in the ED where sentences or paragraphs began with the term “generally”
 - Suggest adding footnote that explains when replacement cost is not the amount that a reporting entity would pay to replace the service potential of an existing asset at current transaction prices with a similar asset on page 9.
 - Suggest adding footnote that explains when fair value is not maintained as a current value and updated each reporting period on page 20.
 - Suggest adding footnote that explains when there would be acreage to disclose on page 22.

In these instances, the paragraph or language is referring to the generally accepted accounting principle. In principles based standard, one must recognize there may be exceptions so the chosen language is “generally.” No change required.
- Suggest adding footnote that says the examples are not listed in any order of preference and that there may be others not included on this list to page 16 "For example, third-party documentation (such as congressional reports, cost documents, websites devoted to military weapon systems, historical newspaper articles referencing governmental sources, and other information obtained on the internet) and indexed appraisals may be considered acceptable."

Staff notes that this footnote was included in each of the individual section that listed the potentially acceptable documentation. This sentence begins with “for example” but because it also includes examples of the types of documentation, there is no harm in providing the footnote again. Change made.
- ***Suggest removing "etc" in parentheses and starting parentheses with "e.g.," in paragraph 60 on page 17. Staff reviewed that Chicago Manual and while dictates that abbreviations like e.g. and etc. should be avoided in formal prose; it says that they are usually acceptable in parentheses. However, to avoid staff will use “for example” and present the sentence as:***

60. Contracts contain specific contract line item numbers, which delineate specific production and non-production activities (for example, materials, installation, proposal prep, spare parts, etc.).
- Suggest adding abbreviation for Government Accounting Standards Board (GASB) because used on page 20.

Staff agrees. Change made.
- Recommend defining terms in a definition section
No change required. FASAB documents only provide a definition section for new terms that are defined.

ATTACHMENT 1

Table of Contents

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Technical Release Exposure Draft: Questions for Respondents due July 21, 2017

Implementation Guidance for Establishing Opening Balance

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: **Carla A. Krabbe, Deputy Chief Financial Officer**

Please identify your organization, if applicable.

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

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended.

Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.

SSA Response: We agree that this TR provides clear technical guidance, as it offers in-depth narrative on the allowable alternative methods to use for recording opening balances of general property, plant, and equipment (PP&E). This TR also describes the acceptable supporting documentation to maintain if using an alternative method and states that reporting entities may use a variety of valuation methods for its multiple components or subcomponent reporting entities.

Q2. This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.

Technical Release Exposure Draft: Questions for Respondents due July 21, 2017***Implementation Guidance for Establishing Opening Balance***

Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.

SSA Response: We agree that this TR appropriately clarifies the flexibility allowed in selecting and applying the allowable alternative methods for determining opening balances of general PP&E. The document is clear that the reporting entity may select any of the SFFAS 50 allowable alternative methods and that there is no preferred method.

- Q3.** Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them? Respondents may consult the [AAPC project page](#) for additional information about other issues considered during the deliberation of this TR. **Please provide the rationale for your answer.**

SSA Response: We are not aware of any additional issues that the AAPC should consider.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

JUL 13 2017

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Federal Financing Accounting Technical Release Exposure Draft – *Implementation Guidance for Establishing Opening Balances*, dated June 21, 2017.

The Department does not have any significant concerns or comments regarding the Exposure Draft. If you have any questions, please contact me at (202) 482-0646 or bhenshel@doc.gov.

Sincerely,

A handwritten signature in cursive script that reads "Bruce Henshel".

Bruce Henshel
Accountant

cc: Gordon Alston
Julie Tao

Technical Release Exposure Draft: Questions for Respondents due July 21, 2017

Implementation Guidance for Establishing Opening Balance

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: _____
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Mary E. Peterman, Deputy Director

Please identify your organization, if applicable.

Organization: Department of Homeland Security – Office of the Chief Financial Officer

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 50, Establishing Opening Balances for General Property, Plant, and Equipment, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, Accounting for Property, Plant, and Equipment, as amended.

Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.

DHS Response: DHS agrees that this TR provides clear technical guidance.

Q2. This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.

Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.

Technical Release Exposure Draft: Questions for Respondents due July 21, 2017***Implementation Guidance for Establishing Opening Balance***

DHS Response: DHS agrees that this TR provides clear guidance in applying the alternative methods for opening balances and explains alternative valuation methods in greater detail.

- Q3.** Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them? Respondents may consult the [AAPC project page](#) for additional information about other issues considered during the deliberation of this TR. **Please provide the rationale for your answer.**

DHS Response: DHS identified no additional issues that the AAPC should consider in this TR.

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended.

Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.

We have read through the technical release and agree that it provides clear technical guidance on what reasonable estimates are to establish the historical cost of general property, plant, and equipment. Specifically, it gives agencies that do not have established beginning balances alternatives to estimate the balance such as the cost of similar assets, current cost of similar assets discounted for inflation, or other reasonable methods based on budget, appropriations, other reports. It also noted that the placed in-service date must be estimated in some instances. Although these estimates may

not result in an accurate/complete PP&E balance on the Balance Sheet and gross costs on the Statement of Net Cost, we agree that it is important to consider materiality and the cost/benefit to implement the standard.

To further enhance the guidance, we suggest adding Programmatic Based Estimates. Approved acquisition strategies and plans can reveal portions of capital acquisition programs attributable to contracts, mission partners, and in-house development. Supporting documentation may consist of spend plans, internal management reviews of expenditure rates, program management reviews tracking cost, schedule, and delivered capabilities, and financial obligating documents.

We also suggest including language that confirms it is management's responsibility to (a) determine the account balances to which the standard will be applied; (b) select the valuation methods; (c) make the decisions/assumptions used; and (d) document the decisions/assumptions used by management. An auditor could then test to determine whether management applied the standard appropriately (e.g. used valuation methods stated in the standard) and that the balances derived from the application of the methodologies used by management were calculated correctly (e.g. no mathematical errors, no formula driven errors, no data input errors, etc.).

- Q2.** This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.

Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.

Yes, we agree that it is flexible in that if the costs exceed the benefits to implement a certain method then there are alternatives to valuing the historical cost of general property, plant, and equipment.

- Q3. Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them?** Respondents may consult the [AAPC project page](#) for additional information about other issues considered during the deliberation of this TR. **Please provide the rationale for your answer.**

In keeping with the FASAB's objective to reduce expenditures in determining opening balances for general PP&E, we would like the AAPC to consider allowing for limited due diligence for valuing assets which are fully depreciated and have a net book value of zero. We do not believe it would be cost effective to spend significant costs and resources in determining values for those assets which would not impact the opening balance. Furthermore, this would allow for reporting entities to allocate additional resources and enhance precision for valuing assets with a positive NBV which do impact as well as focus on needed improvements to systems and controls process transactions going forward. Limited due diligence could include limited cost and resources spent valuing assets that have been fully depreciated for 5 years or greater from the fiscal year in which the opening balance is being stated.

FASAB EXPOSURE DRAFT Technical Release Implementation Guidance for Establishing Opening Balances							
Comment #	Page #	Line #	Section #	Agency	Comment Type - Indicate (S) for Substantive or (A) for Administrative	Comments	Rationale
1	Pages 6/14/15	Items A6 and A7/Para 49/Footnote 14	Various	OGA	S	Recommend deleting the Board's basis for conclusions of SFFAS 50 that appear at the top of page 6 (items A6 and A7), at the bottom of page 14 (paragraph 49), and in footnote 14 on page 15.	This material does not provide technical guidance content.
2	6	10	Alternative Methods	OGA	S	Guidance for prospective capitalization of internal use software is not described in a similar manner as other alternative valuation methods	When planning to leverage SFFAS 50 in FY18, clear technical guidance on using prospective capitalization is essential to help ensure the standard is properly applied: a. To define what supporting documentation is required after prospective capitalization is elected related to work-in-process projects prior to an entity electing the prospective treatment. Said easier, what kind of support is necessary for internal use software already in development prior to an entity electing the prospective capitalization approach? b. To determine if the benefits of the standard still exceed the cost of applying them.
3	6	10 (Para 6)	Alternative Methods	OGA	S	Will AUs provide cost/benefit analysis for each of the alternative methods suggested (i.e. deemed cost, prospective capitalization, etc.)?	To document the process of performing a cost/benefit analysis prior to implementation of a certain SFFAS 50 method, the draft Technical Release appropriately clarifies intended flexibility in selecting estimation methods.
4	6	Para 9	Preferred methods	OGA	S	Please explain why management would not be required to select the most precise or best method.	This seems to contradict Par 13 (line 4) on page 7, which indicates that support for historical costs should be complete and stand on its own. If management is not required to select the most precise or best method, then support for historical costs may not be fully supported.
5	7	Para 11 (Ln 4)	Alternative Methods	OGA	A	Change wording: "...SFFAS 6, as amended, for each asset or class of assets... "	Clarify that each entity is not required to select only one method for the entire entity/subcomponent.

<p style="text-align: center;">FASAB EXPOSURE DRAFT Technical Release Implementation Guidance for Establishing Opening Balances</p>							
Comment #	Page #	Line #	Section #	Agency	Comment Type - Indicate (S) for Substantive or (A) for Administrative	Comments	Rationale
6	7	Para 15	Deemed cost	OGA	S	We believe that a reasonable estimate of historical cost could be used, but 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. Has the board considered this and if so, please provide an example scenario?	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 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.
7	7	16-17	Deemed cost	OGA	S	Is component level entity defined at the Agency level and then sub-component reporting entity would be an AU, like FAC? Therefore, if an AU was considered a sub-component, is the sub-component allowed to choose more than one alternative valuation methodology depending on the representative asset scenarios or do all assets in an AU have to use the same alternative valuation methodology?	Clarify/define entity subcomponents use of different alternative valuation methods.
8	7	Para 17	Deemed cost	OGA	S	In Para 17 (line 4), it indicates that "... (2) estimated historical costs" is a valuation method permitted by SFFAS 6 as an option (either alone or in combination). Based on this, if a reasonable estimate of historical cost for opening balances is adopted by an agency, what is the disclosure requirement in the financial statements?	If a reasonable estimate of historical cost is used, and is the only methodology used, then it may limit the disclosure needed in the notes to the financial statements.
9	7	Para 17 (1) Replacement Cost	Deemed cost	OGA	S	Consider providing example scenario and calculation for each alternative costing method.	Clarify by providing further guidance with examples of each alternative method on an individual basis.

FASAB EXPOSURE DRAFT Technical Release
Implementation Guidance for Establishing Opening Balances

Comment #	Page #	Line #	Section #	Agency	Comment Type - Indicate (S) for Substantive or (A) for Administrative	Comments	Rationale
10	8	Para 21	Deemed cost	OGA	S	In reference to the statement that "... there is no expectation that deemed cost will be updated or changed for the passage of time, except for error corrections..." - what about retrospectively applying the best method?	It seems that if deemed cost is going to be used as a valuation methodology, this paragraph may contradict Par 19 when there is no "precise means of measurement" for the initial amount that could be developed for opening balances. It seems confusing that the standard will not be applied retrospectively, the established opening balances are not expected to be updated at a later point in time, and that deemed cost will not be "trued-up" to reflect the actual value in the future (Par 21, page 8).
11	8	Para 21	Deemed cost	OGA	S	"no expectation the deemed cost will be updated or changed for the passage of time, except for error corrections." During the life of an asset, what if capital costs are incurred against an asset with a deemed cost valuation?	There is a risk if deemed costs are not updated, capital costs (additional capacity, utility, extending useful life etc.) may be misclassified.
12	10	Para 29	Plant Replacement Value	OGA	S	Include statement that the calculation for PRV is not limited to the FRPP methodology.	Clarification.
13	10	Para 29 (Ln 5)	Plant Replacement Value	OGA	S	"PRV may be an appropriate starting point in establishing replacement cost for real property." Is PRV an acceptable method of valuation? If it is only the starting point, what other factors need to be considered in order to establish a beginning balance?	The use of "starting point" could be confusing or misinterpreted. What other considerations should management apply to the "starting point"?
14	11	Para 30 (Ln 1)	Plant Replacement Value	OGA	A	Add wording: "...represents a tradeoff, but is acceptable. "	Clarification

FASAB EXPOSURE DRAFT Technical Release Implementation Guidance for Establishing Opening Balances							
Comment #	Page #	Line #	Section #	Agency	Comment Type - Indicate (S) for Substantive or (A) for Administrative	Comments	Rationale
15	12	Para 36	Other acceptable replacement cost methods	OGA	S	Recommend adding GSA schedules to the list of sources for researching current replacement costs amounts.	GSA schedules may serve the same purpose as FED LOG in establishing current replacement costs.
16	13	Para 40 (Ln 6)	Estimated historical cost	OGA	A	Clarify, "but for which" or reword sentence.	Intent/meaning of this sentence is unclear.
17	16	Para 55	Estimates - budget based	OGA	S	Recommend adding completed re-programming's to the budgetary documents.	Re-programming's (either below or above Congressional thresholds) are approved by an entity's direct executive branch or congressional oversight.
18	20	Para 73	Fair value	OGA	S	Will AUs document market research analysis to provide to CFO to validate their fair value process? Would this documentation be required by auditors during the financial audit?	Clarify whether or not this documentation for market research analysis is required to support alternative valuation.

FASAB EXPOSURE DRAFT Technical Release Implementation Guidance for Establishing Opening Balances							
Comment #	Page #	Line #	Section #	Agency	Comment Type - Indicate (S) for Substantive or (A) for Administrative	Comments	Rationale
19	19, 21	Para 67 (Ln 1), Para,75 (Ln 1)	Estimates and fair value	OGA	S	The ED states that an informed opinion of an expert cost estimator may be used to support reasonable estimates for establishing asset opening balances. However, if a reporting entity elects to establish it PPE opening balances using the fair value model of appraisal, the appraisal must be performed by an independent, qualified professional in accordance with the Uniform Standards of Professional Appraisal Practice to be considered compliant. From a cost/benefit analysis viewpoint, why would it not be acceptable to use an expert cost estimator in the Fair Value model; assuming cost estimators are usually government employees?	Clarify consistent use of experts/professionals for all opening balance asset valuations.



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

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

JUL 24 2017

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the Exposure Draft, Federal Financial Accounting Technical Release (TR), *Implementation Guidance for Establishing Opening Balances*. The DoD understands the importance of providing useful, understandable information to users of the financial statements. Overall, the DoD agrees that the proposed Exposure Draft provides clear technical guidance and we appreciate the Board and FASAB Staff's efforts to provide clear guidance on the issue of Opening Balances. The comments that DoD are providing are limited to a few sections where additional clarification would be appreciated.

Thank you for considering the DoD's comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins".

Alaleh A. Jenkins
Assistant Deputy Chief Financial Officer

Enclosures:
As stated



Technical Release Exposure Draft: Questions for Respondents due July 21, 2017

Implementation Guidance for Establishing Opening Balance

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: _____
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Alaleh A. Jenkins

Please identify your organization, if applicable.

Organization: Department of Defense / Office of the Under Secretary of Defense (Comptroller)

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 50, Establishing Opening Balances for General Property, Plant, and Equipment, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, Accounting for Property, Plant, and Equipment, as amended.

Do you agree or disagree that this TR provides clear technical guidance? If you disagree, please identify the sections that require additional clarity. Please provide the rationale for your answer.

DoD Response:

The DoD agrees that this TR taken as a whole provides clear technical guidance. However, the DoD suggests that Paragraph 22 be removed entirely from the document, as it creates ambiguity that introduces interpretational risk while not providing any additional technical guidance.

The reason for this recommendation is that it is not apparent whether this sentence creates a technical requirement for management to evaluate the measurement attribute (and its usefulness) compared to historical cost, and include documentation to demonstrate this evaluation. If there is a technical documentation requirement, The DoD believes this will limit the flexibilities provided by SFFAS 50 and thus lead to a higher level of rigor needed to substantiate the measurement attribute's appropriateness.

Technical Release Exposure Draft: Questions for Respondents due July 21, 2017***Implementation Guidance for Establishing Opening Balance***

In the event that the decision is made to keep paragraph 22, the DoD recommends moving it to the Basis for Conclusions and amending the last sentence to specifically acknowledge that Management understands that deemed cost will have a direct impact on the calculation of depreciation expense and cost of operations which will result in reduced usefulness of comparisons to accounting methods based entirely upon actual historical costs.

- Q2.** This TR acknowledges that the reporting entity may select any of the SFFAS 50 methods, and there is no preferred method because cost-beneficial options are the major goal of SFFAS 50. This TR clarifies that such flexibility was intended by SFFAS 50 and explains that management is not required to select the most precise or best method.

Do you agree or disagree that this TR appropriately clarifies the flexibility intended in selecting among methods? Please provide the rationale for your answer.

DoD Response:

The DoD agrees that this TR taken as a whole appropriately clarifies the flexibility intended in selecting among methods. However, the DoD recommends revising the language in paragraph 13 to remove the reference to "... to determine that valuations are reasonable..." and add as part of paragraph 13, that the reporting entity should describe their process (or system of internal controls) which ensures consistent application of the selected methodology.

The reason for this recommendation is that Paragraph 9 (paraphrased) states there is no preferred method among those permitted, making comparisons among methods is inappropriate, and management is not required to select the most precise or best method. The DoD's view is that the execution of the selected method allowed by the Standard (and TR) produces a result that, by default, is considered reasonable. As such, an auditor should be evaluating a reporting entity on how well they applied the chosen methodology as opposed to evaluating the "reasonableness" of one acceptable methodology in comparison with another. The requirement to document the determination of reasonableness could be construed to imply that the method selection is itself subject to audit, which is contrary to the stated goal of the TR, and this clarification is intended to mitigate that perceived risk.

- Q3.** **Are there additional issues that the AAPC should consider in this TR? If so, what are they, and how would you describe them?** Respondents may consult the AAPC project page for additional information about other issues considered during the deliberation of this TR. **Please provide the rationale for your answer.**

DoD Response:

The DoD believes that the major issues associated with Opening Balances are sufficiently covered by the TR.

Instructions: Please record your comments in the table below.

Section. Please provide the section number for each comment.

Page: Identify the page number

Sentence(s). Please specify the sentence(s) for which the comment is provided.

Reason: Please specify whether the comment is provided because the draft language is: (1) unnecessary, (2) unclear, or (3) inaccurate.

Proposed Change: For draft language that is unclear or inaccurate, please provide revised language.

Commenter. Please provide a contact name for each comment.

Commenter Contact Info: List your email or phone number

Section	Page	Sentence	Reason	Proposed Change	Commenter	Contact Info
4, 5, 8,	5 and 6	Section 4 uses the term "cost and benefits" twice Section 5 uses the term "benefit and cost" Section 8 uses the term "cost-benefit/cost-beneficial" and "benefit versus cost"	(1), (2), and (3)	Use one consistent phrase throughout.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
7, 9, 15, 51e. 71, 73, footnote 27	6, 7, 15, 20 (including footnote)	All uses of the term "cost-effective"	(1), (2), and (3)	Suggest clarifying when this term applies over the term "cost-beneficial" with footnote. If it is meant to have same meaning as cost-beneficial then suggest replacing "cost-effective" with "cost-beneficial."	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
9	6	"Therefore, making comparisons among the methods or attempting to identify the most cost-effective method is inappropriate."	(1), (2), and (3)	Suggest replacing the word "inappropriate" with "unnecessary."	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
12	7	"Reliable historical information" and "reliable historical data" are not fully consistent.	(2)	"Reliable historical information" and "reliable historical data" are not wholly consistent. Suggest using either "historical information" or "historical data".	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
18	8	"SFFAS 6, as amended, provides that in the event a different alternative method is applied by a subcomponent reporting entity consolidated into a larger reporting entity, the alternative adopted by each significant subcomponent should be disclosed."	(2)	Suggest defining "significant" as it is unclear which alternatives adopted by each subcomponent would need to be disclosed.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
26	9	"Generally, replacement cost is the amount that a reporting entity would pay to replace the service potential of an existing asset at current transaction prices with a similar asset."	(2)	Suggest adding footnote that explains when replacement cost is not the amount that a reporting entity would pay to replace the service potential of an existing asset at current transaction prices with a similar asset.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
53	16	"For example, third-party documentation (such as congressional reports, cost documents, websites devoted to military weapon systems, historical newspaper articles referencing governmental sources, and other information obtained on the internet) and indexed appraisals may be considered acceptable."	(2) and (3)	Suggest adding footnote that says the examples are not listed in any order of preference and that there may be others not included on this list.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
60	17	"Contracts contain specific contract line item numbers, which delineate specific production and nonproduction activities "materials, installation, proposal prep, spare parts, etc.)"	(2) and (3)	Add period add end of sentence. Suggest removing "etc" in parentheses and starting parentheses with "e.g.,"	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
71	20	"Generally, where fair value is applied in other circumstances it is maintained as a current value and updated each reporting period."	(2)	Suggest adding footnote that explains when fair value is not maintained as a current value and updated each reporting period."	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568

Section	Page	Sentence	Reason	Proposed Change	Commenter	Contact Info
Footnote 27	20	"However, making comparisons among the methods or attempting to identify the most cost-effective method would be inappropriate."	(1), (2), and (3)	Suggest replacing the word "inappropriate" with "unnecessary."	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
76	21	"Although appraisals require the expenditure of resources, they may be justified for significant assets..."	(2)	Suggest defining "significant" as it is unclear which assets appraisals would be used for.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
82	22	"Generally, when a land right does not provide control of acreage, there would be no acreage to disclose. Therefore, there may not be land rights disclosures required by SFFAS 6, as amended, by SFFAS 50."	(2)	Suggest adding footnote that explains when there would be acreage to disclose.	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
Appendix B	25	Missing abbreviation for Government Accounting Standards Board (GASB). Abbreviation is used on page 20 at section 73. DOD acronym is not defined in first sentence of Section 5, A6, page 6.	(2)	Suggest adding abbreviation for Government Accounting Standards Board (GASB).	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568
NA	NA	No definitions section.	(2)	Recommend defining terms in a definition section	Erik Dorman	erik.dorman@gsa.gov (202) 501-4568



IMPLEMENTATION GUIDANCE FOR ESTABLISHING OPENING BALANCES

Federal Financial Accounting Technical Release 18

Comment [MB1]: Staff has accepted changes for standard transition items to move from Exposure Draft to Final, such as removal of transmittal and the Question for Respondents.

Deleted: Exposure Draft

ATTACHMENT 2- MARKED VERSION

October 16, 2017

Comment [MB2]: Allows 45-day review for FASAB after providing at August Board meeting

Deleted: June 21

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB’s website at www.fasab.gov.

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Washington, DC 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov

The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). FASAB's mission is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from FASAB on its website:

- ◆ [“Charter of the Accounting and Auditing Policy Committee”](#)
- ◆ [Accounting and Auditing Policy Committee Operating Procedures](#)

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EXECUTIVE SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E).

This Technical Release (TR) provides additional guidance to those reporting entities in applying the alternative methods. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. This TR does not provide guidance on the validation of the existence and completeness of general PP&E.

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The alternative methods provided in SFFAS 50 are meant to be less costly options to implement generally accepted accounting principles when establishing opening balances for general PP&E. This TR acknowledges that the reporting entity may select any of the alternative methods and that there is no preferred method. Management is not required to select the most precise or best method.

Deleted: property, plant, and equipment

Deleted: would

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While this TR is specific to reporting entities that apply SFFAS 50 or the alternative methods, there are additional TRs the reporting entity may find helpful and still apply. For example, TR 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment*, addresses the estimation of historical cost, one of the deemed cost methods.

The provisions of this TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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TECHNICAL GUIDANCE

SCOPE

1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.
2. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E). This TR provides additional guidance to those reporting entities in applying the alternative methods.

ALTERNATIVE METHODS

3. This implementation guidance provides assistance in applying the alternative methods for opening balances. It explains the alternative valuation methods¹ in greater detail and describes documentation that may support the valuation, as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. This TR does not provide guidance on validation of the existence and completeness of general PP&E.
4. In Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) acknowledges that accounting standards sometimes necessitate judgments about the cost and benefits of producing information or of reporting it differently. The standards-setter must, to some extent, be aware of these potential effects when considering the cost and benefits of any given accounting alternative. The benefits of the standards should exceed the cost of applying them.
5. A premise for issuing SFFAS 50 was to consider the cost and benefit associated with establishing general PP&E opening balance information. As explained in the basis for conclusions of SFFAS 50, the Board made the following conclusions:

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¹ The Accounting and Auditing Policy Committee developed this guidance to explain the alternative valuation methods and describe the documentation that may support the valuation as outlined in SFFAS 6, as amended. Deemed cost (one of the alternative valuation methods) is also an acceptable valuation method for opening balances of inventory, operating materials, and supplies, and stockpile materials. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, amended SFFAS 3, *Accounting for Inventory and Related Property*, to permit alternative valuation methods in establishing opening balances. Reporting entities may reference relevant portions of this guide when establishing opening balances in accordance with SFFAS 3, par. 20, 22–26, 42, 44, and 53, as amended.

A6. The Board noted that while DoD has had numerous years to meet the standards and become GAAP compliant, they have not. Conditions remain that existed when FASAB issued many of these standards, and the cost to implement all the standards concurrently is greater than would have been incurred if standards were implemented in a timely manner. The goal of this Statement is to avoid requiring the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the current use is limited to accountability and assessing the cost of current services. The Board proposed less costly alternatives that will support this objective.

A7. The Board believes assisting DoD with establishing a baseline benefits all parties. Providing a starting point will enable DoD to focus on needed improvements to systems and controls to process transactions going forward and thereby establish and maintain reliable financial information regarding future PP&E acquisitions. Establishing a sound financial management system is of primary importance.

6. The alternative methods provided in SFFAS 6, as amended by SFFAS 50, are meant to be less costly options to implement generally accepted accounting principles (GAAP) for general PP&E; this allows reporting entities to focus on needed improvements to systems and controls to process transactions going forward. By establishing and maintaining reliable financial information, such reporting entities will be more informed about costs of future general PP&E acquisitions.

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7. The alternative methods provide the needed flexibility for establishing opening balances. At times, it is not practical or cost effective to determine the historical cost of general PP&E because of inadequate systems and/or insufficient documentation.

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8. The alternative methods include (1) using deemed cost as an alternative valuation method for opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

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MANAGEMENT RESPONSIBILITY AND DOCUMENTATION

9. Management is responsible for establishing accounting policies, including the determination of which method to use. Any of the methods provided by SFFAS 6, as amended, are acceptable. It appears management would apply cost-benefit considerations and other practical concerns under different alternatives. It is important to be mindful that the alternative methods for establishing opening balances are based on the concept of reasonable estimates and therefore do not seek precision. Also, assessments of materiality and cost versus benefit should be guiding factors because cost-beneficial options are a major goal of SFFAS 50.

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10. The reporting entity may select any of the alternative methods when establishing opening balances; there is no preferred method among those permitted. Therefore, making comparisons among the methods or attempting to identify the best method is inappropriate. Management should expect to provide adequate documentation that is consistent with the

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method used and supports the overall reasonableness of the valuation. However, management is not required to select the most precise or best method.

11. Management is also responsible for maintaining adequate documentation of data sources and the application of methodologies. It is reasonable to expect that sufficient, relevant and reliable historical cost information may not be available for general PP&E when applying the alternatives provided by SFFAS 50. In the absence of sufficient, relevant and reliable historical cost information on which to base the valuation, reporting entities should maintain supporting documentation for the alternative method and data used to establish opening balances. Management should expect to support alternative methods with verifiable documented information. Adequate documentation of the source of the data and the application of the methodology used will help support management's assertion that the valuations are in compliance with accounting standards in all material respects.

12. The documentation should describe the methodology (alternative method used and description) and the reporting entity's review process to determine that the valuations are reasonable. While the documentation may differ from what is expected to support historical cost, it "should be complete and stand on its own." That is, a knowledgeable, independent person could perform the same procedures in the methodology and replicate the results. This should be maintained in a manner to facilitate the auditor's testing of the alternative methods. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purpose of reconstructing the amounts.

13. Additional information, including specific examples of documentation that may be acceptable, is included under each alternative method.

DEEMED COST

14. The primary focus of this guidance is on the application of deemed cost. Deemed cost is a surrogate for initial amounts and an acceptable valuation method for opening balances for general PP&E. Use of deemed cost is intended to provide a cost-effective approach to the adoption of SFFAS 6, as amended, where historical cost information and systems do not support such balances.

15. Deemed cost may include several valuation methods because the reporting entity may have multiple component or subcomponent reporting entities² (1) using different methods simultaneously and/or (2) adopting a method permitted under SFFAS 6, as amended, at different times prior to establishing opening balances. Large and complex reporting entities, such as the Department of Defense (DoD), may have used a variety of valuation methods.

16. It is acceptable for the reporting entity to have multiple component or subcomponent reporting entities that use various valuation methods simultaneously. Deemed cost should

² SFFAS 47, *Reporting Entity*, provides that "component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity. Examples of component reporting entities include organizations such as executive departments and agencies. Component reporting entities would also include subcomponents that may themselves prepare general purpose federal financial reports (GPFRRs). One example is a bureau that is within a larger department that prepares its own standalone GPFRR.

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¶ DOCUMENTATION¶

This implementation guidance also provides examples and additional detail regarding supporting documentation that may be acceptable when the alternative methods of valuation are used for opening balances. Management is not required to identify and choose the best method. Any of the methods provided in SFFAS 6, as amended, are acceptable.

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be based on one, or a combination, of the following three valuation methods permitted by SFFAS 6, as amended: (1) replacement cost, (2) estimated historical cost, or (3) fair value. While no disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required, documentation should clearly indicate the valuation method applied to each asset or class of assets.

- 17. While flexibility is offered, some options require additional disclosures,³ such as when component or subcomponent reporting entities elect to apply alternative methods⁴ besides deemed cost. SFFAS 6, as amended, provides that in the event a different alternative method is applied by a subcomponent reporting entity consolidated into a larger reporting entity, the alternative adopted by each significant subcomponent should be disclosed.
- 18. Adoption of deemed cost includes various valuation methods that may require the use of assumptions to develop an approximate initial amount when there is no precise means of measurement.
- 19. There may be high uncertainty in the underlying assumptions used to establish opening balances under deemed cost methods. This guidance postulates that deemed cost will be subject to an inherent lack of precision because of the limitations regarding information available to the reporting entity. In using deemed cost, the reporting entity should consider the reasonableness of the assumptions selected, the relationship of the assumptions to the available documentation that is consistent with the methodology, and the overall reasonableness of the valuation.
- 20. This guidance provides a foundation for preparers to exercise judgment in developing surrogates for use as deemed cost. Unlike some judgments that management makes, deemed cost will not be “trued up” to reflect the actual value in the future. As addressed by SFFAS 50, deemed cost is a surrogate for the actual or historic cost associated with general PP&E, and there is no expectation the deemed cost will be updated or changed for the passage of time, except for error corrections. Said differently, when a reporting entity elects to adopt deemed cost to establish opening balances, the reporting entity establishes opening balances that are considered consistent with GAAP. The established opening balances are not expected to be updated at a later point in time (except for the recognition of the associated depreciation) or to be evaluated retrospectively.

21. The methods are described more fully below and not listed in order of preference.

³ See SFFAS 6, as amended, par. 40.h–i and SFFAS 10, par. 36.f–g for information about disclosures.

⁴ As explained in par. 8, the alternative methods used to establish opening balances of general PP&E include (1) using deemed cost as an alternative valuation method for opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

Deleted: <#>The Board concluded that use of opening balances of general PP&E would be limited to providing accountability and assessing the cost of service (SFFAS 50, par. A6). In making assessments regarding the potential for material⁵ misstatements in the valuation under the method selected, management should consider how the gross cost of service might be affected, as well as any potential impact on accountability. Deemed cost permits the use of several measurement attributes in establishing opening balances; usefulness of depreciation based on mixed measurement attributes is reduced in comparison to depreciation expense based on a single measurement attribute--actual historical cost. Management should consider this reduced usefulness when selecting methods, collecting data, and selecting amounts for recognition.¶

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REPLACEMENT COST

22. Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.⁶ The use of replacement cost would be applied for valuing opening balances and not maintained through revaluation in the future.

23. SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, explains replacement cost and that there may be several ways of arriving at an approximation of it:

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47. Replacement cost is a remeasured amount, an entry value that is often advocated for assets used in providing services, such as capital assets and inventory not held for sale. Replacing the remaining service potential of an existing asset is not the same as acquiring an identical asset. However, in practice, it may be difficult to measure remaining service potential directly. There may be several ways of arriving at an approximation. For example, one way would be to measure the current cost of a similar asset, reduced by an appropriate amount to allow for the lower service potential of the existing asset due to its age and condition. Thus, the replacement cost of an asset is not the same as the fair value of either an equivalent new asset or the existing asset at the reporting date. For example, to arrive at the replacement cost of a fifty-year-old office building at the mid-point of its expected life, the fair value of an equivalent, newly constructed office building would have to be adjusted for the value of the difference in age or service potential. In addition, the fair value of the existing building may be higher than the replacement cost because the building can be put to alternative uses that produce greater benefits to the owner.

48. The relevance of replacement cost is high, especially for assessments of financial position and future resource needs. The level of understandability, reliability, and comparability across entities of reported replacement cost amounts may vary according to the data used and the complexity of the calculation.

49. Reporting the replacement cost of capital assets used in providing services and related service costs can facilitate comparisons between program and activity costs and accomplishments related to the same period. An objection sometimes raised is that replacement cost is not an attribute of the asset that is actually owned. However, the asset being measured is not the physical asset but the services it can provide.

24. Generally, replacement cost is the amount that a reporting entity would pay to replace the service potential of an existing asset at current transaction prices with a similar asset. Replacement cost is different than reproduction cost. Reproduction cost is the cost to construct an exact duplicate of the structure at today's cost. Reproduction cost would result in reconstructing the item as is, using manufacturing/construction techniques and standards applicable at the time the asset (and any modifications) entered service. Replacement cost using today's materials and standards is typically lower than reproduction cost, as reproduction of older methods today is less efficient and more expensive.

⁶ SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, par. 46.

25. As explained in SFFAC 7, a reporting entity must consider the remaining service potential or age of the general PP&E to arrive at replacement cost. For example, the cost of a new item of PP&E could be adjusted by the equivalent of accumulated depreciation based on the remaining useful life compared to the original useful life to arrive at replacement cost.
26. Under deemed cost, a well-documented managerial costing system that employs replacement cost information may be an acceptable source for replacement cost data.

PLANT REPLACEMENT VALUE⁷ (ONE ACCEPTABLE REPLACEMENT COST METHOD FOR REAL PROPERTY)

27. Plant replacement value (PRV) represents the cost to design and construct a notional facility to current standards or to replace an existing facility at the same location. PRV was developed to support large-scale, program-level estimates for planning purposes and is used in the Federal Real Property Profile (FRPP).⁸ While not previously used for financial reporting purposes, PRV is used for decision making and management purposes. PRV may be an appropriate starting point in establishing replacement cost for real property.

Figure 1: Plant Replacement Value Factors⁹

$$PRV = \text{Facility Quantity} \times \text{Replacement Unit Cost} \times \text{Area Cost Factor} \times \text{Historical Records Adjustment} \times \text{Planning and Design Factor} \times \text{Supervision Inspection and Overhead Factor} \times \text{Contingency Factor}$$

28. PRV is based on the factors identified in figure 1 above. The processes and methodology supporting the PRV model should be documented and maintained. To perform the calculation, the facility quantity (size or unit of measure, such as square footage) needs to be obtained for the real property asset. The replacement unit cost factors are derived from multiple sources, such as government-contract awards and commercial-estimating applications. Area cost factors are developed based on local conditions affecting construction costs. Actual contract award data may span multiple years due to the frequency of relevant awards. In collecting data for use in establishing area cost factors, timing issues will arise and some assets may take more than one year (often several) to plan, contract, and construct. Therefore, averaging the data represents a trade-off, but is acceptable. While more precision could be available, it might require a broader search for relevant cost data that may or may not enhance the resulting valuation.

⁷ Plant Replacement Value (PRV) may also serve as a basis to establish estimated historical cost. If so, adjustments for inflation/deflation may be appropriate.

⁸ The FRPP is a "database of all real property under the custody and control of all executive branch agencies, except when otherwise required for reasons of national security." Federal Real Property Profile Management System. Accessed May 15, 2017. https://www.realpropertyprofile.gov/FRPPMS/FRPP_Login.

⁹ PRV is not limited to the factors included in this figure and described in the following paragraphs. There may be others not included.

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29. PRV also includes historical records adjustment; planning and design cost factors; supervision, inspection, and overhead cost factors; and contingency cost factors. Because PRV will lead to a replacement cost value, the asset characteristics and factors included in the model do not contain all possible attributes and factors associated with the actual asset. As noted in SFFAC 7 (par. 49), replacement cost is not an attribute of the actual asset; instead, it is the theoretical cost to replace the service potential embodied in the asset. Close alignment of the physical characteristics of the actual asset and the theoretical replacement asset is therefore not critical to arrive at a reasonable value.

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30. Because of these inherent limitations, the PRV associated with a particular real property asset may not be indicative of all of the specific features of that asset. In fact, the specific features of the asset may not be consistent with current building codes, materials, or methods. Further, the specific characteristics of the asset may not be catalogued in sufficient detail to establish highly granular cost factors.

31. Potentially acceptable forms of supporting documentation¹⁰ for PRV¹¹ or data elements include some or all of the following:

- a. A process to establish and verify the facility quantity
- b. Geospatial data and space management systems
- c. Maps with addresses or utilities,
- d. Plot plans, as built blueprints, plats, and other schematics serving as facilities management documentation for the asset(s) in question
- e. State, city, and other municipality tax assessment documentation
- f. Designation letter

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32. PRV is inclusive of capital improvements. For example, the primary sources of replacement unit costs are contract data and commercial estimating applications. Some of these factors are not explicitly addressed in PRV but are still embedded in the process. Further, the replacement-unit costs are intended to establish a notional amount for a large number of assets, rather than a specific asset. This representative amount is then applied to individual assets.

33. If PRV is used in establishing the opening balance for real property, then an adjustment for the difference in age between the existing asset and a replacement asset is required to arrive at replacement cost, per SFFAC 7, paragraph 47. This could be accomplished by recognizing accumulated depreciation based on the remaining useful life of the real property. Alternatively, other methods could be used to adjust the PRV for the difference between the remaining service potential of the asset and that of a new replacement asset. Statistical methods of approximating the remaining service potential may provide a cost-beneficial option for making such adjustments. This adjustment is unrelated to inflation or deflation since the acquisition of the existing asset.

¹⁰ The forms of documentation listed in par. 31.a–f are not listed in any order of preference. They are examples and there may be others not included in this list. The list is not exhaustive. Certain documentation would be more significant based on the PRV formula or other factors, but such assessments require judgment.

¹¹ PRV does not represent actual cost and is based on several factors that may be made up of different supporting documents, elements, and formulas.

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OTHER ACCEPTABLE REPLACEMENT COST METHODS FOR GENERAL PROPERTY PLANT & EQUIPMENT (PP&E)

34. There are several sources for current replacement-cost amounts for general PP&E.

Potentially acceptable forms of supporting documentation¹² for this method include the information obtained from the following sources, guides, or lists:

- a. Published price list—the basic price of an item as published in a catalog, list price, or advertisement before any discounts are taken. If the price is reasonably current,¹³ it may be used to establish replacement cost. Sources of price lists may include the following:
 - i. The original equipment manufacturer
 - ii. A vendor involved in the manufacture of the same or a similar asset
 - iii. Federal Logistics Data (FED LOG) published by the Defense Logistics Agency (FED LOG prices may also serve as a basis to establish estimated historical cost.)¹⁴
 - iv. General Services Administration schedule
- b. Published industry price guide—examples of such price guides include the Kelley Blue Book, Aircraft Blue Book, National Automotive Dealers Association guides, and Edmunds.com, which provide prices for the same or similar assets.
- c. Values based on sales by the reporting entity of the same or similar assets to outside parties

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ESTIMATED HISTORICAL COST (INITIAL AMOUNT)

35. A reasonable estimate of historical cost may be based on one or more, or a combination, of the following methods:

- a. Cost of the same or similar assets at the time of acquisition

¹² The forms of documentation listed in par. 34.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

¹³ Reasonably current means that no material adjustments are required for changes in the general price level or for changes in specific prices.

¹⁴ FED LOG may be a potentially acceptable form of supporting documentation, unless unit pricing updates based on recent acquisitions and/or cost of living inflation factors are lacking. Assets listed in FED LOG will have a National Stock Number (NSN) or National Item Identification Number. FED LOG prices may also serve as a basis to establish estimated historical cost. Therefore, FED LOG is identified as a potentially acceptable form of supporting documentation under that discussion. In some situations, inactive acquisitions and older data may be indexed to derive estimated historical cost. In others, historical-cost information for certain types of assets (low-velocity items or major end items such as weapons systems or tanks) are likely to cover only the base asset value and not include later capital improvements or modifications. For example, when a major modification is made to a weapons system, typically a new NSN is created to differentiate the new capability from the older item. For example, FED LOG most likely will have an NSN for an Abrams M1A1 and a separate NSN for an Abrams variant M1A2. Therefore, flexibility must be allowed in determining if FED LOG can be used as replacement cost or estimating a reasonable historical cost.

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- b. Current cost of the same or similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index)
- c. Other reasonable estimation methods, including latest acquisition cost and estimation methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended

36. This list of reasonable estimates is not intended to establish any hierarchy of methodologies. As noted, reasonable estimates of historical cost do not require a precise measure of cost. Materiality and cost should be considered when weighing the benefits of greater precision.
37. Management is responsible for estimates included in the financial statements. Estimates are based on both subjective and objective factors and, as a result, judgment is required to estimate opening balances. Although reasonable estimates are applicable to any general PP&E, certain special considerations would be applied when establishing opening balances. The following is additional guidance that may assist in establishing opening balances based on a reasonable estimate of historical cost.
38. As noted, cost-beneficial options are a major goal of SFFAS 50. Estimating historical cost of an asset is not the same as recreating the accounting records that would have been created had the reporting entity undertaken a GAAP-accounting approach at the time the asset was acquired. SFFAS 50 is intended to avoid the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the [information's](#) current use is limited to accountability and assessing the cost of current services.
39. Reporting entities must provide adequate supporting documentation appropriate for the deemed cost methodology selected to establish opening balances. SFFAS 50 and guidance clarified in this TR allows reporting entities flexibilities that should be considered when developing assumptions (see the next section) and documenting reasonable estimates of historical cost methodology.

ASSUMPTIONS

40. Assumptions are basic beliefs about the future operating and functional characteristics.¹⁵ For purposes of establishing opening balances of general PP&E, reasonable assumptions may be needed to make up for a lack of actual data. When reasonable assumptions are made, they should be documented and based on a consistent approach. Reporting entities should ensure that the assumptions and related supporting documentation are reasonable in the context of the asset, and that the overall valuation is reasonable.
41. Estimated historical cost is an estimate of the costs incurred to bring the PP&E to a form and location suitable for its intended use. SFFAS 6, as amended, paragraph 26, provides examples of the costs that may be included. When management opts to use “other

¹⁵ FASAB Handbook, Version 15 (06/16)

reasonable estimation methods” (par. 35.c above) such as budget records to estimate historical cost, this list is relevant.¹⁶

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42. Many of the examples (such as direct costs of inspection, supervision, and administration of construction contracts and construction work) would require managerial cost accounting systems to calculate an appropriate capitalizable amount during the process of acquiring an asset. Including such costs in estimated historical cost would be especially challenging. The reporting entity may find that critical data elements are missing. For example, a reporting entity may utilize a contract for valuation of modifications even though the contract is missing one or more critical elements to allow for proper cost allocation.

43. The reporting entity should consider whether including all such costs is necessary or cost beneficial to arrive at a reasonable estimate. In doing so, the reporting entity may consider whether comparable costs today are material. If material, management may elect to use current cost-accounting information to estimate historical costs of a similar nature. For example, if inspection and supervision costs are approximately six percent of contract costs today, then that may be a reasonable and cost-beneficial assumption about past costs.

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44. Determination of whether to capitalize a particular cost as a cost of general PP&E should be based on general guidance in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 6, as amended. While these standards are imperative for the go-forward approaches implemented, it is difficult to apply these approaches in establishing opening balances under the alternative methods.

45. For example, SFFAS 4 provides that each reporting entity should accumulate and report the cost of its activities on a regular basis for management-information purposes and that costs should be assigned to outputs in one of the methods listed below in the order of preference:

- a. Directly tracing costs wherever feasible and economically practicable,
- b. Assigning costs on a cause-and-effect basis,
- c. Allocating costs on a reasonable and consistent basis.

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46. A reporting entity eligible to apply the provisions of SFFAS 50 has not been in compliance with SFFAS 4 or SFFAS 6 in the past. There may be little benefit in retrospectively establishing cost-assignment processes to capture indirect costs for the purpose of establishing opening balances. In addition, given that many assets may be near fully depreciated, there may be an argument to expense indirect costs based on materiality. These factors should be considered in developing the reasonable estimate.

Deleted: <#>As noted, while DoD has had numerous years to meet the standards and become GAAP compliant, they have not. Conditions remain that existed when FASAB issued many of these standards, and the cost to implement all the standards concurrently is greater than would have been incurred if standards were implemented in a timely manner. The goal of SFFAS 50 is to avoid requiring the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past. Given the resources that have been devoted to resolving these issues and the substantial efforts underway at DoD to modernize its systems, the greatest benefit would be for DoD to focus on the go-forward system. ¶

47. The discussion below provides *examples* (that are not required or expected) of considerations that may be appropriate for a reasonable estimate of historical cost in establishing opening balances. The list below is not exhaustive and additional considerations (even if not specifically identified in the list below) may be necessary.

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¹⁶Note that deemed cost methods other than estimated historical cost inherently include costs such as the costs identified in this list. Therefore, this list would not be relevant when management elects to apply methods identified at paragraphs 35.a and 35.b.

48. Considerations that may be appropriate for a reasonable estimate of historical cost in establishing opening balances include the following:

- a. It is a reasonable estimate; it does not seek precision.
- b. Materiality is a guiding factor in arriving at assumptions and the cost of more precise assumptions should be considered in relation to the materiality of their effect.
- c. Multiple assumptions may be used to develop the reasonable estimate. This may include rates developed by other program offices, such as depot labor rates, maintenance, or other unique program rates that would be used for labor.
- d. While conflicting documentation may exist regarding a particular item of general PP&E, the reasonableness of the estimate should be based primarily on the method selected. For example, deflating the current cost of a similar asset may result in an estimate that differs from a reasonable estimate based on budget records. Both estimates may be reasonable despite arriving at different amounts. The reporting entity is responsible for establishing a reasonable estimate, and it is not necessary to validate the estimate against alternative ways of arriving at it. The reporting entity should ensure its method is documented.
- e. The deemed cost approach does not anticipate that the full series of entries related to general PP&E be recreated.
 - i. For example, it would not be cost effective or beneficial to expect reporting entities to apply the full cost standards as they would have been applied¹⁷ in establishing opening balances for general PP&E.
 1. Reporting entities may develop reasonable assumptions to determine the capitalizable portion of contract costs or pooled costs. An analysis of current contract costs, looking at the amount of capitalizable and non-capitalizable costs, may provide a reasonable proxy for historical experience. An analysis may provide for a certain percentage or to capitalize all costs of certain programs.
 2. Reporting entities may develop reasonable assumptions or methodologies to determine the capitalizable indirect costs for programs. An analysis of a few select programs may support that applying a set indirect rate to all remaining programs is reasonable.

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DOCUMENTATION

49. Traditional supporting documentation often was not available for legacy weapon programs. The reporting entity may have relied on other supporting documentation that may have been subsequently removed from the acquisition and/or asset management processes.

¹⁷Conditions remain that existed when FASAB issued many of these standards, and the cost to implement all the standards concurrently is greater than would have been incurred if standards were implemented in a timely manner. The goal of SFFAS 50 was to avoid requiring the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the current use is limited to accountability and assessing the cost of current services. The Board proposed less costly alternatives that will support this objective. (SFFAS 50, par. A6.)

50. For example, third-party documentation¹⁸ (such as congressional reports, cost documents, websites devoted to military weapon systems, historical newspaper articles referencing government sources, and other information obtained on the internet) and indexed appraisals may be considered acceptable. However, it is important that reporting entities document and maintain support for the data and assumptions used to develop reasonable estimates.

51. Examples of potentially acceptable documentation are included under each reasonable estimate method.

ESTIMATES—BUDGET BASED

52. The Budget of the U.S. Government (commonly referred to as the President's Budget) and related supporting documentation for a program or asset may have adequate detail to support a reasonable estimate. Specifically, the budget detail provides visibility of the various cost estimates for the program or asset by year. To ensure the full program and funding amounts have been reviewed, the amounts should be reconciled and documented at the appropriation level with Public Laws and allocated to individual programs based on information provided in pertinent budgetary documents. Examples of such budgetary documents may include the following:¹⁹

- a. Executive agency budget submission/request information
- b. Congressional conference committee reports
- c. House and Senate committee reports
- d. Congressional budget requests
- e. Apportionment and Re-apportionment Schedule (SF-132) forms and Report on Budget Execution and Budgetary Resources (SF-133) forms
- f. Other relevant documentation such as Department of the Treasury warrants, material supplemental appropriations, reprogramming, rescissions, transfers, or other budgetary documents that lead to a change in amount.

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53. Although this method is relatively straightforward for individual assets or those recently acquired, it is much more complex when considering program or weapon systems that include a variety of assets and spare parts, logistics, and support equipment. The process is compounded when the information relates to assets, systems, and programs that date over 20 years or more.

54. Therefore, certain flexibilities should be afforded because reporting formats and information needs change over time. Examples may include the following:

- a. Budget-based estimates may need to be reconciled to the documents listed in paragraph 54, if available, or to alternative documents. Older assets (such as assets

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¹⁸ The forms of documentation listed in par. 50 are not listed in any order of preference. They are examples and there may be others not included on this list.

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¹⁹ The examples of budgetary documents listed in par. 52.a–f are not listed in any order of preference. They are examples and there may be others not included on this list.

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acquired in 1990 or before) and legacy systems may have different supporting documentation available.²⁰

- b. Budget documents in a summary format do not preclude a budget-based estimate; estimates may be made at the summary level when adequately explained.

55. Potentially acceptable forms of documentation for this method include the following:²¹

- a. Budget justification materials and items discussed in paragraph 54
- b. Appropriation data
- c. Selected acquisition reports
- d. P-1 documents and R-1 documents
- e. Program office analysis
- f. Allocated per unit cost report
- g. Technical specifications and estimates
- h. Industry estimates reports of amounts to be expended
- i. FED LOG²²

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ESTIMATES—CONTRACT BASED

56. The best case scenario is a “conformed contract” providing all the information available that needs to be allocated to a particular asset, including all the modifications and delivery orders associated with the contract. However, this is not normally the case because costs to be capitalized are included in multiple contract line items and multiple contracts. This methodology involves valuing assets using the pricing data included in contracts. Although challenging, reasonable estimates based on contracts are still permitted.

57. Contracts contain specific contract line item numbers, which delineate specific production and non-production activities (for example, materials, installation, proposal prep, spare parts). As noted above, the determination of whether to capitalize a particular cost as a cost of general PP&E should be based on general guidance in SFFAS 4, and SFFAS 6, as amended. While these standards are imperative for the go-forward approaches implemented, it is difficult to apply these approaches in establishing opening balances under the alternative methods.

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58. Potentially acceptable forms of documentation for this method include the following:²³

- a. Acquisition contracts
- b. Time Compliance and Technical Orders (TCTOs)
- c. Comprehensive Cost and Requirement System Reports

²⁰ Reporting entities may use a Selected Acquisition Report, a congressionally mandated report for major weapon programs outlining budget projections. They may also use a P-1 document, which provides a breakout of all procurement appropriations by line item and an R-1 document, which provides a breakout of all research, development, test, and evaluation appropriations by program element.

²¹ The forms of documentation listed in par. 55.a–i are not listed in any order of preference. They are examples and there may be others not included on this list.

²² See the FED LOG discussion on p. 10

²³ The forms of documentation listed in par. 58.a–i are not listed in any order of preference. They are examples and there may be others not included on this list.

- d. Program office delivery schedule
- e. Maintenance delivery schedule
- f. DD Form-250, *Material Inspection and Receiving Report*, and other receiving reports
- g. Invoices
- h. Program office analysis
- i. FED LOG²⁴

ESTIMATES—ENGINEERING DOCUMENT BASED

59. Detailed technical and engineering documents lay out the assumptions, materials, and estimated cost to produce an asset. In these instances, the engineering documents can provide a sufficient basis for estimating deemed cost for opening balances.

60. Potentially acceptable forms of documentation for this method include the following:²⁵

- a. Technical specifications and estimates
- b. Maintenance delivery schedule
- c. Bill of material
- d. Invoices
- e. Vendor quotes on material costs/sale rates
- f. TCTOs
- g. Industry estimates
- h. FED LOG²⁶

ESTIMATE—DEFLATION OF CURRENT COST

61. SFFAS 6, as amended, provides that general PP&E may be estimated based on current cost of the same or similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index). This method is appropriate when a series of similar items are being acquired over time and there is a reliable value for a base asset.

62. Considerable flexibility is permitted within the framework as long as the method is properly indexed. For example, estimation may extend beyond current costs, provided it is properly indexed. It may be possible that the cost of a similar asset listed in a price guide two years before or after acquisition, properly indexed, is a reasonable estimate and likely more accurate than an indexed cost taken from a current price guide.

63. Potentially acceptable forms of documentation for this method include the following:²⁷

²⁴ See the FED LOG discussion on p. 10.

²⁵ The forms of documentation listed in par. 60.a–h are not listed in any order of preference. They are examples and there may be others not included on this list.

²⁶ See the FED LOG discussion on p. 10.

²⁷ The forms of documentation listed in par. 63.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

- a. Current cost of a similar asset
- b. Appropriate pricing index to discount the current asset cost to its estimated cost at the time of acquisition
 - i. Consumer Price Index
 - ii. Other indices from the Department of Labor's Bureau of Labor Statistics
- c. FED LOG²⁸

COST ESTIMATORS²⁹

64. In certain instances, an informed opinion of an expert cost estimator may be used to support reasonable estimates consistent with the provisions of SFFAS 50 and this [IR](#). Informed opinion refers to the judgment of others who make estimates based on their programmatic knowledge and/or experience without using a fully satisfactory information store and, in some cases, without using an econometric or other statistical model. If an expert cost estimator is used, the expert's credentials or qualifications should be articulated and documented in sufficient detail to allow review and validation by independent sources, including independent auditors. For example, reports and studies on relevant issues and other relevant communications describing the basis for any assumptions or changes in assumptions should be maintained in support of the expert's opinion.

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65. Potentially acceptable forms of documentation for this method include the following:³⁰

- a. Reports and studies
- b. Memos with outside experts and minutes from internal meetings describing the basis for any assumptions or changes in assumptions
- c. Previous studies conducted by the expert, including industry studies, journal articles, and third-party studies

FAIR VALUE

66. Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.³¹ When determining the value of opening property balances, fair value is an acceptable valuation method to use in absence of actual cost data and associated supporting documents.

67. FASAB has not developed detailed guidance regarding the approaches to use in establishing fair value. Other standards-setters have provided guidance. For example, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, which is summarized as follows:

²⁸ See the FED LOG discussion on p. 10.

²⁹ Cost estimators may also serve as a basis to establish fair value. Therefore, cost estimators are identified as a potentially acceptable documentation under that discussion.

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³⁰ The forms of documentation listed in par. 65.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

³¹ SFFAC 7, par. 38.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently,³² though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

68. SFFAS 6, as amended by SFFAS 50, permits use of fair value as one option for valuing opening balances and does not require that fair value be maintained through revaluation in the future. Generally, where fair value is applied in other circumstances it is maintained as a current value and updated each reporting period. Because SFFAS 50 seeks cost-effective approaches to a one-time valuation, the reporting entity should use fair value approaches that are cost effective. The data available should be appropriate to the circumstances of establishing a cost-effective opening balance for unique assets.

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69. In such cases, the markets may be inherently limited given the unique nature of government assets, such as defense assets. In fact, many assets may be highly specialized, making fair value difficult to determine. For example, there may be few observable transactions and transactions may not be indicative of an active market between willing buyers and sellers.

70. For these reasons, and to afford use of fair value in a cost-effective manner, opening balances at fair value may be determined based upon generally accepted approaches established by the GASB as well as

a. market approaches where both the market and data are limited (hereafter "limited market approaches");

³² Cost-beneficial options are a major goal of SFFAS 50. The reporting entity may select any method; there is no preferred method among the methods permitted. The reporting entity should consider the reasonableness of the methodology selected and its relation to the available documentation. However, making comparisons among the methods or attempting to identify the most cost-beneficial method would be inappropriate. Management is not required to select the most precise or the best method.

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- b. cost estimators; and/or
- c. desktop appraisals.

71. Limited market approaches may include transactions under the foreign military sales program, prices charged for sales between federal government agencies, and other transfer programs for which reimbursement occurs.
72. Fair value can be established through an appraisal performed by an independent, qualified professional. The appraisal must be performed in accordance with the Uniform Standards of Professional Appraisal Practice to be considered compliant.
73. Although appraisals require the expenditure of resources, they may be justified for significant assets or when multiple, or groups of, assets can be appraised at the same time.
74. For the purpose of establishing deemed cost, desktop appraisals that do not require physical inspection of the assets are acceptable. Mass appraisals, which leverage systematic procedures and statistical testing techniques to value multiple assets concurrently, are also acceptable for establishing deemed cost.
75. Potentially acceptable forms of documentation for this method include the following:³³
- a. Appraisal documents from qualified professionals
 - b. Methodology describing the fair value process
 - c. Documentation showing a recent sales transaction and amount for a similar asset in similar condition
 - d. Documentation showing a third-party sales price for a similar asset in similar condition
 - e. Documentation to support the cost estimator

LAND RIGHTS

76. One alternative method permitted under SFFAS 50 is an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.
77. Reporting entities may elect to exclude land and land rights in establishing opening balances of general PP&E (consistent with the alternative method established in SFFAS 6, as amended, par. 40.f.i). It is important to consider what information should be disclosed regarding land rights.
78. SFFAS 6, as amended, states that a component reporting entity electing to exclude land and land rights from its general PP&E opening balances must disclose, with a reference on the balance sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. A reporting entity electing to exclude land and land rights from its

³³ The forms of documentation listed in par. 75, a–e are not listed in any order of preference. They are examples and there may be others not included on this list.

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general PP&E opening balance should continue to exclude future land and land rights acquisition amounts and provide the disclosures ~~(SFFAS 6, as amended paragraph 40.h.ii)~~. However, SFFAS 6, as amended, and the basis for conclusions for SFFAS 50, acknowledge the diverse nature of land rights. SFFAS 6 acknowledges that some land rights may be depreciable or amortizable while others are not. For example, land rights for a limited period of time are depreciated or amortized, whereas land rights that are permanent, such as with a deeded easement or right of way, are not.

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79. The reporting entity should consider quantitative and qualitative criteria in determining if land rights disclosures of acreage are appropriate. A reporting entity electing to exclude land rights from the opening balances and to expense subsequent acquisitions of land rights would disclose acreage when a land right provides control of acreage. Generally, when a land right does not provide ~~acreage to the entity (that is, by allowing the entity to control specific acreage)~~, there would be no acreage to disclose. Therefore, there may not be land rights disclosures required by SFFAS 6, as amended, by SFFAS 50.

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80. In addition, materiality is an overarching consideration in financial reporting.

EFFECTIVE DATE

81. This TR is effective upon issuance.

The provisions of this Technical Release need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or other pronouncements. The Handbook is updated annually and includes a status section directing the reader to any pronouncement that changed this Technical Release. Within the text of the Technical Release, the guidance sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY AND GUIDANCE

- A1. FASAB issued SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, on August 4, 2016, in response to DoD's request for guidance on establishing opening balances for general PP&E.
- A2. The alternative methods provided in SFFAS 50 are meant to be less costly options to implement GAAP when establishing opening balances for general PP&E.
- A3. In August 2016, the Accounting and Auditing Policy Committee (AAPC or "the Committee") approved two projects related to SFFAS 50. This guidance is a result of the AAPC's second project to develop timely implementation guidance to assist with issues related to SFFAS 50.³⁴ The AAPC established a task force to assist in developing the guidance. The task force comprised subject matter experts from outside the federal government (such as independent public accounting firms and consulting firms) and inside the federal government (such as chief financial officer staff and program office staff) to ensure diverse perspectives were represented.
- A4. The AAPC task force was divided into sub-groups (general PP&E, land rights, and broad issues) to assist FASAB staff and expedite the identification of issues. The task force considered draft documents prepared by FASAB staff. As a result of the task force input, FASAB staff developed the implementation guidance presented in this TR.
- A5. This guidance applies to reporting entities electing to apply SFFAS 50. This TR provides additional guidance to those reporting entities strictly in applying the alternative methods in establishing opening balances.

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³⁴ The first project resulted in conforming amendments to existing TRs. FASAB issued TR 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*, in April 2017.

A6. This implementation guidance assists in applying the alternative methods for opening balances and provides clarification on how the foundation and flexibility of SFFAS 50 encourage reporting entities to consider cost-benefit based on the availability of information or other practical considerations. It confirms that reporting entities may select any of the SFFAS 50 methods and there is no preferred method. Management is not required to select the most precise or best method.

A7. This guidance explains the alternative valuation methods and describes the documentation that may be used to support the valuation as outlined in SFFAS 6, as amended. This TR does not provide guidance on the validation of existence and completeness of general PP&E.

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Summary of Outreach Efforts and Responses

A8. The exposure draft (ED), Implementation Guidance for Establishing Opening Balances, was issued June 21, 2017, with comments requested by July 21, 2017.

A9. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, FASAB News, the Journal of Accountancy, Association of Government Accountants Topics, the CPA Journal, Government Executive, the CPA Letter, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

A10. The AAPC received six responses from preparers and users of federal financial information. The majority of respondents agreed with the proposals provided in the TR.

A11. The AAPC considered responses to the ED at its August 17, 2017, public meeting. The AAPC did not rely on the number in favor of or opposed to a given position. Information about the respondents majority view is provided only as a means of summarizing the comments. The AAPC considered the arguments in each response and weighed the merits of the points raised.

A12. Of the six responses, four agreed with the proposals. Specifically, the respondents agreed that the TR provides clear technical guidance, clarifies the flexibility intended in selecting among methods by SFFAS 50, and explains that management is not required to select the most precise or best method. Two respondents neither agreed nor disagreed with the proposal. One respondent provided a letter indicating they had no comments. The other respondent provided editorial comments.

A13. Certain respondents provided suggestions and editorial comments. The respondents' comments were carefully considered by the Committee and several were adopted.

AAPC & Board Approval

A14. The TR was TBD [approved] by the AAPC for release to FASAB for issuance. The Board has reviewed this TR and a majority of its members do not object to its issuance. Written ballots are available for public inspection at the FASAB office.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CFOC	Chief Financial Officers' Council
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DoD	Department of Defense
<u>ED</u>	<u>Exposure Draft</u>
FASAB	Federal Accounting Standards Advisory Board
<u>GASB</u>	<u>Governmental Accounting Standards Board</u>
FED LOG	Federal Logistics Data
FRPP	Federal Real Property Profile
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
NSN	National Stock Number
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
PRV	Plant Replacement Value
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TCTOs	Time Compliance and Technical Orders
TR	Technical Release

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Federal Accounting Standards Advisory Board

IMPLEMENTATION GUIDANCE FOR
ESTABLISHING OPENING BALANCES

Federal Financial Accounting Technical Release 18

ATTACHMENT 3- DRAFT

October 16, 2017

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB’s website at www.fasab.gov.

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). FASAB's mission is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from FASAB on its website:

- ◆ ["Charter of the Accounting and Auditing Policy Committee"](#)
- ◆ [Accounting and Auditing Policy Committee Operating Procedures](#)

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EXECUTIVE SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E).

This Technical Release (TR) provides additional guidance to those reporting entities in applying the alternative methods. This TR explains the alternative valuation methods in greater detail and describes examples of the acceptable types of documentation that may support the valuation as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. This TR does not provide guidance on the validation of the existence and completeness of general PP&E.

The alternative methods provided in SFFAS 50 are meant to be less costly options to implement generally accepted accounting principles when establishing opening balances for general PP&E. This TR acknowledges that the reporting entity may select any of the alternative methods and that there is no preferred method. Management is not required to select the most precise or best method.

While this TR is specific to reporting entities that apply SFFAS 50 or the alternative methods, there are additional TRs the reporting entity may find helpful and still apply. For example, TR 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment*, addresses the estimation of historical cost, one of the deemed cost methods.

The provisions of this TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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TECHNICAL GUIDANCE

SCOPE

1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.
2. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E). This TR provides additional guidance to those reporting entities in applying the alternative methods.

ALTERNATIVE METHODS

3. This implementation guidance provides assistance in applying the alternative methods for opening balances. It explains the alternative valuation methods¹ in greater detail and describes documentation that may support the valuation, as outlined in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. This TR does not provide guidance on validation of the existence and completeness of general PP&E.
4. In Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) acknowledges that accounting standards sometimes necessitate judgments about the cost and benefits of producing information or of reporting it differently. The standards-setter must, to some extent, be aware of these potential effects when considering the cost and benefits of any given accounting alternative. The benefits of the standards should exceed the cost of applying them.
5. A premise for issuing SFFAS 50 was to consider the cost and benefit associated with establishing general PP&E opening balance information. As explained in the basis for conclusions of SFFAS 50, the Board made the following conclusions:

¹ The Accounting and Auditing Policy Committee developed this guidance to explain the alternative valuation methods and describe the documentation that may support the valuation as outlined in SFFAS 6, as amended. Deemed cost (one of the alternative valuation methods) is also an acceptable valuation method for opening balances of inventory, operating materials, and supplies, and stockpile materials. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, amended SFFAS 3, *Accounting for Inventory and Related Property*, to permit alternative valuation methods in establishing opening balances. Reporting entities may reference relevant portions of this guide when establishing opening balances in accordance with SFFAS 3, par. 20, 22–26, 42, 44, and 53, as amended.

A6. The Board noted that while DoD has had numerous years to meet the standards and become GAAP compliant, they have not. Conditions remain that existed when FASAB issued many of these standards, and the cost to implement all the standards concurrently is greater than would have been incurred if standards were implemented in a timely manner. The goal of this Statement is to avoid requiring the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the current use is limited to accountability and assessing the cost of current services. The Board proposed less costly alternatives that will support this objective.

A7. The Board believes assisting DoD with establishing a baseline benefits all parties. Providing a starting point will enable DoD to focus on needed improvements to systems and controls to process transactions going forward and thereby establish and maintain reliable financial information regarding future PP&E acquisitions. Establishing a sound financial management system is of primary importance.

6. The alternative methods provided in SFFAS 6, as amended by SFFAS 50, are meant to be less costly options to implement generally accepted accounting principles (GAAP) for general PP&E; this allows reporting entities to focus on needed improvements to systems and controls to process transactions going forward. By establishing and maintaining reliable financial information, such reporting entities will be more informed about costs of future general PP&E acquisitions.
7. The alternative methods provide the needed flexibility for establishing opening balances. At times, it is not practical or cost effective to determine the historical cost of general PP&E because of inadequate systems and/or insufficient documentation.
8. The alternative methods include (1) using deemed cost as an alternative valuation method for opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

MANAGEMENT RESPONSIBILITY AND DOCUMENTATION

9. Management is responsible for establishing accounting policies, including the determination of which method to use. Any of the methods provided by SFFAS 6, as amended, are acceptable. It appears management would apply cost-benefit considerations and other practical concerns under different alternatives. It is important to be mindful that the alternative methods for establishing opening balances are based on the concept of reasonable estimates and therefore do not seek precision. Also, assessments of materiality and cost versus benefit should be guiding factors because cost-beneficial options are a major goal of SFFAS 50.
10. The reporting entity may select any of the alternative methods when establishing opening balances; there is no preferred method among those permitted. Therefore, making comparisons among the methods or attempting to identify the best method is inappropriate. Management should expect to provide adequate documentation that is consistent with the

method used and supports the overall reasonableness of the valuation. However, management is not required to select the most precise or best method.

11. Management is also responsible for maintaining adequate documentation of data sources and the application of methodologies. It is reasonable to expect that sufficient, relevant and reliable historical cost information may not be available for general PP&E when applying the alternatives provided by SFFAS 50. In the absence of sufficient, relevant and reliable historical cost information on which to base the valuation, reporting entities should maintain supporting documentation for the alternative method and data used to establish opening balances. Management should expect to support alternative methods with verifiable documented information. Adequate documentation of the source of the data and the application of the methodology used will help support management's assertion that the valuations are in compliance with accounting standards in all material respects.
12. The documentation should describe the methodology (alternative method used and description) and the reporting entity's review process to determine that the valuations are reasonable. While the documentation may differ from what is expected to support historical cost, it "should be complete and stand on its own." That is, a knowledgeable, independent person could perform the same procedures in the methodology and replicate the results. This should be maintained in a manner to facilitate the auditor's testing of the alternative methods. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purpose of reconstructing the amounts.
13. Additional information, including specific examples of documentation that may be acceptable, is included under each alternative method.

DEEMED COST

14. The primary focus of this guidance is on the application of deemed cost. Deemed cost is a surrogate for initial amounts and an acceptable valuation method for opening balances for general PP&E. Use of deemed cost is intended to provide a cost-effective approach to the adoption of SFFAS 6, as amended, where historical cost information and systems do not support such balances.
15. Deemed cost may include several valuation methods because the reporting entity may have multiple component or subcomponent reporting entities² (1) using different methods simultaneously and/or (2) adopting a method permitted under SFFAS 6, as amended, at different times prior to establishing opening balances. Large and complex reporting entities, such as the Department of Defense (DoD), may have used a variety of valuation methods.
16. It is acceptable for the reporting entity to have multiple component or subcomponent reporting entities that use various valuation methods simultaneously. Deemed cost should

² SFFAS 47, *Reporting Entity*, provides that "component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity. Examples of component reporting entities include organizations such as executive departments and agencies. Component reporting entities would also include subcomponents that may themselves prepare general purpose federal financial reports (GPFFRs). One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

be based on one, or a combination, of the following three valuation methods permitted by SFFAS 6, as amended: (1) replacement cost, (2) estimated historical cost, or (3) fair value. While no disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required, documentation should clearly indicate the valuation method applied to each asset or class of assets.

17. While flexibility is offered, some options require additional disclosures,³ such as when component or subcomponent reporting entities elect to apply alternative methods⁴ besides deemed cost. SFFAS 6, as amended, provides that in the event a different alternative method is applied by a subcomponent reporting entity consolidated into a larger reporting entity, the alternative adopted by each significant subcomponent should be disclosed.
18. Adoption of deemed cost includes various valuation methods that may require the use of assumptions to develop an approximate initial amount when there is no precise means of measurement.
19. There may be high uncertainty in the underlying assumptions used to establish opening balances under deemed cost methods. This guidance postulates that deemed cost will be subject to an inherent lack of precision because of the limitations regarding information available to the reporting entity. In using deemed cost, the reporting entity should consider the reasonableness of the assumptions selected, the relationship of the assumptions to the available documentation that is consistent with the methodology, and the overall reasonableness of the valuation.
20. This guidance provides a foundation for preparers to exercise judgment in developing surrogates for use as deemed cost. Unlike some judgments that management makes, deemed cost will not be “trued up” to reflect the actual value in the future. As addressed by SFFAS 50, deemed cost is a surrogate for the actual or historic cost associated with general PP&E, and there is no expectation the deemed cost will be updated or changed for the passage of time, except for error corrections. Said differently, when a reporting entity elects to adopt deemed cost to establish opening balances, the reporting entity establishes opening balances that are considered consistent with GAAP. The established opening balances are not expected to be updated at a later point in time (except for the recognition of the associated depreciation) or to be evaluated retrospectively.
21. The methods are described more fully below and not listed in order of preference.

³ See SFFAS 6, as amended, par. 40.h–i and SFFAS 10, par. 36.f–g for information about disclosures.

⁴ As explained in par. 8, the alternative methods used to establish opening balances of general PP&E include (1) using deemed cost as an alternative valuation method for opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

REPLACEMENT COST

22. Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.⁵ The use of replacement cost would be applied for valuing opening balances and not maintained through revaluation in the future.

23. SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, explains replacement cost and that there may be several ways of arriving at an approximation of it:

47. Replacement cost is a remeasured amount, an entry value that is often advocated for assets used in providing services, such as capital assets and inventory not held for sale. Replacing the remaining service potential of an existing asset is not the same as acquiring an identical asset. However, in practice, it may be difficult to measure remaining service potential directly. There may be several ways of arriving at an approximation. For example, one way would be to measure the current cost of a similar asset, reduced by an appropriate amount to allow for the lower service potential of the existing asset due to its age and condition. Thus, the replacement cost of an asset is not the same as the fair value of either an equivalent new asset or the existing asset at the reporting date. For example, to arrive at the replacement cost of a fifty-year-old office building at the mid-point of its expected life, the fair value of an equivalent, newly constructed office building would have to be adjusted for the value of the difference in age or service potential. In addition, the fair value of the existing building may be higher than the replacement cost because the building can be put to alternative uses that produce greater benefits to the owner.

48. The relevance of replacement cost is high, especially for assessments of financial position and future resource needs. The level of understandability, reliability, and comparability across entities of reported replacement cost amounts may vary according to the data used and the complexity of the calculation.

49. Reporting the replacement cost of capital assets used in providing services and related service costs can facilitate comparisons between program and activity costs and accomplishments related to the same period. An objection sometimes raised is that replacement cost is not an attribute of the asset that is actually owned. However, the asset being measured is not the physical asset but the services it can provide.

24. Generally, replacement cost is the amount that a reporting entity would pay to replace the service potential of an existing asset at current transaction prices with a similar asset. Replacement cost is different than reproduction cost. Reproduction cost is the cost to construct an exact duplicate of the structure at today's cost. Reproduction cost would result in reconstructing the item as is, using manufacturing/construction techniques and standards applicable at the time the asset (and any modifications) entered service. Replacement cost using today's materials and standards is typically lower than reproduction cost, as reproduction of older methods today is less efficient and more expensive.

⁵ SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, par. 46.

25. As explained in SFFAC 7, a reporting entity must consider the remaining service potential or age of the general PP&E to arrive at replacement cost. For example, the cost of a new item of PP&E could be adjusted by the equivalent of accumulated depreciation based on the remaining useful life compared to the original useful life to arrive at replacement cost.
26. Under deemed cost, a well-documented managerial costing system that employs replacement cost information may be an acceptable source for replacement cost data.

PLANT REPLACEMENT VALUE⁶ (ONE ACCEPTABLE REPLACEMENT COST METHOD FOR REAL PROPERTY)

27. Plant replacement value (PRV) represents the cost to design and construct a notional facility to current standards or to replace an existing facility at the same location. PRV was developed to support large-scale, program-level estimates for planning purposes and is used in the Federal Real Property Profile (FRPP).⁷ While not previously used for financial reporting purposes, PRV is used for decision making and management purposes. PRV may be an appropriate starting point in establishing replacement cost for real property.

Figure 1: Plant Replacement Value Factors⁸

$$PRV = \text{Facility Quantity} \times \text{Replacement Unit Cost} \times \text{Area Cost Factor} \times \text{Historical Records Adjustment} \times \text{Planning and Design Factor} \times \text{Supervision Inspection and Overhead Factor} \times \text{Contingency Factor}$$

28. PRV is based on the factors identified in figure 1 above. The processes and methodology supporting the PRV model should be documented and maintained. To perform the calculation, the facility quantity (size or unit of measure, such as square footage) needs to be obtained for the real property asset. The replacement unit cost factors are derived from multiple sources, such as government-contract awards and commercial-estimating applications. Area cost factors are developed based on local conditions affecting construction costs. Actual contract award data may span multiple years due to the frequency of relevant awards. In collecting data for use in establishing area cost factors, timing issues will arise and some assets may take more than one year (often several) to plan, contract, and construct. Therefore, averaging the data represents a trade-off, but is acceptable. While more precision could be available, it might require a broader search for relevant cost data that may or may not enhance the resulting valuation.

⁶ Plant Replacement Value (PRV) may also serve as a basis to establish estimated historical cost. If so, adjustments for inflation/deflation may be appropriate.

⁷ The FRPP is a "database of all real property under the custody and control of all executive branch agencies, except when otherwise required for reasons of national security." Federal Real Property Profile Management System. Accessed May 15, 2017. https://www.realpropertyprofile.gov/FRPPMS/FRPP_Login.

⁸ PRV is not limited to the factors included in this figure and described in the following paragraphs. There may be others not included.

29. PRV also includes historical records adjustment; planning and design cost factors; supervision, inspection, and overhead cost factors; and contingency cost factors. Because PRV will lead to a replacement cost value, the asset characteristics and factors included in the model do not contain all possible attributes and factors associated with the actual asset. As noted in SFFAC 7 (par. 49), replacement cost is not an attribute of the actual asset; instead, it is the theoretical cost to replace the service potential embodied in the asset. Close alignment of the physical characteristics of the actual asset and the theoretical replacement asset is therefore not critical to arrive at a reasonable value.
30. Because of these inherent limitations, the PRV associated with a particular real property asset may not be indicative of all of the specific features of that asset. In fact, the specific features of the asset may not be consistent with current building codes, materials, or methods. Further, the specific characteristics of the asset may not be catalogued in sufficient detail to establish highly granular cost factors.
31. Potentially acceptable forms of supporting documentation⁹ for PRV¹⁰ or data elements include some or all of the following:
- a. A process to establish and verify the facility quantity
 - b. Geospatial data and space management systems
 - c. Maps with addresses or utilities
 - d. Plot plans, as built blueprints, plats, and other schematics serving as facilities management documentation for the asset(s) in question
 - e. State, city, and other municipality tax assessment documentation
 - f. Designation letter
32. PRV is inclusive of capital improvements. For example, the primary sources of replacement unit costs are contract data and commercial estimating applications. Some of these factors are not explicitly addressed in PRV but are still embedded in the process. Further, the replacement-unit costs are intended to establish a notional amount for a large number of assets, rather than a specific asset. This representative amount is then applied to individual assets.
33. If PRV is used in establishing the opening balance for real property, then an adjustment for the difference in age between the existing asset and a replacement asset is required to arrive at replacement cost, per SFFAC 7, paragraph 47. This could be accomplished by recognizing accumulated depreciation based on the remaining useful life of the real property. Alternatively, other methods could be used to adjust the PRV for the difference between the remaining service potential of the asset and that of a new replacement asset. Statistical methods of approximating the remaining service potential may provide a cost-beneficial option for making such adjustments. This adjustment is unrelated to inflation or deflation since the acquisition of the existing asset.

⁹ The forms of documentation listed in par. 31.a–f are not listed in any order of preference. They are examples and there may be others not included in this list. The list is not exhaustive. Certain documentation would be more significant based on the PRV formula or other factors, but such assessments require judgment.

¹⁰ PRV does not represent actual cost and is based on several factors that may be made up of different supporting documents, elements, and formulas.

OTHER ACCEPTABLE REPLACEMENT COST METHODS FOR GENERAL PROPERTY PLANT & EQUIPMENT (PP&E)

34. There are several sources for current replacement-cost amounts for general PP&E. Potentially acceptable forms of supporting documentation¹¹ for this method include the information obtained from the following sources, guides, or lists:
- a. Published price list—the basic price of an item as published in a catalog, list price, or advertisement before any discounts are taken. If the price is reasonably current,¹² it may be used to establish replacement cost. Sources of price lists may include the following:
 - i. The original equipment manufacturer
 - ii. A vendor involved in the manufacture of the same or a similar asset
 - iii. Federal Logistics Data (FED LOG) published by the Defense Logistics Agency (FED LOG prices may also serve as a basis to establish estimated historical cost.)¹³
 - iv. General Services Administration schedule
 - b. Published industry price guide—examples of such price guides include the Kelley Blue Book, Aircraft Blue Book, National Automotive Dealers Association guides, and Edmunds.com, which provide prices for the same or similar assets.
 - c. Values based on sales by the reporting entity of the same or similar assets to outside parties

ESTIMATED HISTORICAL COST (INITIAL AMOUNT)

35. A reasonable estimate of historical cost may be based on one or more, or a combination, of the following methods:
- a. Cost of the same or similar assets at the time of acquisition

¹¹ The forms of documentation listed in par. 34.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

¹² Reasonably current means that no material adjustments are required for changes in the general price level or for changes in specific prices.

¹³ FED LOG may be a potentially acceptable form of supporting documentation unless unit pricing updates based on recent acquisitions and/or cost of living inflation factors are lacking. Assets listed in FED LOG will have a National Stock Number (NSN) or National Item Identification Number. FED LOG prices may also serve as a basis to establish estimated historical cost. Therefore, FED LOG is identified as a potentially acceptable form of supporting documentation under that discussion. In some situations, inactive acquisitions and older data may be indexed to derive estimated historical cost. In others, historical-cost information for certain types of assets (low-velocity items or major end items such as weapons systems or tanks) are likely to cover only the base asset value and not include later capital improvements or modifications. For example, when a major modification is made to a weapons system, typically a new NSN is created to differentiate the new capability from the older item. For example, FED LOG most likely will have an NSN for an Abrams M1A1 and a separate NSN for an Abrams variant M1A2. Therefore, flexibility must be allowed in determining if FED LOG can be used as replacement cost or estimating a reasonable historical cost.

- b. Current cost of the same or similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index)
 - c. Other reasonable estimation methods, including latest acquisition cost and estimation methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended
36. This list of reasonable estimates is not intended to establish any hierarchy of methodologies. As noted, reasonable estimates of historical cost do not require a precise measure of cost. Materiality and cost should be considered when weighing the benefits of greater precision.
37. Management is responsible for estimates included in the financial statements. Estimates are based on both subjective and objective factors and, as a result, judgment is required to estimate opening balances. Although reasonable estimates are applicable to any general PP&E, certain special considerations would be applied when establishing opening balances. The following is additional guidance that may assist in establishing opening balances based on a reasonable estimate of historical cost.
38. As noted, cost-beneficial options are a major goal of SFFAS 50. Estimating historical cost of an asset is not the same as recreating the accounting records that would have been created had the reporting entity undertaken a GAAP-accounting approach at the time the asset was acquired. SFFAS 50 is intended to avoid the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the information's current use is limited to accountability and assessing the cost of current services.
39. Reporting entities must provide adequate supporting documentation appropriate for the deemed cost methodology selected to establish opening balances. SFFAS 50 and guidance clarified in this TR allows reporting entities flexibilities that should be considered when developing assumptions (see the next section) and documenting reasonable estimates of historical cost methodology.

ASSUMPTIONS

40. Assumptions are basic beliefs about the future operating and functional characteristics.¹⁴ For purposes of establishing opening balances of general PP&E, reasonable assumptions may be needed to make up for a lack of actual data. When reasonable assumptions are made, they should be documented and based on a consistent approach. Reporting entities should ensure that the assumptions and related supporting documentation are reasonable in the context of the asset, and that the overall valuation is reasonable.
41. Estimated historical cost is an estimate of the costs incurred to bring the PP&E to a form and location suitable for its intended use. SFFAS 6, as amended, paragraph 26, provides examples of the costs that may be included. When management opts to use "other

¹⁴ FASAB Handbook, Version 15 (06/16)

reasonable estimation methods” (par. 35.c above) such as budget records to estimate historical cost, this list is relevant.¹⁵

42. Many of the examples (such as direct costs of inspection, supervision, and administration of construction contracts and construction work) would require managerial cost accounting systems to calculate an appropriate capitalizable amount during the process of acquiring an asset. Including such costs in estimated historical cost would be especially challenging. The reporting entity may find that critical data elements are missing. For example, a reporting entity may utilize a contract for valuation of modifications even though the contract is missing one or more critical elements to allow for proper cost allocation.
43. The reporting entity should consider whether including all such costs is necessary or cost beneficial to arrive at a reasonable estimate. In doing so, the reporting entity may consider whether comparable costs today are material. If material, management may elect to use current cost-accounting information to estimate historical costs of a similar nature. For example, if inspection and supervision costs are approximately six percent of contract costs today, then that may be a reasonable and cost-beneficial assumption about past costs.
44. Determination of whether to capitalize a particular cost as a cost of general PP&E should be based on general guidance in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 6, as amended. While these standards are imperative for the go-forward approaches implemented, it is difficult to apply these approaches in establishing opening balances under the alternative methods.
45. For example, SFFAS 4 provides that each reporting entity should accumulate and report the cost of its activities on a regular basis for management-information purposes and that costs should be assigned to outputs in one of the methods listed below in the order of preference:
 - a. Directly tracing costs wherever feasible and economically practicable
 - b. Assigning costs on a cause-and-effect basis
 - c. Allocating costs on a reasonable and consistent basis
46. A reporting entity eligible to apply the provisions of SFFAS 50 has not been in compliance with SFFAS 4 or SFFAS 6 in the past. There may be little benefit in retrospectively establishing cost-assignment processes to capture indirect costs for the purpose of establishing opening balances. In addition, given that many assets may be near fully depreciated, there may be an argument to expense indirect costs based on materiality. These factors should be considered in developing the reasonable estimate.
47. The discussion below provides *examples* (that are not required or expected) of considerations that may be appropriate for a reasonable estimate of historical cost in establishing opening balances. The list below is not exhaustive and additional considerations (even if not specifically identified in the list below) may be necessary.

¹⁵Note that deemed cost methods other than estimated historical cost inherently include costs such as the costs identified in this list. Therefore, this list would not be relevant when management elects to apply methods identified at paragraphs 35.a and 35.b.

48. Considerations that may be appropriate for a reasonable estimate of historical cost in establishing opening balances include the following:
- a. It is a reasonable estimate; it does not seek precision.
 - b. Materiality is a guiding factor in arriving at assumptions and the cost of more precise assumptions should be considered in relation to the materiality of their effect.
 - c. Multiple assumptions may be used to develop the reasonable estimate. This may include rates developed by other program offices, such as depot labor rates, maintenance, or other unique program rates that would be used for labor.
 - d. While conflicting documentation may exist regarding a particular item of general PP&E, the reasonableness of the estimate should be based primarily on the method selected. For example, deflating the current cost of a similar asset may result in an estimate that differs from a reasonable estimate based on budget records. Both estimates may be reasonable despite arriving at different amounts. The reporting entity is responsible for establishing a reasonable estimate, and it is not necessary to validate the estimate against alternative ways of arriving at it. The reporting entity should ensure its method is documented.
 - e. The deemed cost approach does not anticipate that the full series of entries related to general PP&E be recreated.
 - i. For example, it would not be cost effective or beneficial to expect reporting entities to apply the full cost standards as they would have been applied¹⁶ in establishing opening balances for general PP&E.
 - 1. Reporting entities may develop reasonable assumptions to determine the capitalizable portion of contract costs or pooled costs. An analysis of current contract costs, looking at the amount of capitalizable and non-capitalizable costs, may provide a reasonable proxy for historical experience. An analysis may provide for a certain percentage or to capitalize all costs of certain programs.
 - 2. Reporting entities may develop reasonable assumptions or methodologies to determine the capitalizable indirect costs for programs. An analysis of a few select programs may support that applying a set indirect rate to all remaining programs is reasonable.

DOCUMENTATION

49. Traditional supporting documentation often was not available for legacy weapon programs. The reporting entity may have relied on other supporting documentation that may have been subsequently removed from the acquisition and/or asset management processes.

¹⁶Conditions remain that existed when FASAB issued many of these standards, and the cost to implement all the standards concurrently is greater than would have been incurred if standards were implemented in a timely manner. The goal of SFFAS 50 was to avoid requiring the expenditure of taxpayer dollars in recreating information that would have been of greater benefit in the past (for example, to evaluate major acquisition/construction programs as they were executed), but for which the current use is limited to accountability and assessing the cost of current services. The Board proposed less costly alternatives that will support this objective. (SFFAS 50, par. A6.)

50. For example, third-party documentation¹⁷ (such as congressional reports, cost documents, websites devoted to military weapon systems, historical newspaper articles referencing government sources, and other information obtained on the internet) and indexed appraisals may be considered acceptable. However, it is important that reporting entities document and maintain support for the data and assumptions used to develop reasonable estimates.
51. Examples of potentially acceptable documentation are included under each reasonable estimate method.

ESTIMATES—BUDGET BASED

52. The Budget of the U.S. Government (commonly referred to as the President's Budget) and related supporting documentation for a program or asset may have adequate detail to support a reasonable estimate. Specifically, the budget detail provides visibility of the various cost estimates for the program or asset by year. To ensure the full program and funding amounts have been reviewed, the amounts should be reconciled and documented at the appropriation level with Public Laws and allocated to individual programs based on information provided in pertinent budgetary documents. Examples of such budgetary documents may include the following:¹⁸
- a. Executive agency budget submission/request information
 - b. Congressional conference committee reports
 - c. House and Senate committee reports
 - d. Congressional budget requests
 - e. Apportionment and Re-apportionment Schedule (SF-132) forms and Report on Budget Execution and Budgetary Resources (SF-133) forms
 - f. Other relevant documentation such as Department of the Treasury warrants, material supplemental appropriations, reprogramming, rescissions, transfers, or other budgetary documents that lead to a change in amount.
53. Although this method is relatively straightforward for individual assets or those recently acquired, it is much more complex when considering program or weapon systems that include a variety of assets and spare parts, logistics, and support equipment. The process is compounded when the information relates to assets, systems, and programs that date over 20 years or more.
54. Therefore, certain flexibilities should be afforded because reporting formats and information needs change over time. Examples may include the following:
- a. Budget-based estimates may need to be reconciled to the documents listed in paragraph 54, if available, or to alternative documents. Older assets (such as assets

¹⁷ The forms of documentation listed in par. 50 are not listed in any order of preference. They are examples and there may be others not included on this list.

¹⁸ The examples of budgetary documents listed in par. 52.a–f are not listed in any order of preference. They are examples and there may be others not included on this list.

- acquired in 1990 or before) and legacy systems may have different supporting documentation available.¹⁹
- b. Budget documents in a summary format do not preclude a budget-based estimate; estimates may be made at the summary level when adequately explained.

55. Potentially acceptable forms of documentation for this method include the following:²⁰

- a. Budget justification materials and items discussed in paragraph 54
- b. Appropriation data
- c. Selected acquisition reports
- d. P-1 documents and R-1 documents
- e. Program office analysis
- f. Allocated per unit cost report
- g. Technical specifications and estimates
- h. Industry estimates reports of amounts to be expended
- i. FED LOG²¹

ESTIMATES—CONTRACT BASED

56. The best case scenario is a “conformed contract” providing all the information available that needs to be allocated to a particular asset, including all the modifications and delivery orders associated with the contract. However, this is not normally the case because costs to be capitalized are included in multiple contract line items and multiple contracts. This methodology involves valuing assets using the pricing data included in contracts. Although challenging, reasonable estimates based on contracts are still permitted.

57. Contracts contain specific contract line item numbers, which delineate specific production and non-production activities (for example, materials, installation, proposal prep, spare parts). As noted above, the determination of whether to capitalize a particular cost as a cost of general PP&E should be based on general guidance in SFFAS 4, and SFFAS 6, as amended. While these standards are imperative for the go-forward approaches implemented, it is difficult to apply these approaches in establishing opening balances under the alternative methods.

58. Potentially acceptable forms of documentation for this method include the following:²²

- a. Acquisition contracts
- b. Time Compliance and Technical Orders (TCTOs)
- c. Comprehensive Cost and Requirement System Reports

¹⁹ Reporting entities may use a Selected Acquisition Report, a congressionally mandated report for major weapon programs outlining budget projections. They may also use a P-1 document, which provides a breakout of all procurement appropriations by line item and an R-1 document, which provides a breakout of all research, development, test, and evaluation appropriations by program element.

²⁰ The forms of documentation listed in par. 55.a–i are not listed in any order of preference. They are examples and there may be others not included on this list.

²¹ See the FED LOG discussion on p. 10

²² The forms of documentation listed in par. 58.a–i are not listed in any order of preference. They are examples and there may be others not included on this list.

- d. Program office delivery schedule
- e. Maintenance delivery schedule
- f. DD Form-250, *Material Inspection and Receiving Report*, and other receiving reports
- g. Invoices
- h. Program office analysis
- i. FED LOG²³

ESTIMATES—ENGINEERING DOCUMENT BASED

59. Detailed technical and engineering documents lay out the assumptions, materials, and estimated cost to produce an asset. In these instances, the engineering documents can provide a sufficient basis for estimating deemed cost for opening balances.

60. Potentially acceptable forms of documentation for this method include the following:²⁴

- a. Technical specifications and estimates
- b. Maintenance delivery schedule
- c. Bill of material
- d. Invoices
- e. Vendor quotes on material costs/sale rates
- f. TCTOs
- g. Industry estimates
- h. FED LOG²⁵

ESTIMATE—DEFLATION OF CURRENT COST

61. SFFAS 6, as amended, provides that general PP&E may be estimated based on current cost of the same or similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index). This method is appropriate when a series of similar items are being acquired over time and there is a reliable value for a base asset.

62. Considerable flexibility is permitted within the framework as long as the method is properly indexed. For example, estimation may extend beyond current costs, provided it is properly indexed. It may be possible that the cost of a similar asset listed in a price guide two years before or after acquisition, properly indexed, is a reasonable estimate and likely more accurate than an indexed cost taken from a current price guide.

63. Potentially acceptable forms of documentation for this method include the following:²⁶

²³ See the FED LOG discussion on p. 10.

²⁴ The forms of documentation listed in par. 60.a–h are not listed in any order of preference. They are examples and there may be others not included on this list.

²⁵ See the FED LOG discussion on p. 10.

²⁶ The forms of documentation listed in par. 63.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

- a. Current cost of a similar asset
- b. Appropriate pricing index to discount the current asset cost to its estimated cost at the time of acquisition
 - i. Consumer Price Index
 - ii. Other indices from the Department of Labor's Bureau of Labor Statistics
- c. FED LOG²⁷

COST ESTIMATORS²⁸

64. In certain instances, an informed opinion of an expert cost estimator may be used to support reasonable estimates consistent with the provisions of SFFAS 50 and this TR. Informed opinion refers to the judgment of others who make estimates based on their programmatic knowledge and/or experience without using a fully satisfactory information store and, in some cases, without using an econometric or other statistical model. If an expert cost estimator is used, the expert's credentials or qualifications should be articulated and documented in sufficient detail to allow review and validation by independent sources, including independent auditors. For example, reports and studies on relevant issues and other relevant communications describing the basis for any assumptions or changes in assumptions should be maintained in support of the expert's opinion.
65. Potentially acceptable forms of documentation for this method include the following:²⁹
- a. Reports and studies
 - b. Memos with outside experts and minutes from internal meetings describing the basis for any assumptions or changes in assumptions
 - c. Previous studies conducted by the expert, including industry studies, journal articles, and third-party studies

FAIR VALUE

66. Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.³⁰ When determining the value of opening property balances, fair value is an acceptable valuation method to use in absence of actual cost data and associated supporting documents.
67. FASAB has not developed detailed guidance regarding the approaches to use in establishing fair value. Other standards-setters have provided guidance. For example, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, which is summarized as follows:

²⁷ See the FED LOG discussion on p. 10.

²⁸ Cost estimators may also serve as a basis to establish fair value. Therefore, cost estimators are identified as a potentially acceptable documentation under that discussion.

²⁹ The forms of documentation listed in par. 65.a–c are not listed in any order of preference. They are examples and there may be others not included on this list.

³⁰ SFFAC 7, par. 38.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently,³¹ though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

68. SFFAS 6, as amended by SFFAS 50, permits use of fair value as one option for valuing opening balances and does not require that fair value be maintained through revaluation in the future. Generally, where fair value is applied in other circumstances it is maintained as a current value and updated each reporting period. Because SFFAS 50 seeks cost-effective approaches to a one-time valuation, the reporting entity should use fair value approaches that are cost effective. The data available should be appropriate to the circumstances of establishing a cost-effective opening balance for unique assets.
69. In such cases, the markets may be inherently limited given the unique nature of government assets, such as defense assets. In fact, many assets may be highly specialized, making fair value difficult to determine. For example, there may be few observable transactions and transactions may not be indicative of an active market between willing buyers and sellers.
70. For these reasons, and to afford use of fair value in a cost-effective manner, opening balances at fair value may be determined based upon generally accepted approaches established by the GASB as well as
 - a. market approaches where both the market and data are limited (hereafter "limited market approaches");

³¹ Cost-beneficial options are a major goal of SFFAS 50. The reporting entity may select any method; there is no preferred method among the methods permitted. The reporting entity should consider the reasonableness of the methodology selected and its relation to the available documentation. However, making comparisons among the methods or attempting to identify the most cost-beneficial method would be inappropriate. Management is not required to select the most precise or the best method.

- b. cost estimators; and/or
 - c. desktop appraisals.
71. Limited market approaches may include transactions under the foreign military sales program, prices charged for sales between federal government agencies, and other transfer programs for which reimbursement occurs.
72. Fair value can be established through an appraisal performed by an independent, qualified professional. The appraisal must be performed in accordance with the Uniform Standards of Professional Appraisal Practice to be considered compliant.
73. Although appraisals require the expenditure of resources, they may be justified for significant assets or when multiple, or groups of, assets can be appraised at the same time.
74. For the purpose of establishing deemed cost, desktop appraisals that do not require physical inspection of the assets are acceptable. Mass appraisals, which leverage systematic procedures and statistical testing techniques to value multiple assets concurrently, are also acceptable for establishing deemed cost.
75. Potentially acceptable forms of documentation for this method include the following:³²
- a. Appraisal documents from qualified professionals
 - b. Methodology describing the fair value process
 - c. Documentation showing a recent sales transaction and amount for a similar asset in similar condition
 - d. Documentation showing a third-party sales price for a similar asset in similar condition
 - e. Documentation to support the cost estimator

LAND RIGHTS

76. One alternative method permitted under SFFAS 50 is an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.
77. Reporting entities may elect to exclude land and land rights in establishing opening balances of general PP&E (consistent with the alternative method established in SFFAS 6, as amended, par. 40.f.i). It is important to consider what information should be disclosed regarding land rights.
78. SFFAS 6, as amended, states that a component reporting entity electing to exclude land and land rights from its general PP&E opening balances must disclose, with a reference on the balance sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. A reporting entity electing to exclude land and land rights from its

³² The forms of documentation listed in par. 75.a–e are not listed in any order of preference. They are examples and there may be others not included on this list.

general PP&E opening balance should continue to exclude future land and land rights acquisition amounts and provide the disclosures. (SFFAS 6, as amended paragraph 40.h.ii)

However, SFFAS 6, as amended, and the basis for conclusions for SFFAS 50, acknowledge the diverse nature of land rights. SFFAS 6 acknowledges that some land rights may be depreciable or amortizable while others are not. For example, land rights for a limited period of time are depreciated or amortized, whereas land rights that are permanent, such as with a deeded easement or right of way, are not.

79. The reporting entity should consider quantitative and qualitative criteria in determining if land rights disclosures of acreage are appropriate. A reporting entity electing to exclude land rights from the opening balances and to expense subsequent acquisitions of land rights would disclose acreage when a land right provides control of acreage. Generally, when a land right does not provide acreage to the entity (that is, by allowing the entity to control specific acreage), there would be no acreage to disclose. Therefore, there may not be land rights disclosures required by SFFAS 6, as amended, by SFFAS 50.

80. In addition, materiality is an overarching consideration in financial reporting.

EFFECTIVE DATE

81. This TR is effective upon issuance.

The provisions of this Technical Release need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or other pronouncements. The Handbook is updated annually and includes a status section directing the reader to any pronouncement that changed this Technical Release. Within the text of the Technical Release, the guidance sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY AND GUIDANCE

- A1. FASAB issued SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, on August 4, 2016, in response to DoD's request for guidance on establishing opening balances for general PP&E.
- A2. The alternative methods provided in SFFAS 50 are meant to be less costly options to implement GAAP when establishing opening balances for general PP&E.
- A3. In August 2016, the Accounting and Auditing Policy Committee (AAPC or "the Committee") approved two projects related to SFFAS 50. This guidance is a result of the AAPC's second project to develop timely implementation guidance to assist with issues related to SFFAS 50.³³ The AAPC established a task force to assist in developing the guidance. The task force comprised subject matter experts from outside the federal government (such as independent public accounting firms and consulting firms) and inside the federal government (such as chief financial officer staff and program office staff) to ensure diverse perspectives were represented.
- A4. The AAPC task force was divided into sub-groups (general PP&E, land rights, and broad issues) to assist FASAB staff and expedite the identification of issues. The task force considered draft documents prepared by FASAB staff. As a result of the task force input, FASAB staff developed the implementation guidance presented in this TR.
- A5. This guidance applies to reporting entities electing to apply SFFAS 50. This TR provides additional guidance to those reporting entities strictly in applying the alternative methods in establishing opening balances.

³³ The first project resulted in conforming amendments to existing TRs. FASAB issued TR 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*, in April 2017.

- A6. This implementation guidance assists in applying the alternative methods for opening balances and provides clarification on how the foundation and flexibility of SFFAS 50 encourage reporting entities to consider cost-benefit based on the availability of information or other practical considerations. It confirms that reporting entities may select any of the SFFAS 50 methods and there is no preferred method. Management is not required to select the most precise or best method.
- A7. This guidance explains the alternative valuation methods and describes the documentation that may be used to support the valuation as outlined in SFFAS 6, as amended. This TR does not provide guidance on the validation of existence and completeness of general PP&E.

Summary of Outreach Efforts and Responses

- A8. The exposure draft (ED), *Implementation Guidance for Establishing Opening Balances*, was issued June 21, 2017, with comments requested by July 21, 2017.
- A9. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants Topics, the *CPA Journal*, *Government Executive*, the *CPA Letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A10. The AAPC received six responses from preparers and users of federal financial information. The majority of respondents agreed with the proposals provided in the TR.
- A11. The AAPC considered responses to the ED at its August 17, 2017, public meeting. The AAPC did not rely on the number in favor of or opposed to a given position. Information about the respondents majority view is provided only as a means of summarizing the comments. The AAPC considered the arguments in each response and weighed the merits of the points raised.
- A12. Of the six responses, four agreed with the proposals. Specifically, the respondents agreed that the TR provides clear technical guidance, clarifies the flexibility intended in selecting among methods by SFFAS 50, and explains that management is not required to select the most precise or best method. Two respondents neither agreed nor disagreed with the proposal. One respondent provided a letter indicating they had no comments. The other respondent provided editorial comments.
- A13. Certain respondents provided suggestions and editorial comments. The respondents' comments were carefully considered by the Committee and several were adopted.

AAPC & Board Approval

A14. The TR was TBD [approved] by the AAPC for release to FASAB for issuance. The Board has reviewed this TR and a majority of its members do not object to its issuance. Written ballots are available for public inspection at the FASAB office.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CFOC	Chief Financial Officers' Council
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DoD	Department of Defense
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GASB	Governmental Accounting Standards Board
FED LOG	Federal Logistics Data
FRPP	Federal Real Property Profile
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
NSN	National Stock Number
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
PRV	Plant Replacement Value
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TCTOs	Time Compliance and Technical Orders
TR	Technical Release

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Federal Accounting Standards Advisory Board

Date: August 3, 2017

To: Members of the AAPC

From: Wendy M. Payne, Executive Director

Subject: **Ballot for Draft Federal Financial Accounting Technical Release 18,
*Implementation Guidance for Establishing Opening***

The following is a ballot for the Draft Federal Financial Accounting Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Please enter your name in the space provided below and indicate your approval or disapproval. Please fax the ballot to us at 202 512-7366. If you wish to submit your ballot via e-mail, please e-mail to Melissa Batchelor at batchelorm@fasab.gov.

Ballots are due by August 18, 2017. If you wish to dissent, please notify staff immediately and provide the text of your dissent as soon as possible but no later than August 11, 2017. We will assume members not voting by the 18th are abstained. If seven members approve the technical release, we will finalize the release on August 18th and submit it to FASAB members for review.

Committee Member: _____ Date _____

_____ I approve the Draft Federal Financial Accounting Technical Release

_____ I do not approve the Draft Federal Financial Accounting Technical Release