AAPC SFFAS 50 Implementation Task Force
Meeting #3 Agenda
April 5, 9:30 a.m.

- Introductions & Welcome new members
  - Amy Lin, DOC-NOAA
  - Sherry Lee, DOI
  - Paul McEnrue, DOI

- Discussion of Task Force "Roles and Responsibilities" adopted March 2017

- Discussion of Draft Language
  - Land rights
  - Alternative valuation methods & Replacement cost

- Status of SFFAS 50 Issue areas—see attached Issue Areas
  - Certain areas addressed through staff letter guidance to DoD last month
  - Certain areas will not be in the proposed guidance
  - Open issue areas relate to deemed cost based on:
    - estimating historical cost which includes
      - reasonable estimates based on cost of similar assets at the time of acquisition;
      - current cost of 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); or
      - other reasonable 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 other reasonable methods for estimating
    - fair value
  - Questions?

- Next meeting is scheduled for: **May 3, 2017 9:30 a.m.**
  - Meetings are scheduled for the first Wednesday of each month as follows:
    May 3, 2017 9:30
    June 7, 2017 9:30
  - There may need to be additional reviews done electronically as we get closer to finalizing a Technical Release.

Accounting and Auditing Policy Committee
Task Force Roles and Responsibilities

Objective: This document is designed to give Accounting and Auditing Policy Committee (AAPC) Task Force Members an overview of expectations and responsibilities. The AAPC's mission is to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature.

1. Task Force

The AAPC may establish task forces of its members and others as necessary to advise it on the range of issues that come before it. An AAPC task force may be formed after an issue is approved on the AAPC's agenda.

Typically, a task force is formed to assist Federal Accounting Standards Advisory Board (FASAB) staff in developing proposed guidance on a defined topic, such as a newly issued Statement of Federal Financial Accounting Standards, for consideration by the AAPC members. The AAPC may not establish new requirements or implementation guidance contrary to existing FASAB standards. Also, professional judgment is required by both preparers and auditors in applying the AAPC guidance. All proposed guidance is subject to a public review process outlined in the AAPC charter and operating procedures. Final issuance is contingent on FASAB review. Such due process ensures that the guidance achieves general acceptance and is appropriate.

2. Task Force Functions

Task forces lend expertise to FASAB staff. The primary role of the task force is to identify issues in implementing new standards and provide input on options for resolving issues to FASAB staff. Members of the task force do not vote on such matters or develop materials for presentation to the AAPC. Nor are any of the issues or potential solutions attributed to individual members of the task force. Task force members are not responsible for the final implementation guidance. The final implementation guidance is a product of the FASAB through the work of the AAPC.

3. Task Force Composition

To ensure diverse perspectives are represented, each task force should comprise 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, program office staff, and inspector general staff). Experts and stakeholders from other fields may be included as needed. Seeking input from such a broad range of experts is common practice for standard setting organizations, including GASB, to obtain a diversity of views. Every effort will be made to have balanced representation.

4. Operational Guidelines[1]

A member of the AAPC will serve as chairperson each task force. The member may delegate responsibility for the day-to-day leadership of the task force as needed.

[1] The Charter of the Accounting and Auditing Policy Committee and its Operating Procedures established the framework for this document. These are available at http://www.fasab.gov/about-aapc/.

FASAB staff will support each task force and ensure that operational guidelines are followed and that record keeping requirements are met. Formation of the task force will be announced via the FASAB email distribution list. FASAB staff and the chairperson will determine the final size and composition of each task force following consultation with the AAPC members.

a. The task force should agree on the scope of the project. AAPC task forces are tasked with providing guidance on specific Statements of Federal Financial Accounting Standards. Matters generally not included in the scope are:
    i. Factors management should consider in making choices among acceptable alternatives for implementation.
    ii. Guidance for the audit of information resulting from the application of the standards and/or implementation guidance.
    iii. Identification of specific accounts or systems requirements needed for implementation.
b. AAPC will refer audit issues to OMB in connection with its responsibility for the Audit Bulletin and to the Government Accountability Office (GAO in connection with its responsibility for Generally Accepted Government Auditing Standards (GAGAS) as appropriate. AAPC may include in the referral its observations on audit issues.
c. The guidance is equally applicable to all federal reporting entities to which the underlying standards apply. However, some standards may be applicable to a subset of federal reporting entities. Where a small number of entities are expected to use the guidance, care should be taken to include adequate representation from non-affected entities or outside parties to ensure broad consideration of the issues and resolution options
d. Roles and responsibilities of task force members:
    i. Members of the task force should:
        1. critically assess issues and provide input regarding potential sound implementation options based on objective, logical analysis
        2. be tactful and respectful of others' viewpoints
        3. consider whether time will be available for them to participate in the process
        4. identify any conflicts that may exist between their interests and the interests of the standards-setting body
        5. identify any issues raised by task force members or possible implementation options that they believe are outside of the scope of the AAPCs or the scope agreed to for the task force, or are otherwise inappropriate for the task force to address (for example, as noted above, audit issues will be referred to OMB and/or GAO for resolution)
        6. identify and evaluate any potential for impairment of their independence[2] or reputation through participation. (It is intended that the activities of the task force members would be such that they would not result in independence or reputation concerns.)
    ii. Members of the task force should raise the following concerns to FASAB staff and/or the AAPC Chairperson:

[2] Professional standards for auditor independence are established in government auditing standards issued by the Comptroller General of the United States. Such standards are generally consistent with American Institute of CPAs independence standards. Generally, independence issues arise in situations where the auditor is providing services to the entity that the auditor is also auditing. Further, government auditing standards do not expressly prohibit involvement in standard-setting organizations. However, the conceptual framework in the auditing standards should be applied if a member thought his or her participation created a significant threat (for a discussion of the conceptual framework, see *Government Auditing Standards*, beginning with paragraph 3.07) GAO provides guidance concerning government auditing standards, including independence issues, on request.

1. any attempts to exert undue influence regarding matters before the task force; undue influence may arise from but is not limited to:
    a. direct or implied threats of adverse actions against the member
    b. direct or implied promises of inappropriate favorable action that would benefit the member or his
    c. statements regarding the use of administrative authorities to remedy undesirable decisions
2. any concerns regarding the topics under discussion within the task force or sub-groups such as topics:
    a. outside the scope agreed to for the task force
    b. inappropriate for resolution through accounting standards-setting
3. independence concerns

e. The task force may form sub-groups to address individual topics, especially when dealing with large or complex areas, and to ensure milestone dates are met. Each sub-group should be led by co-chairpersons identified by FASAB staff.
    i. Those most knowledgeable regarding the subject will be selected from the task force to serve as sub-group members
    ii. Volunteers will be requested to serve as co-chairpersons for sub-groups
    iii. The chairperson or co-chairpersons of the sub-groups may take initiative to circulate papers or request a meeting, but must include FASAB staff in all substantive correspondence, teleconferences and meetings. Correspondence or teleconferences regarding status or general updates need not include FASAB staff.
    iv. The sub-group provides analysis of assigned issues for the full task force.
    v. Sub-group members are members of the task force and follow the same operating guidelines as the task force.

Meetings of the task force and any sub-groups will be scheduled by FASAB staff in coordination with task force chairperson and sub-group chairperson or co-chairpersons.

f. The roles of FASAB staff are to:
    i. Develop draft guidance to resolve the issues based on the input of task force members.
    ii. Monitor the process to ensure operating guidelines are followed.
    iii. Facilitate member participation by providing research materials.
    iv. Provide the AAPC with briefing papers regarding issues for which the task force members identified multiple possible resolution options for consideration.
    v. Document task force operations consistent with record-keeping requirements.

Alternative Valuation Methods

The purpose of this section of the implementation guidance is to provide assistance relative to the application of the alternative valuation methods in establishing opening balances. It explains the alternative valuation methods and describes the documentation that could be used to support the valuation as outlined in SFFAS 6, as amended. It does not address the need to validate existence and completeness.

The alternative methods include (1) using deemed cost to establish opening balances of general property, plant, and equipment, (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.

Deemed Cost

The primary focus of the guidance will be 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 records and systems do not support such balances.

Large and complex reporting entities such as DoD may have used a variety of valuation methods. Deemed cost may include several valuation methods because the reporting entity may have components (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.

It is acceptable for the reporting entity to have multiple component or sub-component reporting entities that use various valuation methods simultaneously. Deemed cost should 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. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.

While much flexibility is offered, there are certain situations that require additional disclosures when a reporting entity elects to apply an alternative besides deemed cost. For example, additional disclosures are required when a reporting entity elects to exclude land and land rights or to apply prospective capitalization of internal use software. SFFAS 6, as amended, provides that in the event a different alternative method[1] is applied by a subcomponent reporting entity consolidated into a larger reporting entity, the alternative method adopted by each significant subcomponent should be disclosed.

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[1] An alternative valuation method that is different than deemed cost to establish opening balances of general property, plant, and equipment.

Determination of which method to use is a management decision.

Adoption of the various alternative valuation methods requires the use of estimates. Accounting estimates are an approximation of a monetary amount in the absence of a precise means of measurement. Estimation uncertainty is the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement. Estimation uncertainty will be high in establishing opening balances under deemed cost methods. In estimating deemed cost, management should consider the reasonableness of the estimate in light of the decisions users may make using the estimate. This guidance provides a foundation for preparers to exercise judgment in formulating those estimates.

The Board expressed the view 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 material[2] misstatements in estimates under the method selected, management should consider how the gross cost of service might be affected as well as any potential impact on accountability. Because deemed cost permits use of several measurement attributes in establishing opening balances, usefulness of the resulting depreciation expense is reduced in comparison to depreciation expense based on actual historical cost valuation. Management should consider this when selecting methods, collecting data, and selecting amounts for recognition.

The methods are not listed in order of preference.

<u>A. Replacement cost</u>

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.[3]

Statement of Federal Financial Accounting Concepts (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 estimate:

> 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

[2] Whether an item is material depends on the degree to which omitting or misstating information about this 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. This concept includes both qualitative and quantitative considerations. An item that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the financial statement user.

[3] Statement of Federal Financial Accounting Concepts (SFFAC) 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, par. 46.

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.

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 subject structure at today's costs. 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 costs, as reproduction of older methods today is less efficient and more expensive. A managerial costing system employing replacement cost information that improves management's decision making could be considered consistent with the standards.

Plant Replacement Value (One Acceptable Replacement Cost Method for Real Property)

Estimated 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).[4] 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.

[4] 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,"

PRV = Facility Quantity X Replacement Unit Cost + Area Cost Factor + Historical Records Adjustment + Planning and Design Factor + Supervision Inspection and Overhead Factor + Contingency Factor

PRV is based on several factors. The processes and methodology supporting the PRV model should be well documented and maintained. 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, an averaging approach represents a trade-off. While more precision could be available it may require a broader search for relevant cost data.

PRV also includes historical records adjustment, planning and design cost factors, supervision, inspection, and overheard cost factor, and contingency cost factor. Because PRV is a surrogate value, the asset characteristics and factors included in the model do not contain all possible attributes and factors.

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 estimate a notional amount for a large number of assets rather than a specific asset. This representative amount is then applied to individual assets.

If PRV is used in establishing the opening balance for real property in current year dollars, then accumulated depreciation should be recognized based on the remaining useful life compared to the original useful life.

PRV does not represent actual costs and is an estimate that management may select to establish opening balances. If selected, PRV should be based on reasonable data and supported by documentation.

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 or materials or methods. Further, the specific characteristics of the asset may not be catalogued in sufficient detail to establish highly granular cost factors.

In determining the level of detail and alignment necessary to use PRV when establishing the deemed cost of an asset of general PP&E, management should consider whether:

1. The cost factors are inherently biased to produce an outcome that would systematically change the judgment of a financial statement user. For example, does the method routinely exclude the highest or lowest cost contracts?

2. Additional detail would materially improve cost of service information by producing a more precise depreciation amount.
3. Greater alignment between the characteristics of the real property and the cost factors would improve the reasonableness of the estimate. For example, would a more detailed assessment of the existing asset's features (such as type and number of elevators) result in a more reasonable set of PRV cost factors?

Acceptable forms of supporting documentation for PRV and its underlying cost factors or data elements may include some or all of the following:

- Physical inventory process and inventory verification sheet
- Geospatial data, space management systems, or as built blueprints and schematics
- Map with addresses or utilities maps,
- Site or condition survey, tract maps, land plats, facility diagrams, or earliest site plot
- Transfer document or purchase document
- Memorandum of Understanding/Memorandum of Agreement
- Occupancy data
- Sustainment data
- Assets located on reporting entity's site
- Lease, occupancy agreement, support agreements and assignment documents
- Acquisition document
- Contract clauses that define who owns assets and when the reporting entity takes possession
- Reversion legal document
- Judgment legal document (for condemnation),
- Letter of withdrawal (for withdrawal from public domain)
- Professional estimates and estimating methodology
- Tax assessor records
- Dedication plaque
- Cornerstone
- Comparable construction style of adjacent assets
- Comparable date to major asset on site
- Designation Letter

Other Acceptable Methods of Replacement Cost for General Property Plant & Equipment (PP&E)

Replacement cost amounts for general PP&E may be obtained from the following sources or methods:

- Published Price List- from the original equipment manufacturer (OEM) or a vendor involved in the manufacture for the same or a similar asset. If assets have a National Stock Number (NSN) or National Item Identification Number (NIIN), FedLog will be an acceptable alternate valuation method.
- Published Industry Price Guide (Vehicles Only) - Examples of such price guides include the Kelley Blue Book, National Automotive Dealers Association (NADA) Guides, and Edmunds.com that provide prices for the same or similar asset.

- Estimated based on sales by the reporting entity of the same or similar assets to outside parties

Acceptable forms of documentation for this method would most often be the information from the above guides or lists.

[Question-Are there <u>specific</u> SFFAS 48/SFFAS 3 issues opening balance issues?]

<u>B. Estimated historical cost</u>

<u>C. Fair Value</u>

Land Rights Disclosures

Proposed language for the technical guidance (may be revised slightly to fit in overall format of guidance)

Q. When management elects 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), paragraph 40.f.i.) what information should be disclosed regarding land rights?

A. SFFAS 6, *Accounting for Property, Plant, and Equipment* (as amended), paragraph 40.h.ii. 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 general PP&E opening balance should continue to exclude future land and land rights acquisition amounts and provide the disclosures." However, SFFAS 6 (as amended) and the basis for conclusions for SFFAS 50, acknowledge the diverse nature of land rights. For example, SFFAS 6 acknowledges that some land rights may be depreciable while others are not.

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 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.

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

AAPC SFFAS 50 Task Force
Status of Issue Areas – April Task Force Meeting

Key:

Issue resolved outside of the planned Technical Release through a staff letter to DoD.

Draft language prepared for the planned Technical Release.

Issue will not be addressed in the planned Technical Release –explanation provided to DoD.

General PP&E Sub-group

1. Deemed Cost : Definition & Application

Deemed cost is an acceptable valuation method for opening balances of general PP&E. Deemed cost should be based on one, or a combination of the valuation methods permitted in SFFAS 50: i.) Replacement cost, ii.) Estimated historical cost (initial amount) a.) Reasonable estimates may be based on cost of similar assets at the time of acquisition; b.) current cost of 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); or c.) other reasonable 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. and iii.) Fair value.

a. [Specific question from DoD] Can we have a more robust definition of deemed cost other than that it is a surrogate for initial amounts? If it's not an estimate of historical cost then what is it? The IPAs are deferring to the auditing standards for estimates of historical cost. Without guidance specific to deemed cost, they have no other choice.
b. [Specific question from DoD] Whether or not replacement value methodologies need to be adjusted for inflation (e.g., PRV vs. Deflated PRV) - Our current interpretation is that the standard as written allows both - which by definition means it's open to interpretation - but we have gotten pushback from some of our IPAs, arguing that any latest acquisition cost/replacement cost methodology be deflated to approximate historical cost. We recommend clarifying language to clear up the perceived ambiguity.
c. Concern that support for the individual cost factors that make up the PRV has not been made available to the services to provide to their auditors. Without this support, the estimation model is not auditable.
d. As noted above, reasonable estimates may be based on “other reasonable methods” as permitted in SFFAS 50. As such, several questions, pertaining to this area have surfaced. Therefore additional guidance and examples may be needed.

i. Pooled costs (i.e., co-mingled capital and expense costs, co-mingled programs, co-mingled PP&E and OMS costs, and others)
    1. Provide guidance to allocate such costs if identifiable using easy to find and supportable document, alternatively record the amounts based on the majority rule (i.e., if most of costs are capital based on the budget or other acceptable documentation than capitalize all costs)
    2. For example, cost allocation methodology or possibly capitalize cost of program based on engineering estimates, budgets as amended, or contracts

ii. Full Costing (indirect, PMO, PEO, and other costs incurred)
    1. Provide example or clarification through guidance that either supports not recording such costs (this guidance would be a lower in the GAAP hierarchy) or permitted for certain situations in recording opening balances.
    2. Provides for estimation methodologies, such as determine the indirect costs for 5 (or another small number of) programs and apply this indirect rate to all remaining programs unless preparers know that the rate would not be appropriate for certain programs
    3. [Specific questions that came in from DoD] Is it acceptable to average the cost year by year vs an average cost across the entire contract? We (Army) approached it year by year, but the FASAB guidance is currently silent as to the preferred approach.

iii. Allocating costs to end items
    1. Provide guidance that it is allowable to not allocate a portion of the costs to the end items and instead capitalize and depreciate such costs separate from the end items (e.g., software that is on certain end items but may not be on all end items, joint program modifications)
    2. Provide guidance indicating that simple allocation is appropriate and that specific identification by end item is not necessary (i.e., total costs/number of end items)

2. Acceptable documentation (will be included with each method) NOTE- completed for Replacement cost

a. Provide guidance on what would be appropriate supporting documentation
    i. Define the elements that should be on the documentation – nature and purpose of the project, amount, timing of when costs incurred, etc.
    ii. Define actual document names
    iii. Add examples for each service specific issue - cost estimation database for Navy ships

b. Provide guidance when there is conflicting information on documentation and indicating that you only need to use one source document
    i. Address issues when budget states $100 million in current year but subsequent budget to actual reported in budget states $95 million
    ii. Avoid preparers incurring additional time on comparing different source documents and resolving differences such as budget vs. accounting records vs. disbursements vs. contracts

iii. [Specific questions that came in from DoD] Should we reconcile the budgetary documentation to the actual obligations per the system? As you know, the whole reason for this approach is because of the limitations of the system data, but it would be great if the FASAB guidance could weigh in on the acceptance of the budgetary approach (vs validating against actual obligations and/or expenditures).

c. Old assets with limited documentation
    i. Address that certain records are limited—some may only go back to 1994
    ii. Provide guidance on year to obtain documentation?

d. [Specific question from DoD] How far do the reporting entities have to go in terms of supporting the deemed cost figure? It's a surrogate but is not tied to historical cost. How far do we need to go in terms of supporting the inputs to the figure that ultimately goes on the balance sheet?

3. Determining the opening accumulated depreciation balance /Consideration of Useful Life[1]

a. Provide guidance on Capital Improvements
    i. Provide additional guidance regarding improvements that are capitalized-
        1. definition of improvements that are capitalized
        2. address the completeness assertion
        3. Provide guidance on what is considered a capital improvement versus maintenance/repair/sustainment
        4. SFFAS documents does not adequately address recapitalization of real property assets—outside or exterior walls do not change but multi-million dollar renovations to interior are considered maintenance / repair or sustainment.
        5. Questionable if capital improvements that increase useful life will be accounted for?
    ii. Intent of Capital Improvements In-Service Date. [SFFAS 50 para. 13.e.ii] was to allow funding/monies to be grouped and not necessarily to be tracked separately.
        1. One must still consider useful life.
        2. [Specific question that came in from DoD] The GPPE subgroup should address the relationship between budget documentation and capital improvements. Specifically, if a reporting entity uses budget documentation for a base asset to establish deemed cost, do they also need to factor in budget data for capital improvements as part of their value? While we don't see this as an issue on the Real Property

[1] The consideration of useful life will 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 believes an explanation and interpretation may not lead to cost effective solutions because a TR cannot alter standards. Instead, the TR could only clarify management's responsibilities by providing examples. Given the diversity of practice, examples may appear to reduce the flexibility provided in the current standards. Therefore, preparers should consider their unique circumstances and apply materiality considerations when implementing the standards.

side due to the DoD's decision to use Plant Replacement Value, we do see some risk on the Equipment side since we have multiple components who are going to be relying on budget data to support their opening balance values.

b. Provide guidance on placed in service dates
    i. Components indicate they're using date place in service for capital improvements
    ii. is flight training and testing considered placed in service
c. SFFAS 50 did not amend SFFAS 6 par. 37 "Costs which either extend the useful life…over the remaining useful life of the associated general PP&E.
d. Provide clarification regarding Fully Depreciated Assets (NBV $0) that are still in use?
    i. SFFAS 50 did not change SFFAS 6 pars. 41- 42
    ii. Needs to consider capital improvements
    iii. Can guidance state when it would be appropriate
e. SFFAS 6 discusses revising the useful life and refers to it as an estimate. A discussion of frequency of revising the estimate and the factors to consider may be necessary.
f. Provide guidance for determining useful lives
    i. Including the steps to complete to determine reasonable and appropriate support for each step
    ii. Is the original engineering estimate reasonable for base and improvements?
    iii. What example documents and names?
g. Provide guidance on salvage value and when you would consider such
h. Can we indicate not relevant for weapons systems or are there foreign military sales of older assets (stripped of proprietary parts/capabilities) that conflict with such assertion?

4. Small assets (i.e., 20% of the value but lots of end items)
    a. These are the remaining low cost, high density assets.
    b. These are specific to each service and each classification of asset will present its own challenges.
    c. Services have not fully addressed such and we need to know what other issues arise for these assets

Land Rights Sub-group

5. Land rights Disclosures
    a. Clarification of land rights disclosures by incorporating a reference as explained in the BfC. [SFFAS 50 par. 13 h. ii and A19.]
    b. Intent was to recognize there may be situations with land rights when disclosures may not be required by this Statement. One must always determine if disclosures for land rights are required and appropriate considering guidance in SFFAS 6 and materiality always applies.

General/ Broad Issues Sub-group

6. Unreserved assertion
    a. Additional guidance regarding making an unreserved assertion to establish opening balances. Need clarification on what DoD needs-wording of the assertion?
    b. Guidance for "transition period" when DoD components begin populating opening balances in accordance with SFFAS 50 (using alternative methods or deemed cost) but are not ready to express an unreserved assertion and/or go-forward processes are not in place.
    c. The sub-group leaders asked DOD to provide specific questions regarding the unreserved assertion topic that may require clarity.
    d. At this point, it is unclear if the issues are those that should be addressed within this type of guidance. Does the Task Force believe this issue needs additional guidance?
7. Line Item
    a. The preparer can use judgment to decide upon the line items to present either on the face of a financial statement or in related disclosures. Line items may be based on a class of general PP&E, such as those currently included in the required disclosures, or on other reasonable means of disaggregation on the face of the statement or in the notes.
    b. The presentation of line items may vary in detail. For example, components of general PP&E, such as land, may be a separate line item, or there may be a single line item for all general PP&E. A reporting entity may determine it would like to make an unreserved assertion on classes of general PP&E disclosed in the notes to the financial statements.
    c. Provide clarification whether combinations of deemed cost methods could be used for a single line item.
    d. [Specific question that came in from DoD] Construction in Process is not specifically called out in SFFAS 50, although it's implicitly included due to being under the umbrella of GPP&E. This has raised questions both internally and externally as to which sub-lines can deemed cost be applied. Again, our interpretation is that an entity can use "deemed CIP" (for lack of a better term), but again, more explicit language would help clarify the point.
    e. [Specific question from DoD] Can each asset class within PP&E be revalued at deemed cost independently? For example, can IUS be revalued at $0 during a different period than real property at replacement value? The language in the standard alludes to the ability to do that but it's not explicitly stated that each financial reporting entity can implement deemed cost at different types for the same line item on the balance sheet based upon how the footnotes breaks out that line item.
8. Prior period adjustments
    a. DoD requested clarification regarding how prior period adjustments should be made during implementation of SFFAS 50
        i. Line item by line item
        ii. how frequently
        iii. before the unreserved assertion

OTHER[2]

9. Engage audit community including GAO, DoD IG, and IPAs in reviewing DRAFT guidance
    a. We are not able to provide guidance to the audit community; however, we can provide guidance on SFFAS 50 to the preparers that includes what the Task Force determined to demonstrate what it believed acceptable supporting documentation to meet the goals of SFFAS 50 and sufficient procedures preparers perform to determine the amounts reported in the financial statements that auditors would audit against.

[2] FASAB encourages all respondents (including the audit community) to provide feedback during due process.