



Grant Thornton

An instinct for growth™

July 13, 2015

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

Via Email to fasab@fasab.gov

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Re: Comments on exposure draft of proposed SFFAS entitled Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials

Dear Ms. Payne:

Grant Thornton LLP appreciates the opportunity to comment on the exposure draft of a proposed Statement of Federal Financial Accounting Standards (SFFAS) entitled *Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Materials*. We broadly support the Board's proposed amendments related to an alternative valuation method for establishing opening balances for inventory, OM&S and stockpile materials.

Our response to the question for respondents follow. We expand on the comments in this section and offer various other points in the Appendix, including substantive comments and minor drafting points related to the proposed revisions.

Question 1: The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies (OM&S), and stockpile materials when presenting financial statements or one of more line items addressed by this Statement following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statement without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method, disclosures, and amendments to SFFAS 3, *Accounting for Inventory and Related Property*.

Do you agree or disagree with the proposed standards? Please provide your rationale.

Yes, we agree with the one-time alternative valuation method for opening balances.



As noted by the Board, the Department of Defense (DoD) has historically valued inventory, OM&S and stockpile materials using non-GAAP methods. As a complex reporting entity, transitioning to GAAP based valuation methods is both costly and inefficient for DoD due to components (1) lacking records of historical costs, (2) recording the values of current inventory, OM&S, and stockpile materials using inconsistent valuation methods, (3) missing information on inventory turnover rates that would facilitate determining what items or percentage of items are valued using each valuation method and (4) lacking information to properly estimate historical costs. As such, developing a cost-effective approach to GAAP adoption is in the best interest of the American public as it moves federal reporting entities to improved, consistent accountability and transparency.

This proposed first-time adoption approach has precedent at both FASAB as well as the International Public Sector Accounting Standards Board (IPSASB). As established by FASAB, the release of Statement of Federal Financial Accounting Standard (SFFAS) 23, established the precedent for alternatives to historical cost valuation requirements established in SFFAS 6. As noted by the Board, IPSASB, used a similar method for the first time adoption approach for accrual based accounting.

Further, we believe that users of federal financial statements do not necessarily compare asset values among various entities in the way that users of financial statements do in a commercial setting. While this information is informative, it is not typically used to support decisions as might be done by potential investors or underwriters for state and local governments, or for-profit enterprises. Because this comparability of asset prices that is so essential in the commercial, and state and local government areas, is not a key goal of the users of the financial statements of federal agencies, consistency of asset values is a less important goal of financial reporting for federal agencies. If the disclosure requirements outlined in paragraph A17 are adopted, then the users of the financial statements will be informed of the alternative method which will allow sufficient comparability for the purposes typically held by the users of the financial statements of federal agencies.

We would be pleased to discuss our comments with you. If you have any questions, please contact Tracy Greene, Partner, 703-837-4463, tracy.greene@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP



Appendix

Detailed comments and suggestions

In addition to our previous response, we offer the following detailed comments and drafting suggestions.

Materiality

As stated in paragraph 3, provisions of this Statement need not be applied to immaterial items. Professionals using this standard may become confused if “items” is referring to individual items of inventory, OM&S and stockpile material or the inventory, OM&S and stockpile material line items on a financial statement. Misinterpreting this could result in a federal reporting entity applying the immateriality item concept to individual items of inventory, OM&S and stockpile material which could result in material items being omitted at the aggregate level. We suggest that the Board consider adding language to clarify at what level the concept of immateriality should be applied.

Scope

Paragraphs 5 and 9. The Board refers to an “unreserved assertion.” Given that the “unreserved assertion” is key to the application of the alternative valuation methods proposed in this exposure draft, we recommend the board define the meaning of “unreserved assertion” and provide sample language for such an assertion.

Also, over the next several years, DoD management will be providing many assertions regarding its reported financial information. For example, management assertions may be made for examinations of financial statements or for individual line items reported on financial statements. For example, a reporting entity could make an assertion regarding inventory and then a few months later an assertion regarding the values of OM&S. We believe it may be beneficial to include additional language either in the basis for conclusions or in implementation guidance which clarifies the types of attestation engagements to which this Statement applies

Paragraph 5. The Board states the alternative valuation method may be used either (1) the first time a reporting entity makes an unreserved assertion that its financial statements or one or more of the line items addressed by this proposed Statement are following GAAP or (2) after a period during which existing systems could not provide information necessary to produce GAAP-based financial statements without the use of the alternative valuation method. As



noted the application of the proposed Statement based on condition 2 can only be used one time per reporting entity. Given that many first time attestation engagements of federal entities, often result in disclaimers of opinions, has the Board considered if the application of this Standard is tied to the issuance of an unmodified report by an auditor? For example, if a federal reporting entity asserts that its FY 2015 balance sheet, which reports inventory at deemed costs, is prepared following GAAP and the auditor issues a disclaimer of opinion on the FY 2015 balance sheet, would the reporting entity need to report the FY 2016 inventory beginning balance at historical cost per SFFAS 3? We believe it would be beneficial to add clarification information to the proposed standard that would assist the reporting entity in applying the standard when a disclaimer of opinion is issued on the financial statement or the line items discussed in this Standard are the basis for a modification to the opinion.

Alternative valuation method for opening balances

As stated in paragraphs 9 through 11, deemed costs is an acceptable valuation method for opening balances of inventory, OM&S and stockpile materials for the reporting period that the entity makes an unreserved assertion that its financial statements, or one or more line items addressed by this proposed statement, are presented fairly in accordance with GAAP. As established by the proposed standard, deemed costs may be based on a combination of (1) standard price or fair value, (2) latest acquisition cost, (3) replacement cost, (4) estimated historical cost or (5) actual historical cost. We believe adding examples of the types of documentation reporting entities can use to develop these deemed costs, would be beneficial to ensure consistency of application. This could be included within the Standard or in implementation guidance related to the standard.

Disclosure requirements

Paragraph 12. It is unclear whether the disclosure requirements associated with deemed costs are only required in the first period in which the reporting entity makes an unreserved assertion regarding its financial statements or one or more of the line items addressed in this proposed statement being presented fairly in accordance with GAAP or if the disclosure is required in subsequent periods as well.