AAPC SFFAS 50 Implementation Task Force
Meeting Agenda
December 7, 9:30 a.m.

- Introductions

- Goals/ Objectives of the Task Force Meeting:
  - Understanding of the Taskforce Purpose
  - Agreement on Approach
  - Volunteers to Co-chair Issue Areas
  - Agreement on Tentative Meeting Schedule

- Purpose
  - SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*
  - AAPC Guidance -Technical Release

- DoD Comments -implementation efforts

- Timeline & Approach
  - Complete and release Exposure Draft by **<u>5/30/17</u>** to Issue final by **<u>9/30/17</u>**
  - Group 'like issues' into these broader issue areas
  - Incorporate examples when relevant
  - Issue areas will be addressed by 2-3 members or 'subgroups' of the Taskforce—each with a volunteer to act as the 'co-chair' on the issue. Individual works with FASAB staff to focus on specific area
  - This approach will assist in keeping project moving to meet milestones

- List of SFFAS 50 **<u>KNOWN</u>** Issues- see List of SFFAS 50 Implementation Issues
  - FASAB plans to do another data call
  - Brief discussion of issues
  - Comments/Questions about the list

- Next meeting is scheduled for: **February 1, 2017 9:30 a.m.**
  - Meetings are scheduled for the first Wednesday of each month as follows:
    March 1, 2017 9:30
    April 5, 2017 9:30
    May 3, 2017 9:30
    June 7, 2017 9:30
    July 19, 2017 9:30
    August 2, 2017 9:30
  - There may need to be additional meetings scheduled and reviews done electronically as we get closer to finalizing a Technical Release
  - Outlook invites will be sent for future meeting.

AAPC SFFAS 50 Implementation Task Force
SFFAS 50 Implementation Issue Areas to be Addressed

General PP&E

- Determining the opening accumulated depreciation balance.
    - 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. One must still consider useful life.
    - 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.
    - Can there be Fully Depreciated Assets (NBV $0) that are still in use?
        - SFFAS 50 did not change SFFAS 6 pars. 41- 42
        - Needs to consider capital improvements
        - 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.
- Examples– are examples needed for each deemed cost method?

Land & Land rights

- Disclosures-Clarification of land rights disclosures by incorporating a reference as explained in the BfC. [SFFAS 50 par. 13 h. ii and A19.]
    - 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/ broader issues

- Unreserved assertion
    - Additional guidance regarding making an unreserved assertion to establish opening balances.
    - 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.
- Line Item
    - 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.
    - 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. Further, 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.
    - Does the Task Force believe this issue needs additional guidance?
- Others? Disclosures?

Federal Accounting Standards Advisory Board

ESTABLISHING OPENING BALANCES FOR GENERAL PROPERTY, PLANT, AND EQUIPMENT:

AMENDING STATEMENT OF FEDERAL FINANICAL ACCOUNTING STANDARDS (SFFAS) 6, SFFAS 10, SFFAS 23, AND RESCINDING SFFAS 35

Statement of Federal Financial Accounting Standards 50

August 4, 2016

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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SUMMARY

This Statement provides implementation guidance to allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment. It amends Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, SFFAS 10, *Accounting for Internal Use Software,* and SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, and rescinds SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23.* 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.

The alternative methods are permitted when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The application of this Statement based on the second condition is available to each reporting entity only once per line item addressed in this Statement.

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INTRODUCTION

PURPOSE

1. This Statement amends Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, SFFAS 10, *Accounting for Internal Use Software,* and SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, and rescinds SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23* by providing implementation guidance to allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E).[1]

2. The alternative methods permitted by this Statement may be applied when a reporting entity is presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The application of this Statement based on the second condition is available to each reporting entity only once per line item addressed in this Statement.

3. This Statement provides implementation guidance to allow a reporting entity to apply an alternative valuation method (deemed cost) in establishing opening balances for general PP&E in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. It also allows an exclusion of land and land rights from the opening balances with disclosure of acreage information and expensing of future acquisitions. It also provides for selecting between deemed cost and prospective capitalization of internal use software (IUS) in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. The alternative methods provided in this Statement should also be applied to correct subsequently discovered errors in general PP&E that was valued under an alternative method.

4. As a result of these amendments and rescission, all implementation guidance for general PP&E, with the exception of specific provisions applicable to IUS, will be incorporated into SFFAS 6. The Board believes providing implementation guidance for general PP&E other than IUS in SFFAS 6 will provide a comprehensive guide for users in a single Statement.

[1] For a complete discussion of the definition, characteristics, recognition, and measurement principles for general PP&E, see SFFAS 6, par. 21-39. For the definition, recognition, and measurement principles for internal use software, see SFFAS 10, par. 9-34.

MATERIALITY

5. The provisions of this Statement 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.

STANDARDS

SCOPE

6. This Statement applies when a reporting entity is presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The application of this Statement based on the second condition is available to each reporting entity only once per line item addressed in this Statement. This Statement also is applicable to the financial report of the U. S. Government for purposes of consolidating a component reporting entity meeting the above conditions.

7. The alternative methods provided in this Statement may be applied in establishing **opening balances**[2] for the reporting period in which the reporting entity, taken as a whole, makes an **unreserved assertion** that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. The alternative methods provided in this Statement should also be applied to correct subsequently discovered errors in general property, plant, and equipment (PP&E) that were valued under an alternative method.

8. A reporting entity that meets either condition in paragraph 6 and elects to apply the alternative methods in establishing opening balances permitted by this Statement is subject to the reporting requirements under paragraph 13 of Statement of Federal Financial Accounting Standards (SFFAS) 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*.

DEFINITIONS

Definitions in paragraphs 9 – 10 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

9. **Opening Balances—**Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring

[2] Terms defined in the Glossary are shown in bold-face the first time they appear.

disclosure that existed at the beginning of the period, such as contingencies and commitments.[3]

10. **Unreserved Assertion**—An unreserved assertion is an unconditional statement.

AMENDMENTS TO SFFAS 6, *ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT*

11. This paragraph amends SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraph 25 by adding the following language at the end of the first sentence: "unless the reporting entity made the election to implement the provisions of paragraph 40.g.i."

    The revised paragraph 25 of SFFAS 6 is:

    25. Land and land rights acquired for or in connection with other general PP&E[29] shall be included in general PP&E <u>unless the reporting entity made the election to implement the provisions of paragraph 40.g.i.</u>

12. This paragraph amends SFFAS 6, paragraph 26 by adding the following language as the second sentence: "Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein."

    The revised paragraph 26 of SFFAS 6 is:

    26. All general PP&E shall be recorded at cost. <u>Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein.</u> Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include…

13. This paragraph amends the implementation guidance provided in SFFAS 6 by replacing paragraph 40.

    Paragraph 40 of SFFAS 6 is replaced with:

    40. Alternative Methods for Establishing Opening Balances.[44A] The following guidance is applicable for the reporting period when the reporting entity is presenting financial

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[3] Adopted from AU-C 510, *Opening Balances – Initial Audit Engagements, Including Reaudit Engagements* (AICPA Professional Standards).

[29] "Acquired for or in connection with other general PP&E" is defined as land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E's common grounds.

[44A] Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The following should be considered in establishing opening balances:

a. The alternative methods for establishing opening balances may be applied for the reporting period in which the reporting entity, taken as a whole, makes an unreserved assertion[44B] that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. The alternative methods provided in this Statement should also be applied to correct subsequently discovered errors in general PP&E that were valued under an alternative method.

b. The application of these alternative methods based on the second condition specified in paragraph 40 is available to each reporting entity only once per line item.

c. A reporting entity that meets either condition in paragraph 40 and elects to apply any of the alternative methods available in establishing opening balances is subject to the reporting requirements under paragraph 13 of Statement of Federal Financial Accounting Standards 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.*

d. Alternative Valuation Method. **Deemed cost**[44C] is an acceptable valuation method for opening balances of general PP&E. Because the reporting entity may have multiple component or subcomponent reporting entities[44D] using various valuation methods simultaneously, deemed cost should be based on one, or a combination, of the following valuation methods:[44E]

   i. **Replacement cost**[44F]
   ii. Estimated historical cost (initial amount). Reasonable estimates may be based on:
      a) cost of similar assets at the time of acquisition;

[44B] An unreserved assertion is an unconditional statement.
[44C] Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.
[44D] 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.
[44E] The methods are not listed in order of preference.
[44F] 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 (Statement of Federal Financial Accounting Concepts (SFFAC) 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, par. 46).

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.

iii. **Fair value**[44G]

e. Establishing in-service dates.
   i. In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date.
   ii. It is not necessary to separately identify the in-service date for material improvements[44H] included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service.

f. Alternative methods for land and land rights. A reporting entity should choose among the following alternative methods for establishing an opening balance for land and land rights. Because a reporting entity may have multiple component or subcomponent reporting entities selecting different alternative methods, a reporting entity should establish an opening balance based on one, or a combination, of these alternative methods. However, application of a particular alternative method must be consistent within each individual subcomponent reporting entity prior to consolidation into the larger component reporting or reporting entity.

   i. The reporting entity may exclude land and land rights from the opening balance of general PP&E. If this alternative method is applied, the reporting entity should expense future land and land right acquisitions.

   ii. Land and land rights may be recognized in opening balances based on the provisions of the alternative valuation method (deemed cost) provided in paragraph 40.d.

g. Once established using alternative methods, opening balances are considered consistent with GAAP.

h. Component Reporting Entity Disclosures:

   i. A component reporting entity electing to apply deemed cost in establishing opening balances for general PP&E should disclose this fact and describe the methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. Financial statements or, as

[44G] 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 (SFFAC 7, par. 38).
[44H] Material improvements are costs which either extend the useful life of existing general PP&E or enlarge or improve its capacity.

applicable, reports on line items of subsequent periods need not repeat this disclosure, unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.

ii. A component reporting entity electing to apply the provisions of paragraph 40.f.i. to land and land rights should disclose this fact and describe the alternative methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. 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. In the event different alternative methods are applied to land and land rights (as permitted by paragraph 40.f.) by subcomponent reporting entities consolidated into a larger reporting entity, the alternative method adopted by each significant subcomponent should be disclosed.

i. Financial Report of the U.S. Government Disclosures

i. When a component reporting entity elects to apply deemed cost, the U.S. government-wide financial statements should disclose this fact, the identity of the component reporting entity, and a reference to the component reporting entity's financial report. Subsequent financial statements need not repeat this disclosure unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.

ii. When a component reporting entity elects to apply the provisions of paragraph 40.f.i. to land and land rights, the U. S. government-wide financial statements should disclose this fact, the number of acres held at the end of each reporting period, an explanation of the election, the identity of the component reporting entity, and a reference to the component reporting entity's financial report.

AMENDMENTS TO SFFAS 10, *ACCOUNTING FOR INTERNAL USE SOFTWARE*

14. This paragraph amends SFFAS 10, *Accounting for Internal Use Software,* paragraph 16 by adding the following first sentence: "Although the measurement basis remains historical cost, reasonable estimates may be used to establish the capitalized cost of internally

developed software, in accordance with the asset recognition and measurement provisions herein."

The revised paragraph 16 of SFFAS 10 is:

16. Although the measurement basis remains historical cost, reasonable estimates may be used to establish the capitalized cost of internally developed software, in accordance with the asset recognition and measurement provisions herein. For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage.[6] Such cost should be limited to costs incurred after…

15. This paragraph amends the implementation guidance provided in SFFAS 10 by replacing paragraph 36.

Paragraph 36 of SFFAS 10 is replaced with:

36. Alternative Methods for Establishing Opening Balances.[9A] The following guidance is applicable for the reporting period when the reporting entity is presenting financial statements, or the line item addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The following should be considered in establishing opening balances:

a. The alternative methods for establishing opening balances may be applied for the reporting period in which the reporting entity, taken as a whole, makes an unreserved assertion[9B] that its financial statements, or the line item addressed by this Statement, are presented fairly in accordance with GAAP. The alternative methods provided in this Statement should also be applied to correct subsequently discovered errors in general PP&E that were valued under an alternative method.

b. The application of these alternative methods based on the second condition specified in paragraph 36 is available only once to each reporting entity.

c. A reporting entity that meets either condition in paragraph 36 and elects to apply any of the alternative methods available in establishing opening balances is subject to the reporting requirements under paragraph 13 of Statement of Federal Financial Accounting Standards 21, *Reporting Corrections of Errors and Changes in*

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[6] For a full discussion of direct and indirect cost, see SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* (June 1995), pars. 90-92. Also see, Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*, pars. 94-95.

[9A] Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

[9B] An unreserved assertion is an unconditional statement.

Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.

d. Alternative Methods. A reporting entity should choose among the following alternative methods for establishing an opening balance for internal use software. Because a reporting entity may have multiple component or subcomponent reporting entities[9C] selecting different alternative methods, a reporting entity should establish an opening balance based on one, or a combination, of these alternative methods. However, application of a particular alternative method must be consistent within each individual subcomponent reporting entity prior to consolidation into the larger component reporting or reporting entity.

   i. Alternative Valuation Method. Deemed cost[9D] is an acceptable valuation method for opening balances of internal use software. See SSFAS 6 paragraph 40.d. for implementation guidance regarding deemed cost.

   ii. Prospective capitalization. The reporting entity may choose prospective capitalization of internal use software. If the reporting entity elects prospective treatment, the reporting entity should choose between the following acceptable alternative methods at the opening balance date:

      (a) Exclude all internal use software, inclusive of that under development at the opening balance date, from the opening balance.

      (b) Exclude internal use software in service from the opening balance, but include amounts related to internal use software under development at the opening balance date. Internal use software under development should be recognized in opening balances based on the provisions of paragraphs 15 through 27 or on the alternative valuation method (deemed cost) provided in paragraph 36.d.i.

e. Once established using alternative methods, opening balances are considered consistent with GAAP.

f. Component Reporting Entity Disclosures:

   i. A component reporting entity electing to apply deemed cost in establishing opening balances for internal use software should disclose this fact and describe the methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. Financial statements or, as applicable, reports on line items of subsequent periods need not repeat this

[9C] 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.

[9D] Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.

disclosure, unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of internal use software included in the opening balance is required.

ii. A component reporting entity electing to apply the provisions of paragraph 36.d.ii. should disclose this fact and describe the alternative methods used in the first reporting period in which the component reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. In the event different alternative methods are applied by subcomponent reporting entities consolidated into a larger reporting entity, the alternative method adopted by each significant subcomponent should be disclosed. Financial statements or, as applicable, reports on line items of subsequent periods need not repeat this disclosure, unless the statements for which the alternative method was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of amount of deemed cost of internal use software included in the opening balance is required.

g. Financial Report of the U.S. Government Disclosures:

i. When a component reporting entity elects to apply deemed cost, the U.S. government-wide financial statements should disclose this fact, the identity of the component reporting entity, and a reference to the component reporting entity's financial report. Subsequent financial statements need not repeat this disclosure unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of internal use software included in the opening balance is required.

ii. When a component reporting entity elects to apply the provisions of paragraph 36.d.ii.,the U.S. government-wide financial statements should disclose this fact, an explanation of the election, the identity of the component reporting entity, and a reference to the component reporting entity's financial report.

AMENDMENTS TO SFFAS 23, *ELIMINATING THE CATEGORY NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT*

16. This section amends the implementation guidance provided in SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment,* as described in the following paragraphs.

17. Paragraph 10 is replaced with:

    10. See SFFAS 6 for implementation guidance applicable to all general PP&E.

18. Paragraphs 11-18 of SFFAS 23 are rescinded.

RESCISSION OF SFFAS 35, *ESTIMATING THE HISTORICAL COST OF GENERAL PROPERTY, PLANT, AND EQUIPMENT: AMENDING STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 6 AND 23*

19. This paragraph rescinds SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23* in its entirety. Provisions from SFFAS 35 were incorporated into the implementation guidance of SFFAS 6 and SFFAS 10 as applicable.

EFFECTIVE DATE

20. This Statement is effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

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

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

Department of Defense Implementation Guidance Request Project

A1. In February 2014, the Department of Defense (DoD) identified several areas of concern for FASAB's consideration. The Board agreed to undertake a project to address these areas by providing practical guidance within the framework of existing accounting standards and, where necessary, by providing the appropriate guidance to address issues not addressed within the framework of existing accounting standards.

A2. This Statement is issued in response to DoD's request for guidance on establishing opening balances for general property, plant, and equipment (PP&E). Accounting for the federal government's general PP&E is complex and continues to be a challenge for large federal departments. This topic has been addressed in numerous Statements of Federal Financial Accounting Standards (SFFASs) and Interpretations as well as guidance issued by the Accounting and Auditing Policy Committee. SFFAS 6, *Accounting for Property, Plant, and Equipment*, SFFAS 10, *Accounting for Internal Use Software*, SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, and SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23* address the accounting and reporting requirements for general PP&E.

A3. During the project, the Board's staff met with DoD officials, as well as members of the audit community, to develop an understanding of the issues faced by DoD in establishing their baseline for general PP&E. This included discussing valuation methodologies employed, management assertions and the completion of audits, and the status of implementation of a system compliant with general accepted accounting principles (GAAP) for the DoD components.

A4. Based on the meetings and information provided it was determined that:

a. DoD's financial systems and many aspects of DoD's accounting policy for general PP&E have not been in accordance with GAAP.
b. Many DoD organizations that maintain several different accounting and property systems are involved in acquiring general PP&E assets.
c. DoD has not had consistent procedures related to general PP&E acquisitions or document retention.

d. All major systems DoD has utilized for acquisitions of general PP&E have either never been audited or, when audited, had significant deficiencies or material weaknesses.
e. Capital improvement projects have not been reliably tracked, so DoD was unable to determine the date the improvements were placed in service or to establish a valuation baseline.
f. DoD has approximately 440,000 separate real property assets, and many real property assets were built more than 40 years ago.
g. DoD records related to land values are not in a structured, searchable system. The records are not digitized and accessing them involves searching boxed records. Also, source documents, such as deeds, may not be complete, and court records often have gaps given the length of time involved.
h. DoD does not have a complete inventory of its internal use software (IUS), and costs of IUS have not been captured consistently.
i. General equipment is a broad category that includes military equipment and consists of hundreds of thousands of assets.

A5. After considering the status of DoD's efforts and the fact that DoD has had numerous years to implement the standards and has shown little progress, the Board discussed the merits of the project. Specifically, one member had concerns regarding the Board's role and potentially undermining the Board's own credibility by acting to offer relief to DoD (because the department has been unable to adopt GAAP requirements). The Board acknowledges that appearance is a concern. However, the Board has been tasked with establishing standards for which the benefits exceed the cost.

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.

A8. The Board also acknowledges that other standard-setters have provided guidance for organizations implementing an entire body of standards for the first time. The challenge of establishing opening balances for large public sector entities warrants the flexibilities provided in this Statement.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

A9. FASAB issued the exposure draft (ED) *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35* on December 22, 2015, with comments requested by February 4, 2016.

A10. 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).

A11. FASAB followed up this broad announcement with direct mailings of the ED to the following relevant congressional committees:

a. House Appropriations—Subcommittee on Defense
b. House Committee on Armed Services
c. House Committee on Oversight and Government Reform
d. House Committee on the Budget
e. House Committee on Veterans' Affairs
f. Senate Appropriations—Subcommittee on Defense
g. Senate Committee on Armed Services
h. Senate Committee on Finance
i. Senate Committee on Homeland Security and Governmental Affairs
j. Senate Committee on the Budget
k. Senate Committee on Veterans' Affairs

A12. FASAB received 22 responses from preparers, auditors, users of federal financial information, and professional associations. The majority of respondents agreed with the proposals to: (1) permit opening balances of general PP&E to be valued based on deemed cost and require the related disclosures, (2) allow a reporting entity to choose among alternative methods in establishing an opening balance for IUS and require the related disclosures, and (3) rescind SFFAS 35.

A13. However, approximately one-half of the respondents disagreed with the proposal to allow exclusion of land from the opening balances of general PP&E. They also disagreed with the proposal to require a reporting entity electing to exclude land from its general PP&E opening balances to exclude future land acquisition amounts.

A14. The respondents identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

A15. The Board did not rely on the number of respondents 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 Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.

Land

A16. When developing the ED, the Board proposed options for land that were different from those for other general PP&E. Allocation of the cost of general PP&E, excluding land, among accounting periods is essential to assessing operating performance. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, focuses on relating costs to accomplishments in reporting an entity's operating performance. Cost information is of fundamental importance, both to program managers in operating their activities efficiently and effectively and to executive and congressional decision makers in determining resource allocation. General PP&E is capitalized and depreciated to provide this information. Because land is not depreciated due to its infinite useful life, the benefits of capitalizing land are primarily in the period of acquisition. That is, the cost of the land is identified so the acquisition can be evaluated and capitalized. In doing so, the period operating costs are not overstated. In future periods, the ongoing benefit is that accountability for the asset is established.

A17. The Board carefully considered those aspects of the land category, along with measurement challenges, cost-benefit considerations, and the qualitative characteristics of financial information. The Board determined the most practical and cost-beneficial approach to establishing an opening balance for land would be to permit the reporting entity to exclude land from the opening balance of general PP&E and to support accountability through disclosures. The Board proposed that the reporting entity disclose, with a note reference on the balance sheet, the number of acres of land 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 from its general PP&E opening balance would continue to exclude amounts for future land acquisitions. Accordingly, the reporting entity would provide the disclosures each year thereafter.

A18. Some members who supported excluding land expressed concern regarding the resulting inconsistency in reporting and suggested the Board begin a project on land in the near future to review existing standards, to explore options to improve reporting on land, and to seek a consistent approach. Other members wanted to explore valuing existing land holdings based on deemed cost (consistent with general PP&E) or on a set amount per acre of land. The Board asked respondents whether they agreed or disagreed with the proposal to allow exclusion of land from the opening balances of general PP&E even though other component reporting entities would report the cost of certain land in general PP&E. The Board also requested feedback regarding three alternative approaches: (1) to value general PP&E land holdings based on historical cost, a set amount per acre of land, deemed cost, or another valuation method, (2) to defer any changes in the current requirements until the Board completes a reexamination of the appropriate basis of accounting for land, or (3) to adopt another option.

A19. Approximately one-half of the respondents disagreed with the ED to allow exclusion of land from the opening balances of general PP&E. Nearly all respondents supported a land project to reexamine standards for reporting on land. In addition, the majority of the respondents preferred that the Board defer changes to the current land requirements, such as exclusions of land from the balance sheet or other actions that may affect future acquisitions, until the Board completes the re-examination.

A20. As part of due process, the Board carefully considered the following:

a. respondents' comments regarding land,
b. DoD feedback regarding implementation challenges and options, and
c. FASAB's land project plan entitled *Accounting and Reporting of Government Land*.

A21. Respondents' key reasons for disagreeing with the proposal to allow exclusion of land were (1) inconsistent accounting treatment that would be consolidated at the government-wide level and (2) the potential that a temporary change may lead to added cost for reporting entities electing to implement the Statement. Consistent with the support for permitting opening balances of general PP&E to be valued based on deemed cost, respondents agreed that deemed cost and/or existing standards could be used to value opening balances of land.

A22. The Board considered DoD's feedback because DoD would most likely elect to implement the Statement. DoD conveyed the following important factors to the Board:

a. DoD reports that it owns considerable land qualifying as general PP&E. DoD would have to expend significant financial and personnel resources to determine the valuation of land.
b. In contrast to the information used to establish deemed cost for other general PP&E, information that would be necessary to establish deemed cost for land would not be used for DoD management purposes.
c. DoD supports reporting acreage information until the land project is completed. The potential for future valuation requirements was not viewed as more costly than requiring deemed cost and later changing the valuation requirements. DoD noted there are current accountability requirements, and it is actively working on obtaining acreage information.

A23. Although respondents' conveyed that inconsistency was a concern, the Board notes that current standards are not consistent because they differentiate between stewardship land and land acquired in connection with development or construction of an item of general PP&E. Stewardship land is not capitalized, but disclosures of information regarding use of the land and physical measures are required (see SFFAS 29, *Heritage Assets and Stewardship Land*). Land classified as general PP&E is capitalized at historical cost. Stewardship land can be used in development or construction of general PP&E but is not capitalized.

A24. The land project is being initiated to address such inconsistencies, and Board members showed a strong commitment to moving forward and expediting the project to resolve inconsistencies. At the February 2016 Board meeting, the Board approved a project plan entitled *Accounting and Reporting of Government Land*. The requirements in SFFASs 6 and 29 have resulted in significant differences in accounting treatment for land holdings. The land project will consider additional research and factors to determine how best to account for and to report land. However, the Board does not believe decisions to be made in the land project should delay the exclusion of land from opening balances as provided in this Statement. This Statement is of limited scope and seeks cost beneficial options for opening balances. If the exclusion was not available, component reporting entities would be required to adopt one of the valuation methods available under deemed cost. The land project may reach conclusions that make such valuation methods obsolete, and the costs incurred to adopt deemed cost would have been unnecessary.

A25. Further, the Board has expressed a commitment to complete the land project quickly to resolve inconsistencies. The Board has also communicated to those parties most likely to be impacted that decisions made regarding land are subject to change as a result of the land project.

A26. As noted above, consistent with the support for opening balances of general PP&E to be valued based on deemed cost, respondents expressed that deemed cost could be used to value opening balances of land. Therefore, the Board believes deemed cost should also remain an option for establishing opening balances for land. As a result, a larger component reporting entity may establish an opening balance for land based on a combination of multiple subcomponent reporting entities' alternative methods, which may or may not be the same. This is permitted by the Statement. However, application of a particular alternative method must be consistent within each subcomponent reporting entity prior to its consolidation into a larger component reporting entity.

A27. One area that Board members believe needs transparency and additional clarification is the potential for inconsistent accounting treatment at the government-wide level, with some land reported in dollars and some in acres. The issue is further complicated by the fact that stewardship land is also included as a note reference on the balance sheet and reported in physical units, which may be different than acres. Without additional information to explain what is included at the consolidated level, this situation would not be clear to readers at the government-wide level. Therefore, the Board added a narrative disclosure requirement for the government-wide financial report. The disclosure requires a narrative explanation of any election made by component reporting entities regarding land. Each component reporting entity electing to exclude land should be identified with a reference to the component reporting entity's financial report.

A28. After considering all of the above factors, the Board considered the pros and cons of deferring significant action on land until the completion of the land project, as requested by the respondents who disagreed with the proposal. While the respondents are correct that land will be treated inconsistently, the Board believes it has a responsibility to weigh the cost of developing deemed cost for vast land holdings against the possibility that the land project will conclude that such deemed costs are not useful. Therefore, the Board adopted its proposal to permit land to be excluded from the opening balance of general PP&E and to support accountability through disclosures.

A29. Although some land rights[4] may not have an indefinite useful life, the Board proposed in the ED (similarly to what it did with respect to land) that an exclusion of land rights from the opening balances with disclosure of acreage information and expensing of future acquisitions. The Board recognizes that land rights are diverse, situation specific, and may not always result in disclosures required by this Statement. In fact, SFFAS 6 provides that land rights that are for a specified period of time shall be depreciated or amortized over that time period. The Board believes this is a cost effective approach for

[4] "Land rights" are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

opening balances of land rights and completion of the land project would more fully research the issues and provide comprehensive standards. The Board reiterates that decisions made within this Statement regarding land and land rights are subject to change based upon the results of the land project.

SFFAS 35 Rescission

A30. Although the majority of respondents agreed with the proposal to rescind SFFAS 35 and to permit reasonable estimates in the preparation of financial statements, this provision of the Statement generated many comments from respondents.

A31. A common suggestion provided by respondents was that reporting entities would benefit from the inclusion of language from paragraph 19[5] of the ED in SFFAS 6 and SFFAS 10 to clarify that the Board intended reasonable estimates to be applicable to any general PP&E versus just opening balances. Although the Board believes the broad statement provided in the paragraph should be sufficient to address the matter, members agreed including the provisions of paragraph 19 of the ED in SFFASs 6 and 10 may be clearer. Specifically, SFFAS 6, paragraph 26, and SFFAS 10, paragraph 16, were amended to specify that although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used.

A32. Respondents who disagreed with the proposal to rescind SFFAS 35 primarily cited audit concerns and the valuable guidance provided in SFFAS 35 as their reasoning. However, many of the detailed concerns expressed by respondents are addressed through existing guidance. The Board reiterates (as explained in the ED) that Technical Release 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment*, remains in effect regardless of these amendments and that each significant provision of SFFAS 35 was incorporated in the amendments—including the ability to use estimates in the future. In addition, SFFAS 4, *Managerial Cost Accounting Standards and Concepts,* establishes a requirement for cost accounting that acknowledges the use of cost finding techniques and the allocation of costs on a reasonable and consistent basis. The Board also believes it important to point out the Statement provides for the use of deemed cost to correct errors in the opening balances. Reporting entities should consider all available GAAP guidance when implementing new accounting standards.

Internal Use Software (IUS)

A33. While the majority of respondents agreed with the proposal to allow a reporting entity to choose among alternative methods in establishing an opening balance for IUS, several respondents expressed their concerns to the Board. Five respondents expressed concern with prospective capitalization of IUS, but agreed with deemed cost as an alternative method. The respondents did not believe component reporting entities should be able to adopt inconsistent alternative methods when establishing an opening balance for IUS. In contrast, one respondent believed prospective capitalization of IUS should be the only option because this would enhance consistency while also appropriately balancing the value and cost of the information in the financial statements.

[5] "Reasonable estimates are permitted in the preparation of financial statements subsequent to the rescission of SFFAS 35."

A34. The Board recognizes the concerns raised by respondents and considered them during the development of the Statement. While the Board understands the importance of consistency and comparability in financial reporting, the Board believes users of federal financial statements often have different objectives and may not necessarily compare asset values among various reporting entities in the way that users of financial statements do in a commercial setting.

A35. The Board considered the fact that there may be component reporting entities (such as working capital funds that charge rates) for which the prospective treatment would be undesirable. The Board determined it would be best to provide optimum flexibility by providing for the option of deemed cost for IUS. Therefore, the Board agreed the Statement should allow for the alternative methods in establishing opening balances for IUS.

A36. The Statement requires the application of a particular alternative be consistent within each of the subcomponent reporting entities[6] prior to consolidation. In the event different alternative methods are applied by subcomponent reporting entities, the alternative method applied by each significant sub-component reporting entity should be disclosed. The Board believes the disclosure requirements regarding the different alternative methods for establishing opening balances for IUS, if applicable, will support sufficient analysis for users of federal financial statements.

A37. The Board believes a reporting entity should be allowed to choose among alternative methods in establishing an opening balance for IUS. Concerns regarding inconsistencies will resolve quickly due to the short useful life of IUS.

Other Areas

A38. Certain respondents requested clarifying language be added to expand upon the phrase "one or more line items addressed by this Statement," to define line items as being line items on the financial statements or line items within the note disclosures. The Board acknowledges the term line item is quite broad, especially in relation to general PP&E. 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. Therefore, the Board believes 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.

A39. A respondent asked for clarification whether the standards apply to the government-wide reporting entity. It is the intention of the Board that all standards apply to any entity—component or government-wide unless otherwise stated. SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, states that SFFASs "apply to all federal entities, that is, to the Government as a whole and to component entities … unless provision is made for different accounting treatment in a

[6] 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.

current or subsequent SFFAS." Because this Statement applies to first-time adopters as well as entities making an unreserved assertion for the first time, this Statement is applicable to the government-wide reporting entity for purposes of consolidating component reporting entities at any time.

A40. Several respondents provided comments regarding "*in-service dates*," questioning whether the in-service dates for material improvements are the same as the base unit and if reporting entities should disregard the in-service dates for material improvements. The Board notes the Statement is permissive. Material improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service, but this treatment is not required.

ALTERNATIVE VALUATION METHOD AND IMPLEMENTATION GUIDANCE

A41. During deliberation on the project, the Board considered the recently-approved SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials.* SFFAS 48 permits a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies, and stockpile materials. Deemed cost, or the amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances, was the alternative valuation method for valuation of opening balances (in accordance with SFFAS 3, *Accounting for Inventory and Related Property,* as amended by SFFAS 48).

A42. The Board based part of its decision to select deemed cost in SFFAS 48 on International Public Sector Accounting Standard (IPSAS) 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. The International Public Sector Accounting Standards Board reached several relevant conclusions in IPSAS 33:

a. Use of deemed cost facilitates the introduction of IPSASs in a cost-effective way.
b. Multiple options for deemed cost are appropriate.
c. The use of deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available.
d. Use of deemed cost does not affect fair presentation.

A43. Consistent with the decisions in SFFAS 48, the Board believes a similar approach is appropriate with this project. 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.

A44. The Board determined permitting a reporting entity to apply alternative methods in establishing opening balances for general PP&E would be most appropriate through implementation guidance. The implementation guidance for general PP&E currently resides in several Statements. Accordingly, this Statement amends SFFAS 6, SFFAS 10, and SFFAS 23, and rescinds SFFAS 35 by providing implementation guidance to allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general PP&E. Further, based on these amendments and rescission, all implementation guidance for general PP&E, with the exception of specific provisions applicable to IUS, will be in SFFAS 6. The Board believes providing implementation guidance for all general PP&E in SFFAS 6 will provide a more inclusive approach and a comprehensive guide for users versus reviewing multiple Statements that relate to this topic.

AMENDMENTS TO STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING STANDARDS

Amendments to SFFAS 6, Accounting for Property, Plant, and Equipment

A45. This Statement amends SFFAS 6 implementation guidance to include alternative methods for establishing opening balances. A reporting entity may use deemed cost as an alternative valuation method in establishing opening account balances for general PP&E for the reporting period in which the reporting entity first makes an unreserved assertion that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. 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. Further, 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.

A46. This guidance is intended to provide a cost-effective approach to the adoption of SFFAS 6, where historical records and systems do not support such balances. Accordingly, this Statement provides flexibility by permitting use of several measurement attributes and estimates. Deemed costs should be based on one, or a combination, of the following valuation methods: replacement cost, estimated historical cost, reasonable estimates, or fair value. The Board believes application of deemed cost is the most cost-effective option.

Plant Replacement Value (PRV)

A47. DoD currently estimates plant replacement value (PRV), which is based on cost factors such as averages of contractual cost data from the prior three years, commercially available cost data, and models using general price information. PRV is inclusive of capital improvements. While PRV has not been used for financial reporting purposes, DoD officials have stated it is used for decision making and management purposes. This Statement allows for PRV to be used as a starting point in establishing replacement cost for real property.

A48. SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, paragraph 47, explains there may be several ways of arriving at an estimate of replacement cost:

> 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.

A49. Although the PRV can be used as a starting point in establishing replacement cost for real property, adjustments would be needed. Further, the preparer would need to substantiate the PRV data used.

Government Property in the Hands of Contactors

A50. Government property in the hands of contactors has been a challenging area for reporting entities. This may include government-furnished equipment and contractor-acquired equipment. Previous Boards believed the accounting treatment for such assets should be consistent with that of other assets because there is no conceptual difference. Further, most would agree there should be accountability over government-owned assets in the hands of others.

A51. SFFAS 6, paragraph 18 provides that PP&E includes “property owned by the reporting entity in the hands of others (for example, state and local governments, colleges and universities, or Federal contractors)” and paragraph 34 (along with the footnote to paragraph 34) elaborates that PP&E should be recognized when title passes or is delivered to the acquiring entity or to an agent of the entity. For PP&E acquired by a contractor on behalf of the entity (for example, the entity will ultimately hold title to the PP&E), PP&E should also be recognized upon delivery, or constructive delivery, whether to the contractor for use in performing contract services or to the entity.

A52. During the due process deliberation of SFFAS 23 in 2003, this issue also surfaced. A respondent, unaware of existing standards, encouraged the Board to develop standards that address this type of property because the respondent believed that “accounting control over this property is deplorable.” As discussed in the Basis for Conclusions to SFFAS 23, the previous Board found that “despite the existence of standards for contractor held assets since late 1995, little progress has been made in resolving the issue. The Board does not believe that deferral of standards related to vast amounts of PP&E will facilitate resolution of the contractual and administrative details needed to reasonably comply with generally accepted accounting principles.”

A53. The Board understands that certain reporting entities may have long-standing contracts lacking the contractual terms and systems needed to accumulate the necessary information. The alternative valuation method—deemed cost—is applicable to general PP&E in the hands of others. The Board considered other alternatives, including those proposed by DoD, to mitigate the cost of properly reporting such PP&E. DoD’s proposal intended to take a prospective approach for establishing completeness and accountability for government property in the hands of contactors. Much of DoD’s rationale was based on the belief that government property in the hands of contactors is immaterial and that the equipment has a short useful life. However, existing data have known integrity and reliability issues that preclude reliance on them as a basis for prospective treatment. DoD also based the proposal on the fact that they would incur significant costs to bring these assets to record. The Board notes that GAAP is not the only cost driver. DoD has other accountability obligations and a management need for complete records to support decision making.[7]

A54. The Board concluded that the current DoD process of including improved contract clauses in new or modified contracts should continue. As existing contracts expire or are modified, this issue should be resolved. Based on preliminary estimated information presented by DoD, 77% of the current contracts expire in 2016 and 12% expire in 2017. Hence, assuming that these estimates are reasonably accurate, processes would be in place to capture government property in the hands of contactors by 2018 through issuance of new contracts with required clauses. Considering that much of the information and data indicates the contracts for government property in the hands of contactors will expire soon and the assets may be immaterial or fully depreciated, with time, DoD may be in a position to support that this line item is not materially misstated. This supports that accounting treatment for government property in the hands of contactors should continue to be consistent with general PP&E.

A55. The Board conducted outreach on this topic prior to issuing the ED. Feedback from the audit community conveyed that the issues DoD encountered with property in the hands of contactors are the same for all DoD general PP&E. With respect to DoD's proposal, there were noted audit challenges due to gray areas, such as no established cut-off date, the need for clarity with definitions, and complexities with implementation. In addition, there were noted existence and completeness challenges. There was also a belief that challenges will remain until the necessary contractual improvements are fully implemented.

Combination of Methods Permitted

A56. The Board recognizes that large and complex reporting entities, such as DoD, may have used a variety of valuation methods prior to the adoption of a GAAP-compliant method. Therefore, this Statement allows for deemed cost to 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 at different times prior to establishing opening balances. Deemed cost should be based on one, or a combination, of the accepted valuation methods. However, this Statement requires that the accounting for all activity after the opening balance is established comply with SFFAS 6.

A57. The purpose of this Statement is to provide alternative methods for reporting entities meeting the scope conditions set forth in paragraph 6 of this Statement. Absent a reliable record of transactions related to hundreds of thousands of records and related assets,

[7] In a May 13, 2014, statement to the U. S. Senate Committee on Homeland Security and Governmental Affairs, then DoD Comptroller Robert Hale acknowledged the importance of completeness when he explained, "Our audit strategy focuses first on the elements of our business that most often influence our decision making—namely budgetary dollars and the existence and completeness of property records."

this is the most cost-effective approach for determining opening balances while reporting entities, such as DoD, finalize a sound GAAP-compliant financial management system. All activity after the opening balances for general PP&E are established must comply with the recognition, measurement, presentation, and disclosure requirements in SFFAS 6.

Amendments to SFFAS 10, Accounting for Internal Use Software

A58. SFFAS 10 provides accounting standards for IUS used by federal entities. Previously, IUS had been addressed in SFFAS 6. Because certain questions remained, the Board decided to review the issues and to develop a separate Statement.

A59. IUS addressed by SFFAS 10 includes purchased commercial "off-the-shelf" software, contractor-developed software, and internally-developed software. Under the provisions of SFFAS 10, IUS is classified as general PP&E as defined in SFFAS 6. With the issuance of SFFAS 10, the section on IUS in SFFAS 6 was rescinded. SFFAS 10 provided guidance regarding the definition of IUS, the types of cost elements to capitalize, the timing and thresholds of capitalization, amortization periods, accounting for impairment, as well as other guidance.

A60. When SFFAS 10 was issued, the previous Board in effect provided for prospective implementation of SFFAS 10 in paragraph 36 by stating that "cost incurred prior to the initial application of this statement, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized, had this statement been in effect when those costs were incurred."

A61. The Board acknowledges that reporting entities have had numerous years to implement SFFAS 10 (as well as other standards). The fact remains that some entities have not had or do not have systems that can provide the information necessary; therefore, the conditions remain that existed when many of these standards were issued. The Board considered certain unique aspects to this category of general PP&E that justify a similar treatment that was provided when SFFAS 10 was established. Specifically, the Board believes it would be cost-beneficial to allow prospective treatment of IUS because it typically has a shorter useful life than other assets and is a soft asset that is harder to inventory when compared to tangible assets. These facts make the cost of implementation higher than for other general PP&E and the benefit lower due to the shorter time the IUS would be reported as an asset for amortization.

A62. Therefore, the Board believes the most appropriate path is to amend the implementation guidance provided in SFFAS 10 to provide for prospective application of IUS if the reporting entity elects to do so. Considering the various stages of implementation within reporting entities, the Board determined this Statement should provide flexibility. Therefore, the guidance also provides for an alternative valuation method consistent with general PP&E. Considering IUS is classified as general PP&E, the Board believes it is appropriate to allow use of deemed cost and to refer users to the deemed cost implementation guidance in SFFAS 6. Together, these amendments allow the preparer to elect:

a. to establish opening balances for existing IUS based on deemed cost,

b. to establish an opening balance of zero and to capitalize costs consistent with SFFAS 10 prospectively, or

c. to establish an opening balance of zero for IUS in service, and to establish an opening balance for IUS in development based on deemed cost, and to capitalize costs consistent with SFFAS 10 prospectively.

A63. Based on the flexibility offered for establishing opening balances for IUS, a larger reporting entity may establish an opening balance for IUS based on a combination of multiple component reporting entities' alternative methods, which may or may not be the same. Therefore, a larger reporting entity may have multiple component reporting entities[8] that selected different alternative methods. This is permitted by the Statement; a larger reporting entity may establish an opening balance based on a combination of alternative methods. Application of a particular alternative method must be consistent within each individual subcomponent reporting entity prior to consolidation into the larger reporting entity.

Amendments to SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment

A64. The purpose of SFFAS 23 was to amend specific standards with regard to national defense (ND) PP&E. More specifically, SFFAS 23 rescinded the term "ND PP&E."

A65. SFFAS 23 also provided implementation guidance for assets reclassified as general PP&E. Much of that guidance referred to the requirements in the implementation guidance provided in SFFAS 6. SFFAS 23 was effective for periods beginning after September 30, 2002, with earlier implementation encouraged. The Board believes it appropriate to rescind the implementation guidance in SFFAS 23 and to refer users to the implementation guidance in SFFAS 6 that applies to all general PP&E, including general PP&E assets previously considered ND PP&E.

A66. By rescinding the paragraphs in SFFAS 23, the Board ensured the appropriate relevant guidance was included in the amendments to the SFFAS 6 implementation guidance. The Board chose not to rescind SFFAS 23 in its entirety because the standards provide other amendments, such as rescinding the term ND PP&E as discussed above, which must be maintained.

[8] 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 sub-components 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.

Rescission of SFFAS 35, Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23

A67. The purpose of SFFAS 35 was to clarify that reasonable estimates of original transaction data's historical cost may be used to value general PP&E. It was to establish a cost-effective method to comply with SFFAS 6 by allowing reasonable estimates determined in accordance with SFFAS 6, as amended. While rescinding SFFAS 35 in its entirety, the Board ensured any pertinent guidance was included in the amendments to the SFFAS 6 implementation guidance.

A68. The Board also reiterates the conclusions of the previous Board. As explained in SFFAS 35, Basis for Conclusions, paragraph A12:

> The Board stresses to federal entities that the measurement basis for G-PP&E remains historical cost; however, reasonable estimates are allowed. The Board believes entities should use judgment regarding the decision to use estimated historical cost in lieu of original transaction based data. The Board also notes that estimates are widely used throughout the financial statements. In this case, estimates should provide a reasonable approximation of historical cost; the measurement basis required for G-PP&E.

A69. When SFFAS 35 was issued, the Board believed that allowing or encouraging estimates as reporting entities worked towards implementing systems and processes that could capture historical data would be beneficial. However, it appears this has not occurred at all departments, and there has been an overreliance that was unintended. The language in SFFAS 35 has often been misinterpreted to mean something other than reasonable estimates is in accordance with SFFAS 6.

A70. Therefore, the Board believes it is appropriate to rescind SFFAS 35. The Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35. As noted in paragraph A17 of SFFAS 35, "estimates that do not lead to material misstatements are acceptable without guidance from the Board."

A71. Prior to the issuance of the ED, DoD raised concerns with the Board's proposal to rescind SFFAS 35 based on the time it would take for DoD to become full cost compliant. DoD requested the Board consider retaining SFFAS 35 or providing transitional guidance in this area. The Board believes current standards provide flexibility and there are resources other than SFFAS 35 within the GAAP hierarchy to assist in this area. For example, there is guidance (Technical Releases) to assist in accumulating, allocating, and reporting the cost of general PP&E when there is no detailed cost accounting system.

A72. Technical Release 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation* provides illustrations and implementation guidance related to recognition requirements for programmatic, managerial, administrative, and other elements of program costs incurred during the general PP&E lifecycle, as well as decisions regarding the granularity of cost information and acceptable methods for recognizing those costs. This implementation guidance is not dependent on SFFAS 35 and remains applicable even if SFFAS 35 is rescinded.

A73. Additionally, SFFAS 4 established a requirement for cost accounting that acknowledges the use of cost finding techniques. The requirement is:

> Each reporting entity should accumulate and report the cost of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques.

A74. Management has discretion in applying the cost assignment methods identified in SFFAS 4, *Managerial Cost Accounting Standards and Concepts* to accumulate acquisition costs. Of particular importance is the emphasis on economic feasibility with regard to direct tracing of costs to outputs. SFFAS 4, paragraph 124, provides that "[in] principle, costs should be assigned to outputs in one of the methods listed below in the order of preference:

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

DISCLOSURES

A75. The disclosures required for component reporting entities and the government-wide reporting entity are also included in the amendments to the implementation guidance in SFFAS 6 and 10. Specifically, the election to apply the provisions of this Statement should be disclosed in the financial statements in the first reporting period in which the component reporting entity makes an unreserved assertion that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. The first reporting period would be the first year-end financial statement that an unreserved assertion is made. The Board does not believe the first reporting period should be an interim reporting period because interim financial statements presently are unaudited and do not include note disclosures.

A76. The Board notes that the term “unreserved assertion” may be used in other contexts. For example, certain entities’ management (such as DoD) may be required to make management assertions regarding their financial information and that their financial statements are validated as ready for audit by no later than September 30, 2017. This Statement refers to an unreserved assertion that the reporting entity’s “financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP.” Other assertions—such as being ready for an audit—may or may not accompany such an assertion.

A77. The component reporting entity disclosures (in the amendments to SFFAS 6) address both component reporting entities that may have elected to only apply deemed cost in establishing the opening balances for general PP&E as well as component reporting entities that elected to apply the provision to exclude land and land rights from opening balances. For those component reporting entities only applying deemed cost, the component reporting entity should disclose a description of what valuation method(s) deemed cost is based on, but no disclosure of amounts valued at deemed cost is required. This disclosure need not be repeated unless the financial statements or, as applicable, reports on line items are presented for comparative purposes.

A78. A component reporting entity electing to exclude land and land rights should disclose this fact and describe the alternative method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP and continue to be so as long as an amount is not reported on the balance sheet. In addition, those reporting entities electing to exclude land and land rights from its general PP&E opening balances must also disclose, with a note reference on the balance sheet, 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. The Board believes requiring these disclosures would meet accountability requirements and ensure appropriate measures continue to be taken for existence and completeness requirements. As discussed above, the Board determined that a larger component reporting entity may establish an opening balance for land and land rights based on a combination of multiple subcomponent reporting entities' alternative methods, which may or may not be the same. However, application of a particular alternative method must be consistent within each subcomponent reporting entity prior to its consolidation into a larger component reporting entity.

A79. The component reporting entity disclosures (in the amendments to SFFAS 10) address that component reporting entities may have elected to apply different alternative methods in establishing the opening balance of internal use software. This Statement provides for an alternative valuation method of deemed cost that is consistent with general PP&E and prospective capitalization of IUS. A component reporting entity electing to apply the alternative methods should disclose this fact and describe the alternative methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. In the event different alternative methods are applied by subcomponent reporting entities consolidated into a larger reporting entity, the alternative method adopted by each significant subcomponent should be disclosed.

A80. Further, the government-wide reporting entity should disclose when a component reporting entity elects to apply deemed cost along with a reference to the component reporting entity's financial report. In addition, when a component reporting entity elects to exclude land and land rights, this also should be disclosed, along with an explanation of the election, the number of acres with a reference to the component reporting entity's financial report. The government-wide reporting entity should disclose when a component reporting entity elects to apply deemed cost in establishing opening balances for internal use software. In addition, when a component reporting entity elects to apply prospective capitalization, an explanation of the election and reference to the component reporting entity's financial report should be disclosed.

APPLICATION OF THIS STATEMENT

A81. A component reporting entity in the process of implementing systems that are GAAP-compliant is permitted to apply this Statement at the time it makes an unreserved assertion that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. This Statement allows component reporting entities (for example, DoD components) to make the assertion at different times. The reporting entity may make the assertion after a sufficient number of components do so. This Statement considers the opening balances and subsequent transactions of these component reporting entities as deemed cost for the consolidated reporting entity when its assertion is made.

A82. Using the DoD example, certain DoD components may have transitioned at an earlier date to GAAP-compliant systems; this allows them to assert independently of the larger DoD. It is anticipated DoD will make a DoD-wide assertion when a sufficient number of DoD components are compliant. While a DoD component's "deemed cost" opening balance might be earlier than the DoD-wide opening balance, the consolidation of the various methods would be the DoD's opening balance deemed cost at the beginning of the period DoD was able to make an unreserved assertion on its financial statements, or one or more line items, addressed by this Statement.

A83. Considering the flexibility allowed with the Statement, reporting entities should ensure they are ready to make an unreserved assertion that their financial statements, or one or more line items addressed by this Statement, are fairly presented prior to making the election because it may only be made once. A complex entity should work with its components to ensure the most appropriate method allowed by this Statement is selected. Further, reporting entities should ensure issues, such as supporting documentation for opening balances, are addressed and validated through sampling or other means, including consideration of any audit findings or conclusion affecting the reliability of the valuation, prior to making the unreserved assertion. It is critical that a reporting entity be prepared to make the unreserved assertion because the election may only be made once. For example, if a reporting entity makes an unreserved assertion regarding the fiscal year 2018 beginning balances, the reporting entity must be able to support the valuation in all material respects. If the audit for fiscal year 2018 determines that the valuation does not comply with the alternative valuation in all material respects, the reporting entity then would need to continue in subsequent years to correct or to support the valuation as of the beginning of fiscal year 2018.

A84. Reporting entities that meet the conditions specified in paragraph 6 and elect to apply the alternative methods in establishing opening balances permitted by this Statement are subject to the reporting requirements under paragraph 13 of SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*. Specifically, paragraph 12 of SFFAS 21 states, "For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards."

A85. Therefore, reporting entities meeting the conditions and electing to apply this Statement should follow the guidance in SFFAS 21 paragraph 13.a. – 13.c. for all changes in accounting principles:

(a) The cumulative effect of the change on prior periods should be reported as a "change in accounting principle." The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.
(b) Prior period financial statements presented for comparative purposes should be presented as previously reported.
(c) The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

A86. SFFAS 21 provides that the adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made. Thus, no change would be made to the ending net position of the previous year. The disclosures should be at a high level and explain that opening balances of a particular line item or group of line items were valued at deemed cost under this Statement, then briefly describe deemed cost and indicate the effect of adoption on beginning net position.

A87. In addition, the alternative methods provided in this Statement should also be applied in correcting subsequently discovered errors in general PP&E that was valued under an alternative method.

BOARD APPROVAL

A88. This Statement was approved unanimously. Written ballots are available for public inspection at FASAB's offices.

APPENDIX B: ABBREVIATIONS

DoD	Department of Defense
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
IPSAS	International Public Sector Accounting Standards
IUS	Internal Use Software
ND	National Defense
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

APPENDIX C: GLOSSARY

Deemed Cost—Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.

Fair Value—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.

Opening Balances—Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.[9]

Replacement Cost—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.

Unreserved Assertion—An unreserved assertion is an unconditional statement.

[9] Adopted from AU-C 510, *Opening Balances – Initial Audit Engagements, Including Reaudit Engagements* (AICPA Professional Standards).

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