


**Department of Energy**

Washington, DC 20585

February 5, 2016

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**FROM**

Tom Park 
Director, Office of Finance and Accounting
Department of Energy

SUBJECT

Comments on the Federal Accounting Standards Advisory Board's
Exposure Draft: Establishing Opening Balances for General Property,
Plant, and Equipment.

The Department of Energy (DOE) appreciates the opportunity to comment on Exposure Draft: *Establishing Opening Balances for General Property, Plant, and Equipment*. While the proposed standard will have no direct impact on DOE, we do have concerns that the standard would introduce inconsistencies in the way that different Federal reporting entities account for future land acquisitions. Our concerns are described below in the responses to the exposure draft questions. We appreciate the Board's due consideration of these concerns when finalizing the standard.

As requested, our responses to the questions in the exposure draft are as follows:

Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for general property, plant, and equipment (PP&E) 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 (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 valuation method.

The proposed Statement describes the alternative valuation method and related disclosures.

- a) Do you agree or disagree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost? Please provide your rationale.

DOE Response: Since we don't anticipate that this change will affect the Department of Energy, we do not express agreement or disagreement with the change.

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

DOE Response: Since we don't anticipate that this change will affect the Department of Energy, we do not express agreement or disagreement with the change.

Q2. The Board proposes to amend Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, so that land categorized as general PP&E may be excluded from the opening balances of general PP&E. Instead, disclosures would reveal the acres of land and changes in those acres over time. A reporting entity electing to exclude land from its general PP&E opening balance should continue to exclude future land acquisition amounts and provide the disclosures.

Some members suggested valuing existing land holdings based on a set amount per acre of land or deemed cost. For example, one study estimated the land value in the United States at roughly \$4.5 trillion in the third quarter of 2009. Since the number of acres in the United States is almost 2.3 billion, this equates to approximately \$2,000 per acre. (Land values vary greatly based on location, potential use, and availability and cost of financing.) These members are interested in receiving comments on the usefulness of a general valuation approach that could be applied government-wide.

The Board intends to begin a project on land in the near future that would review existing standards and consider a consistent approach. Based on the results of that project, the decisions made for opening balances and future acquisitions of land in this Statement may be revised. Also, some members suggested deferring any changes in the historical basis for land acquired for use in operations until the Board completes a re-examination of the appropriate basis of accounting for land.

(See par. 12.d. and 12.g. for relevant standards and par. A27- A34 for a discussion of certain members' concerns and A55 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow exclusion of land from the opening balances of general PP&E even though other component reporting entities will report the cost of certain land in general PP&E?

DOE Response: We have no objection to the proposal to exclude land from the opening balance of an entity—the related disclosure of land owned by the reporting entity is consistent with the approach taken by other reporting entities for stewardship land.

If you disagree, do you prefer (1) to value land holdings based on existing standards requiring historical cost of land acquired in connection with other general PP&E to be capitalized, 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? Please provide your rationale.

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

DOE Response: Future land acquisitions should be included in the balance sheet, even when an entity has excluded land from its opening balance, thus they would not be included in the related disclosures.

c) Do you agree or disagree that a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts? Please provide your rationale.

DOE Response: We do not agree that it is appropriate to exclude future land acquisitions from the balance sheet when an entity has excluded land from its opening balance. This proposed practice is inconsistent with the Basis for Conclusions documented in Appendix A, which notes in several places that "land is not depreciated so the benefits of capitalizing land are primarily in the period of acquisition." The Board can appropriately provide relief to a reporting entity when establishing its opening balance for land without distorting the reporting of expenses in future years that would occur if future land acquisitions are expensed by one component of the Federal reporting entity but treated as capital acquisitions by other components of the Federal reporting entity.

d) The Board anticipates a project on land to review existing standards and to consider a consistent approach for all component reporting entities. Please provide any suggestions you have for improving current reporting on land.

DOE Response: We look forward to participating in the future land project. One issue for discussion would be the treatment of improvements to land, particularly improvements to land that is not included as part of the reporting entity's PP&E according to the new standard.

Q3. The Board proposes to amend SFFAS 10, *Accounting for Internal Use Software*, to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software 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 (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 valuation method. The Statement provides for selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all general PP&E and (2) prospective capitalization of internal use software.

The proposed Statement describes the alternatives and related disclosures.

(See par. 13-14 for relevant standards and par. A35- A39 and A56 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software? Please provide your rationale.

DOE Response: Since we don't anticipate that this change will affect the Department of Energy, we do not express agreement or disagreement with the change.

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

DOE Response: Since we don't anticipate that this change will affect the Department of Energy, we do not express agreement or disagreement with the change.

Q4. The Board proposes to rescind SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Accounting Standards 6 and 23*, because this Statement would provide comprehensive guidance for establishing opening balances. The Board has incorporated the relevant components of SFFAS 35 in the proposed guidance in this Statement. The Board did not incorporate language from SFFAS 35 that explicitly allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E.

Instead, the Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35, and are acceptable without guidance from the Board. (See par.18-19 for relevant standards and par. A43- A51 in the Basis for Conclusions.)

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

DOE Response: We have no objections to the change since we understand that the change is essentially clerical in nature, and has no impact on a reporting entity's ability to use reasonable estimates when establishing the cost of general PP&E or for other financial reporting purposes.

- b) Do you agree or disagree that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35? Please provide your rationale.

DOE Response: For the sake of clarity, the final standard should retain the clear documentation provided in paragraph 19 of the exposure draft that reasonable estimates are permitted in the preparation of financial statements.