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Request for Comments on FASAB Exposure Draft: *Estimating the Historical Cost of General Property, Plant, and Equipment (G-PP&E) -- Amending Statements of Federal Financial Accounting Standards 6 and 23*

All responses are requested by January 30, 2009 to FASAB.

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities that have not previously reported G-PP&E on their entity financial reports and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

Department of Transportation, Maritime Administration's (MARAD) Response:

We agree and support this standard.

MARAD's vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11 issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as G-PP&E depreciable assets on the DOT's financial statement in FY 2003.

In order to track and report the G-PP&E, agencies must determine whether the acquisitions are meeting G-PP&E criteria and must establish G-PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as G-PP&E. MARAD had a difficult time substantiating the historical book values of many vessels associated with the original documents, multiple transactions occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist or; the records have been archived or disposed (as the retention period for documents has expired.) The costs of reconstructing historical financial information for G-PP&E would be enormous for G-PP&E acquired prior to the SFFAS No. 23 and there is little benefit to construct a perfect historical financial information for this type of G-PP&E because the book values of many of these properties are \$0 or almost depreciated. Therefore, estimating

the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

MARAD's Response: We agree that initial capitalization of G-PP&E based on reasonable estimation methods is acceptable on a continuing basis.

The vessels that Maritime Administration acquires for the Ready Reserve Force (RRF) are often older vessels (e.g., over ten years old). The majority of these vessels and PP&E equipment on the vessels (e.g., forklifts) were transferred from other agencies, foreign shipyards, etc. and the original documentation (e.g., purchase orders, invoices, book value) may no longer exist.

The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

MARAD's Response: We agree with the proposed amendment to SFFAS 6 because it allows for various methods to derive reasonable estimates and determine reasonable life of the related G-PP&E. We concur with the paragraph 12 and 13 that the estimates may be based on budget appropriation, engineering documents, contracts and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items. MARAD sometimes uses the independent appraised fair market value to determine the cost of the defaulted guaranteed ships. We propose the paragraph 12 includes the “ independent appraisal value”.

The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted

through a definitive end date (i.e., a date-certain option)? Please explain your preference.

MARAD's Response: We believe that the use of reasonable estimates to G-PP&E should be permitted at any time for certain types of G-PP&E, such as, the transfers or donation of old PP&E (e.g., vessels). For example, if the U.S. Navy were to transfer a seaworthy vessel to MARAD, it would be unwise and unreasonable of MARAD to reject this vessel simply because the G-PP&E documentation was not retained.

Q3. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

MARAD's Response: We do not agree with Mr. Patton for the reasons expressed in our responses to the questions 1 – 4.

Q4. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

MARAD's Response: FASAB could provide more guidance for the paragraph 12 and 13 by providing more reasonable options for estimating historical costs.