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January 30, 2009

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

Dear Ms. Payne:

I am pleased to provide our response to the Exposure Draft for "Estimating the Historical Cost of General Property, Plant and Equipment," dated November 14, 2008.

My responses are as follows:

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.

Response: I believe that if the entity maintains a fixed asset record/reporting system while it may not report supportable Historical Cost, it probably maintains an asset description, model, manufacturer, serial number and date of acquisition. If so, an estimated Original Cost may be generated via a "normal costing" methodology. This methodology is the "backtrending" of the assets current Replacement Cost to the reported or Estimated Date of Acquisition, via reverse inflation indices by asset type, or classification code. It is important to note that these indices are available by classification code and are more accurate then employing a backtrending methodology based upon a general CPI factor, which is very broad based and general and not asset class specific. Backtrending by asset class would generate a more accurate Estimated Original Cost.

The entity should perform an "existence and completeness" check of the asset inventory prior to the aforementioned exercise to ensure that the inventory reasonably represents the assets reported that are physically present at the entity's physical location.

The entity should then be required to report the actual Historical Cost for newly acquired assets on a "go forward" basis.

The aforementioned costing methodology is consistent with GAAP.

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.].

Response: I agree that the "base unit" and its components should be capitalized at the date of acquisition. However, any subsequent additions/modifications to the equipment should be a separate line entry, and perhaps a suffix to the base asset, and its cost reported separately to allow for proper depreciation calculations and subsequent asset transactions such as asset retirements, or transfers to another entity.

In many instances, via a "Standard Costing" methodology, which is a comparison method to like assets that do have an accurate acquisition date and cost basis, would be more acceptable then a random selection. If the entity has an electronic fixed asset system, then this effort can be accomplished with minimal resource effort via a electronic sorting capabilities.

Q3. 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.

Response: I agree, however, as mentioned in Q1 above, the reverse inflation indices should be based upon asset classification and not a general CPI. Reverse inflation indices by classcode are more accurate in that they are reflective of technology changes and overall product market conditions.

Guidance should be extended to the entity relative to substituting "latest" Acquisition Cost for "current" Replacement Cost in terms the age of the "latest" Acquisition Cost, as if aged, this methodology may not be applicable.

Q4. 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.

Response: The Board may want to consider an approach similar to that which the Governmental Accounting Standards Board (GASB) utilized for Statement No. 34. The GASB implemented a "phase in" approach that various sized governments could use, specifically:

- Governments with annual revenues of >$100 million – June 15, 2001
- Governments with annual revenues of $10 million to $100 million – June 15, 2002
- Governments with annual revenues of <$10 million – June 15, 2003

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This "phase in" approach would require the larger entity to comply first as presumably it should have systematic and personnel resources to respond more timely then the medium and similar entities. By having a set implementation date, it would highlight the importance of the standard from an accountability and stewardship point of view.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Response: I agree with the concerns expressed in paragraph A20 from the perspective that there needs to be a consistent reporting and estimating methodology and there needs to be a reporting date requirement for compliance. If these basic two principals do not exist, compliance with the Standard will not be taken seriously. Given the current financial crisis, timely reporting and financial accountability is of paramount importance.

I would suggest that the Board review the implementation guidance associated with GASB 34 and Executive Order 13327 for Real Property in that certain asset management system requirements and data elements are set forth, as well as "phase in" compliance dates for mandatory compliance.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Response: Yes, I do believe that additional guidance is/will be necessary for implementation such as:

- Cost Estimation
- Acquisition Date Estimation
- Asset Lifing
- Consistent Classification Coding
- Basic Fixed Asset Reporting Data Elements
- Dates for Compliance
- Implementation Guide Preparation for use by the reporting entity

I have attached a listing of costing and valuation definitions for your review.

Ms. Payne, thank you for the opportunity in which to respond. If I may be of any further assistance, or if my response requires any additional clarification, please do not hesitate to contact me.

Respectively submitted,

Sincerely,

Kevin J. McHugh
Senior Vice President
National Managing Director – Higher Education
and Federal Government Services

KJM/mj

Attachment

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COSTING AND VALUATION DEFINITIONS

Cost of Reproduction New - The amount required to reproduce a duplicate or a replica of the entire property at one time in like kind and materials in accordance with current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for material or equipment. In insurance industry terminology, cost of reproduction new, as defined above, is synonymous with the insurance industry phrase, "replacement cost."

Historical Cost - The actual cost of a property to the present owner - the cost as of the date the property was first constructed or originally installed. When historical cost is provided in a usable format, it will be included. When this information is not readily available, American Appraisal will estimate the original cost by applying reverse inflation indices to the cost of reproduction new.

Estimated Original Cost - The estimated original cost of the property in accordance with costs as of the actual or estimated date the property was first constructed, originally installed, or purchased.

Direct Costing - Additional research into the historical cost documented as provided by the Client in a readily available and useable format, in the Client's property records for the original construction, improvements and betterments.

Normal Costing - Estimated cost based on the cost of reproduction new indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date.

Acquisition Date - When readily available, we will use the actual acquisition date of the property. In the absence of readily available information, the acquisition date will be estimated based upon American Appraisal's knowledge of the property type and its condition.

Estimated Life - An estimate will be made of the useful life of each unit-controlled asset and each group-controlled asset. The matter of historical lifing practice versus estimated actual lives will be discussed during the planning meeting and an acceptable approach will be developed.

Accumulated Depreciation - Will be based on the asset's cost, acquisition date and the estimated useful life utilizing the straight-line basis of depreciation. Useful lives will be based on information provided by the Client or industry standards.

Insurable Value - Cost of reproduction new (replacement cost) as of the appraisal date will be used as a basis for insurable values for all controlled property.