

Thank you for the opportunity to comment on the above Exposure Draft.

Attached are the Department of Housing and Urban Development's comments and responses to the questions in the above Exposure Draft.

Please direct any questions concerning our response to me at the number listed below.

Thanks!

Jerry Tucker

Director

Financial Policies and Procedures Division

Office of the Chief Financial Officer for Financial Management

The US Department of Housing and Urban Development (HUD), Office of the Chief Financial Officer (OCFO) has reviewed the subject Exposure Draft concerning *Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23* and below are the responses to the questions noted in the Draft.

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.

Agree. For those entities where original transaction historical cost data is not available, estimation is a viable solution to accurately reflecting the G-PP&E and Accumulated Depreciation account balances without incurring substantial expense to obtain the historical information. HUD is of the opinion that a revaluation model should be used for all properties and a cost model or fair value model should be employed for plant and equipment. Because the fair value model is market-based, the market approach should be utilized as the primary or assenting approach. If the market approach is not apparent, then the income model should be considered.

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.

Agree. DOD works under “special circumstances and thus should be allowed to use reasonable estimation methods on a continuing basis in accordance with SFFAS 23.

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.

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.

Agree. HUD believes that the use of reasonable estimates is a prudent business decision in this time of limited resources. However, the addition of “other reasonable estimation methods”, as noted in paragraph 7, would require further explanation and the Agency should also seek the guidance from the Agency’s auditors prior to employing such methods.

Additionally, the estimate of accumulated depreciation should take into account the systemic basis of the G-PP&E useful life, thereby reflecting the pattern in which the asset’s past and future economic benefits are consumed by the entity.

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

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.

HUD believes that the use of reasonable estimates to value G-PP&E should be available at anytime to allow for any “new” reporting entities to use reasonable estimation methods.

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.

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

The Department agrees that the views expressed by Mr. Patton have merit, however limited resources may not permit entities with the opportunity to build systems to track acquisition/development costs.

Q6. 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.

Yes. An example is the third bullet under item 40 on page 11 of the exposure draft that allows “other reasonable methods” to be used for estimation. Other examples include item 12 on page 12 where estimates are based on documentation, but no time frame is defined.

Reasonable estimates should contain quantitative, qualitative, and time factors, as applicable. HUD believes that reasonable estimation methods should be identified when the historical data is not available, as the current definition is vague. Valuation methods

should be identified for G-PP&E, to provide for reasonable estimate methods and guidelines as approved by senior management and discussed with the Agency's auditors prior to final execution.