



February 3, 2016

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board 441 G. Street, NW, Suite 6814
Mailstop 6H19 Washington, DC 20548

Name: Richard C. Culbertson
Organization: Asset Leadership Network (ALN)
<http://assetleadership.net/>

On behalf of ALN I am pleased to have the opportunity to provide comments to the Federal Accounting Standards Advisory Board's exposure draft concerning Establishing Opening Balances For General Property, Plant, and Equipment (PP&E).

ALN is a non-partisan organization whose purpose is to help all types of organizations achieve strategic objectives by realizing greater value from their assets. Our membership is comprised of individuals, which collectively have hundreds of years of experience in the full depth and breadth of asset management including: leading, creating and vetting of consensus standards (e.g. the ISO 55000 Asset Management and ASTM Standard E2279 - ... Guiding Principles of Property Asset Management ...), financial, operations, reporting, auditing, etc., in the management of Government and non-Government property.

At the top level we do not agree with the direction taken in the exposure draft. Ultimately, we believe that with the use of "deemed cost", accounting, reporting and decision making will not be improved.

We recommend the Board consider the use of the ISO 55000 family of Asset Management Standards to substantially improve asset management, and that the Board retain traditional accounting approaches. We also agree with the Department of Defense regarding the reporting of PP&E in the possession of Government Contractors -- that it is immaterial to total Government PP&E balances.

Our leadership is available if the Board wants to further explore and understand ISO 55000 and the approach that we recommend to effectively and efficiently improve the accounting and management of Government PP&E.

If you have any questions please contact me at my email address or phone number below.

Thank You,

Richard C. Culbertson
Asset Leadership Network
Director Corporate Governance
609-410-0108
Richard.C.Culbertson@gmail.com



Wendy M. Payne, Executive Director

Federal Accounting Standards Advisory Board 441 G. Street, NW, Suite 6814

Mailstop 6H19 Washington, DC 20548

Name: Richard C. Culbertson

Organization: Asset Leadership Network (ALN)

February 4, 2016

-
- 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.

Disagree

Rationale: The approach as described in the exposure draft does not appear to be consistent with the FASAB Statement of Federal Financial Accounting Concepts 1 - Objectives of Federal Financial Reporting. The objectives of this statement are to promote: budgetary integrity, operating performance, stewardship, and systems and control. The FASAB Statement emphasizes the usefulness of reporting to users in an economical, efficient, and effective way, for good decision making to the benefit of society.

The deemed cost approach will diminish the perceived reliability and usefulness of financial reporting of Property Plant and Equipment. Deemed cost includes replacement cost, which in US GAAP, has never been used for accounting purposes. We grant that

the concept may be useful for operational purposes. Deemed Cost includes fair value. Fair value is generally not used for accounting purposes, except when balances are to reflect the lower of cost or market. Finally, deemed cost includes estimated historical cost, for accounting purposes. This is the amount that users are used to seeing and using. This is the consistent approach which should be maintained. When multiple approaches are used and reported, the result is information that is not meaningful or useful to anyone.

Deemed Cost is more appropriately used for IFRS reporting under the International Accounting Standards, which permits reevaluating PP&E assets to fair value.

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

Disagree

When there is a large likelihood that the readers of the financial information may not understand or might be confused by what is presented, because of the wide variance from traditional U.S. accounting, the greater the need of repeated disclosures.

The exposure draft documentation includes "A54. The reporting entity should also 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." This statement may lead practitioners to minimize needed disclosures.

- 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?

Disagree

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.

Rationale: For most of the same reasons provided in the first question (Q1), we prefer using the existing accounting standards. The approach to use a set amount per acre would be a very poor practice. Remote unimproved land in Alaska is worth much less than land in urban areas and U.S. Navy bases, for example. An average value is a poor substitute for reasonably accurate historical cost data or estimates.

Recording land as an expense at acquisition is a very poor practice, as it results in the overstatement of operating expenses.

The exposure draft appears to attempt to serve the needs of expedient accounting. It is better to focus on good accounting with existing standards rather than trying to reach some middle ground, which provides poor accounting, management information and asset management.

There is a much better option that fulfills the objectives of FASAB Statement of Federal Financial Accounting Concepts 1 - Objectives of Federal Financial Reporting. The FASAB and the Government should adopt the new ISO 55000 Asset Management family of standards. These standards, first published in 2014, have been recognized as U.S National Standards by ANSI and are being adopted by Governments and other entities worldwide. (See http://www.ansi.org/standards_activities/nss/nss.aspx?menuid=3)

"Governments should also introduce standardized infrastructure asset management processes and frameworks (such as ISO 55000),"... World Economic

Forum http://www3.weforum.org/docs/WEF_IU_StrategicInfrastructureSteps_Report_2014.pdf

The intended use of the ISO 55000 family of standards is to “improve the realization of value”. It has an expanded definition of “asset” and includes tangible and intangible assets. Things that should be managed are managed, rather than limiting management to only the items on the balance sheet. The first step of managing something is to recognize and measure it. Measurements in an ISO 55000 asset management system could contain estimates of fair value, replacement value, and utilitarian value, whatever management determines is worthwhile for management purposes under the circumstances. Additional information can be obtained from the Asset Leadership Network. <http://assetleadership.net/>

The adoption and use of ISO 55000 is also consistent with the newly reissued OMB A-119. https://www.whitehouse.gov/sites/default/files/omb/inforeg/revised_circular_a-119_as_of_1_22.pdf

Changes to existing standards, reduced requirements and records should not be permitted based upon anticipated future standards.

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

Disagree

Land is a major element of the balance sheet and should remain on the balance sheet. Lowering standards will eventually lead to lower performance and poorer decision making.

Immaterial items need not be reported but material items should be.

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.

Disagree

We believe that land should not be excluded from general PP&E open balances, as it is a material item. We disagree with the entire concept. The ending balances on the prior statement should be the beginning balance on the subsequent statement. The accounting treatment and reporting of land should be consistent.

- 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.

Land is an asset, as it provides probable future benefits, and should be recorded as an asset and reported as such.

Reporting components have different missions and needs and have a different mix of PP&E assets and asset management requirements to fulfill those needs. It is better to continue with traditional accounting concepts and standards, but expand the management approach to these assets with ISO 55000. This will promote proper accounting, as well as appropriate internal controls and good asset management.

- 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.

Disagree

The reporting of software as an intangible asset should be limited. The benefits of placing software on the balance sheet may not be sufficient to justify the administrative cost of obtaining separate reliable capital cost from operating expenses.

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

Disagree with the proposed approach.

Software worth managing is better managed and reported in an ISO 55000 infrastructure. In an ISO 55000 compliant asset management system, software can be managed regardless of how the software is obtained. Under ISO 55000, software does not have to be owned; it can be self-constructed, licensed, or a service. Deemed cost includes replacement cost, which in U.S. GAAP, has never been used for accounting purposes. We agree that the concept may be useful for operations purposes. Deemed cost includes fair value. Fair value is generally not used for accounting purposes, except when balances are to reflect the lower of cost or market. Finally, deemed cost includes estimated historical cost. For accounting purposes, this is the amount that users are used to seeing and using. Using multiple approaches for reporting will result in information that is not meaningful to anyone.

- 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.

Disagree.

SFFAS 35 has been useful. Before the issuance of SFFAS 35, some Government auditors would insist on obtaining original documentation, even beyond the contractual requirements of record retention. We agree that it should not be needed, however, some in the audit community may not understand what is not explicitly written. When documents are withdrawn, many believe that all of the concepts and requirements contained therein no longer apply.

- 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.

Agree.

Estimates in accounting, statistics or other professional work are assumed to be done with due professional care. Estimates are expected to be derived from “homogeneous data” (not mixing apples with oranges). When SFFAS 35 was published it was assumed estimates would be fair, reliable and consistent with this established process. Deemed cost does not measure up to the high standards of reasonable estimates.

Reasonable estimates can and should be made when costs are comingled, and it is necessary to componentize assets or other bundled cost. In many audit situations, however, reasonable estimates are not considered a valid substitute for “adequate substantiation” of accounting entries.

At a minimum the board should retain SFFAS 35 until the issues included in the exposure draft are resolved. The Board may want to expand on the SFFAS, and explain when reasonable estimates are appropriate and when they are not. The SFFAS 35 should also point out that reasonable estimates are not a good substitute for proper accounting routines.

Other Concerns:

The proposed exposure draft introduces some poor accounting practices, which if adopted, may then be used to justify poor practices in other asset or liability reporting.

Appendix A Basis of Conclusions – In that some of our members have a different understanding and experience from a contractor’s perspective, and that the exposure draft is based upon Appendix A, we believe we should be commenting when we have an alternate understanding.

Government property in the hands of contactors

A19. 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 since there is no conceptual difference. Further, most would agree there should be accountability over government owned assets in the hands of others.

Comment: The accounting treatment for Government Property is not that different, and in many cases is the same as other assets. It should not be that challenging, as long as those doing the reporting understand the contacting and accounting process. This is no different than what is required for contractors under Cost Accounting Standard 404 – Capitalization of Tangible Assets, only the Government has a much greater capitalization threshold (\$5,000 vs. \$500,000). It is rare that the Government furnishes PP&E that is a separate capitalized unit on the Government’s books. In most cases the cost of Government owned Equipment, Special Test Equipment and Special Tooling is bundled with a corresponding deliverable item,

therefore, if the Government treats these items as additional assets for accounting purposes, the accounting would be wrong, as these would be double counted. Further the contractor is not privy to what is capitalized or not capitalized on the Government's accounting records.

There is accountability of the Government property at contractor's sites, even those assets with low values. However, it is not a duplicate of the Government's internal accounting efforts. Continual Government accounting activities such as: establishing work in process accounts, recognition of ready for use, coordination of capitalization, reconciliations, closing accounts and impairment reviews; all critical parts of the overall company asset management system at each Government contractor. The remaining items at the contractor's site represent essentially sunk cost, and as individual items they rarely meet the Government's capitalization threshold. If these items were acquired as individual units, they would be classified as expense items, not PP&E.

A20. SFFAS 6 paragraph 18 provides that PP&E includes "property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors)" and paragraph 34 (along with note 34) elaborates that PP&E should be recognized when a 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.

Comment: The described requirement is not completely consistent with the Government's practice and can result in improper guidance and subsequent accounting. When the cost of equipment, special tooling and special test equipment is bundled with the cost of the primary deliverable, delivery of these residual items may not occur for months or years. Any dollar amounts associated with these items are not costs that are to be used for accounting purposes. The delivery triggers the requirements to transfer accountability to another contract or location, and reporting to DoD's IUID Registry. These residual items are not PP&E on their own.

A21. During the due process deliberation of SFFAS 23 in 2003, this issue also came up. 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.

Comment: "Accounting control" is not a traditionally used phrase by accountants, auditors or asset management professionals. As a result, its meaning is questionable – is this being directed at the Government or the Government contractor? The quote is not attributable to

any particular writer, so the context is unclear. This quote may infer that Government contractors do a poor job of accounting for Government property. The thousands of audits performed by DCAA do not support this interpretation, as very few contractors have been found to have deficiencies in this area. Or, "Accounting control over this property is deplorable" may have been referring to the accountability of Government property under the possession or control of a Government contractor. Again the facts, based upon the thousands of DCMA assessments, don't support the assertion. It is our belief that the repeated quote is a misrepresentation of the current and past state of property in the hands of contractors, and should not have been used as a "Basis of Conclusions".

Regulations governing Contractor held property have existed since the Administrative and Service Act of 1949. When the FAR 45 Government Property Clause was updated in 2007, two major reasons that this type of property would be reduced came to light. First, the Special Tooling and Special Test Equipment clauses were rescinded. These clauses caused the Government to acquire property sometimes without benefit. Second, the Government has migrated away from cost plus type contracts, which requires that all items charged directly to a contract become Government property.

The Government pays a lot of money to contractors and their own staffs to oversee and manage this property, in accordance with the Government's contract requirements. Overall it is proven they fulfill those requirements. In general, Government contractors are audited more than any other entity; withstanding internal audits, external public accounting audits and multiple Government audits.

The condition that does exist, by the nature of Government contracting, is that Government procurement is complex. Complexity to the uninformed should not be confused with inherent deficiency.

The Board's belief that there is a "vast amount of PP&E" held by contractors is not accurate. In analyzing amounts of property, the first cost of items is not a reliable gage of the value of those items. Usually analysts are more interested with the net book value of PP&E rather than asset's first cost. In addition, the accountable balances of over ninety-five percent of the items at contractor's locations do not meet DoD's or other agencies' capitalization thresholds. For the remaining items, if capitalized and depreciated separately, a very large portion of these items would be fully depreciated. Residual value of Government property is very low, less than one percent of first cost.

A22. The Board understands that certain reporting entities may have long-standing contracts lacking 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. Other alternatives, including those proposed by the DoD, to mitigate the cost of properly reporting on such PP&E were considered. The DoD's proposal was intended to allow the DoD to take a prospective approach for establishing completeness and accountability for government property in the hands of contractors. Much of the DoD's rationale was based on the belief that government

property in the hands of contractors 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. The 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. The DoD has other accountability obligations and a management need for complete records to support decision making.

Comment: The DoD belief that the residual or other property in the hands of contractor's is immaterial is correct. The current accounting process, from our perspective, is correct. It would be incorrect, after many years, to adjust actual first cost amounts to reflect different accounting, to expense or recapitalize or componentize these items that may remain at contractor sites, as this would not be in accordance with GAAP. Keep in mind that when a program starts out, the initial contracts may have been Research and Development (R&D) efforts. R&D in GAAP is treated as expense. Even if these items are proven to be useful over many years and multiple contracts, the accounting is not changed. There is no second chance to reclassify or capitalize. Using deemed cost to achieve blanket reclassification and capitalization would be administratively expensive, and would require additional contract funds to try to sort out. When dealing with cost, Contractors operate to a standard of "current, accurate and complete". Deemed cost cannot be supported to be current, accurate and complete. In GAAP, componentization must occur at inception, either during the capital planning process, or when the item is substantially complete and ready for use.

The comment in the first sentence concerning "long-standing contracts lacking contractual terms and systems needed to accumulate the necessary information" is troubling and is the basis of a false hope. There is almost nothing in the Government Property Clauses that requires the contractor to accumulate actual first cost of items. The few exceptions include when the Government's Contracting Officer makes a particular item a deliverable line item in the contract and then furnishes the item back to the contractor. In this case, the line item cost becomes the first cost within the contractor's records. This happens infrequently and is not representative of prior or current practice. In our experience, Contracting Officers do not create additional line items for three reasons: (1) it is not common that an individual item would exceed the Government's capitalization threshold; (2) the item may not be a capital item, based upon useful life considerations and (3) the item may be considered immaterial, based upon the Federal Acquisition Regulations (FAR) 31.201-6 and FAR - Appendix Cost Accounting Preambles and Regulations, Subchapter B – Procurement Practices and Cost Accounting Standards, Subpart 9903.3 – CAS Rules and Regulations 9903.305 - Materiality.

The FAR clauses 52.245-1 Government Property (rewritten in 2007) and DFARS 252.211-7007 (originally issued in 2007) have existed for quite some time, and apply to the accountability of Government property; not the accounting of Government Property. Accountability applies to all types of Government property including: items that have been expensed, items that were purchased as material of some sort, R&D contract property, but mostly property that was determined to be a direct charge to a particular contract, that remain over many years to fulfill production or use on follow-on contracts. These clauses

do not require reporting of all items as if they were individually capitalized units and it is wrong to perceive them as that. The reporting of items to the IUID registry must not be confused with the reporting of PP&E or other assets subject to GAAP.

Finally the statement: "The DoD has other accountability obligations and a management need for complete records to support decision making." from afar seems reasonable, but in practice, decisions are not made with aggregate numbers, but with specifics. Those specifics vary greatly based upon the circumstances; program-by-program and contract-by-contract. Complete government records, in and of themselves, are not useful. Internal use property, used to complete contract deliverables, is made up of property that is company capital, subcontractor capital, contract property, subcontractor contract property, expense - overhead and Government owned property of various types. There is very little correlation from program to program, so seeing items that are reported in the IUID Registry, for example, does not provide a complete picture and is therefore never suitable for decision making. IUID Registry information is primarily meant to be used for contract accountability purposes, and is an indication of contractual reporting compliance in accordance with contract clauses and DoD Instruction 5000.64. It was never meant to be used as an accounting record or tool.

A23. 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 information presented by the DoD, 77% of the current contracts expire in 2016 and 12% expire in 2017. Hence, processes would be in place to capture government property in the hands of contractors by 2018 through issuance of new contracts with required clauses. Considering much of the information and data indicates the contracts for government property in the hands of contractors will expire soon and the assets may be immaterial or fully depreciated, with time the 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 contractors should continue to be consistent with general PP&E.

Comment: There is no basis to believe there will be improvement because of new or modified contract clauses – there are no existent new clauses, but there should be less Government property based upon the requirements that were put in place since June, 2007. We suggest the Board interview the Asset Management leads of the five largest Government Contractors and obtain their perspectives. The Board should also walk through the contractual, establishment of records and reporting processes, including the treatment of cost in the PP&E and non-PP&E life cycle; acquisition, use, and disposition, on typical cost plus and fixed price type contracts.

A24. The Board conducted outreach on this issue prior to issuing the exposure draft. Feedback from the audit community conveyed that the issues the DoD encountered with property in the hands of contractors are the same for all DoD general PP&E. With respect to the DoD's proposal, there were

noted audit challenges due to gray areas, such as no firm 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 would remain until the necessary contractual improvements were fully implemented.

Comment: No contractual improvements are expected, as there are no new proposed clauses, nor regulatory changes published in the Federal Register. Changes in regulations can take and have taken years. Outreach needs to extend to the contractor community. There appears to be a disconnection in understanding of the current state and the expected future state.

Government contractors, with few exceptions, fulfill their contractual obligations. When it comes to accounting for the Government's PP&E, this is the Government's fiduciary responsibility. In fact FAR 45.105, (prior to June 2007) required the contractor to establish "the Government's official Government Property Records." The Government; however, now is expected to keep its own official records. If the Government wants to keep finite accounting records it must identify its individual capital units during the solicitation process. Even with this, additional line item deliverables within a contract that the Government plans to capitalize, all direct cost of the contract should not necessarily be capitalized, such as evaluation of alternatives and training. The more the Government wants finite GAAP accounting, the greater the cost, which further justifies the cost of property to produce deliverables held at contractor's sites, should be determined to be immaterial for Government PP&E accounting purposes.