From: Marc Rappaport
Sent: Monday, May 14, 2012 11:52 AM
To: Savini, Domenic N
Subject: Exposure Draft on Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use, as it references real property

Dear Mr. Savini:

I am a National Oceanic and Atmospheric Administration real property employee. I have also worked at the U.S. General Services Administration in real property both in the field and at headquarters.

I am a Certified Public Accountant, but do not practice or represent myself as a CPA in my professional or extracurricular activities.

I attended the FASAB briefing at GAO last month and really enjoyed listening. At the presentation, you invited candid comment.

Unfortunately, I wish to share that I am not comfortable with the Exposure Draft on Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use, **as it references real property**.

The purpose of this Statement is to report assets where value has been harmed or diminished due to a significant event. I disagree with the measurement method(s) used for real property. The determination of value due to a significant event that would lead to an impairment of real property is not appropriately reflected in the Exposure Draft illustrations.

The method of assessing impairment to value of real property versus the process of reducing net book value by cost allocation through depreciation schedules are not the same. Illustrations 1a, 1b, and 2a seem prudent. Illustrations 1c, 1d, and 2b seem **inappropriate** for real property.

In illustrations 1c and 2b the Statement provides a form of valuation (that the improvement value of the existing facility) assuming no damage (as fully functional) is roughly $8.5 million in 1c and $3.2 million (25% of 80,000 x $160) in 2b through the cost approach. Meanwhile the net book value is $1,515,000 and $1,750,000, respectively. In these cases, the dilemma is not whether net book value is overstated and requires an adjustment downward, the dilemma is whether management has specific plans to replace/restore, mothball, demolish, or dispose along with the associated schedule to fund said plans. The solutions to illustrations 1a and 1b may be more appropriate in all four cases, depending on the circumstances. As a financial statement reader, I am not clear if the circumstances are conveyed or reflected by reducing net book value? I can assure you the method does not mean anything to me as a real property professional.

In illustration 1d treating floors of a building in a service units approach is not appropriate. The primary concern is the mold and its negative impact on the tenants and use of the building. If the use of the building is limited on the lower levels, no doubt the improvement is impaired. Again, rather than a mathematical formula to reduce net book value, the plans of management should determine the financial impact and a disclosure.

In the extreme, maybe if the real property improvement is unusable, the net book value should be a loss in the fiscal year of discovery. Also, maybe if the significant event renders the improvement unusable and the cost to remedy is less than the net book value, then maybe the net book value should be adjusted to the estimated cost to remedy.

Further, a real property illustration not discussed is if land (typically held at historic cost) is impaired due to e.g. a chemical plume beneath the surface, or the loss of utilities, this may truly impact the net book value and render the land diminished in value or worthless.

Other Issues:
Real property does not typically become obsolete over a depreciation schedule nor is depleted similar to a piece service equipment. Terms like useful life and economic life are not interchangeable for real property assets.

Based upon the above, using the formula(s) may require recalculation each year that the obligation to correct is delayed. Estimates increase, demands on real property professionals to feed the financial statement requirements will become another annual administrative requirement.

Please note the Exposure Draft implies the real property illustrations are all federally owned, yet does not expressly state this in all illustrations. Other illustrations later in the Exposure Draft provide examples of outside vendors. Based upon my previous experience it is important to emphasize that as a lessee whether federal to federal or federal to outside party, that <u>the impairment decision of the real property is the sole responsibility of the holding entity or lead entity not a tenant or lessee</u> even if the tenant or lessee is another federal entity.

Thank you for allowing me to share my concerns.

Marc

Marc Rappaport
Deputy Director
Real Property Management Division, OCAO