



June 15, 2012

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: **Analysis of Comment Letters - Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.**¹ – **Tab A**

MEETING OBJECTIVE

Staff requests that the Board respond to the following questions:

- a. Should a public hearing be scheduled?
- b. If not, are there individual respondents from whom you wish to seek clarification directly?

BRIEFING MATERIAL

Staff Summary: This memo is included as Tab A and provides a summary of the responses. Staff has summarized responses to each of the questions. To facilitate your analysis, in some cases the staff's summary takes excerpts from respondent replies. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters.

The staff summary consists of the following tables and/or figures:

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND.....	3
SUMMARY OF OUTREACH EFFORTS.....	3
TABLE 1.0 - SUMMARY OF RESPONDENT TYPES TO EXPOSURE DRAFT	4
TABLE 1.1 - SUMMARY OF RESPONDENT AGENCIES	5
FIGURE 1.0 - FISCAL YEAR 2010 AND 2011 PP&E AMOUNTS REPRESENTED BY RESPONDENT AND OTHER/NON-RESPONDENT AGENCIES.....	6
FIGURE 1.1 - DISTRIBUTION OF FISCAL YEAR 2011 PP&E AMOUNTS REPRESENTED BY RESPONDENT AND OTHER/NON-RESPONDENTS	7
FIGURE 1.2 – PERCENTAGE DISTRIBUTION OF FISCAL YEAR 2011 PP&E AMOUNTS REPRESENTED BY NON-DEFENSE RESPONDENT AGENCIES	8
TABLE 2.0 – TALLY OF RESPONSES BY QUESTION	9
TABLE 3.0 – QUICK TABLE OF RESPONSES BY QUESTION	18
TABLE 4.0 – SUMMARY OF RESPONSES BY QUESTION	21
TABLE 5.0 – ANALYSIS OF RESPONDENT SUGGESTIONS	52
TABLE 6.0 – ANALYSIS OF RESPONDENT CONCERNS	82
TABLE 7.0 - RESPONDENTS.....	100

Attachment 1 provides the full text of each of the comment letters in the order the responses were received and processed. **NOTE: Attachment 1 was sent via separate cover on June 8, 2012.**

Attachment 2 provides the original Exposure Draft.

Attachment 3 provides a revised Exposure Draft pursuant to staff review of respondent comments.

BACKGROUND

This exposure draft proposes accounting and financial reporting standards for impairment of general property, plant, and equipment (G-PP&E) remaining in use, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Recognition of impairment losses would involve a two-step process that entails (a) identifying potential impairments and (b) testing for impairment. The losses should be reasonably estimated by determining the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility.

This Statement would improve financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.

SUMMARY OF OUTREACH EFFORTS

The ED was issued February 28, 2012 with comments requested by May 28, 2012. Upon release of the exposure draft, notices and press releases went to the following organizations:

- a) The Federal Register
- b) *FASAB News*
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive and the CPA Letter*
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the Financial Statement Audit Network; and members of both the Federal Real Property Council and Federal Facilities Council
- e) Committees of professional associations generally commenting on exposure drafts in the past

This broad announcement was followed by direct mailings of the exposure draft to:

- a) Relevant congressional committees
 - a. House Committee on Oversight and Government Reform
 - b. Senate Committee on Homeland Security and Governmental Affairs
- b) Public interest groups
 - a. Federal Facilities Council

Reminder notices were provided beginning on April 30.

RESULT

We received twenty-three (23) responses. Table 1.0 summarizes all received responses below.

Table 1.0 - Summary of Respondent Types to Exposure Draft

RESPONDENT TYPE	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Preparers and financial managers	16	0	16
Users, academics, others	2	2	4
Auditors	2	1	3
Total	20	3	23

Table 1.1 - Summary of Respondent Agencies

RESPONDENT AGENCIES ²	FEDERAL (Internal)
YELLOW = agencies referred to in PP&E Note 8 in the FY2011 CFR.	
Commerce	2
Defense	2
Labor	2
NASA	2
Agriculture	1
Energy	1
EPA	1
GSA	1
HUD	1
Interior	1
OPM	1
SEC	1
SSA	1
State	1
Treasury	1
VA	1
Total	20

² The Comprehensive Financial Report of the United States, Note 8., on *Property, Plant and Equipment, Net* on page 80, refers readers to the individual financial statements of DOD, DOE, the United States Postal Service (USPS), the Tennessee Valley Authority (TVA), GSA, DHS, and the Department of Interior (DOI), Department of State, VA, and DOT for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 94.5 percent of the Government's total cost of property, plant, and equipment net, of \$852.8 billion as of September 30, 2011.

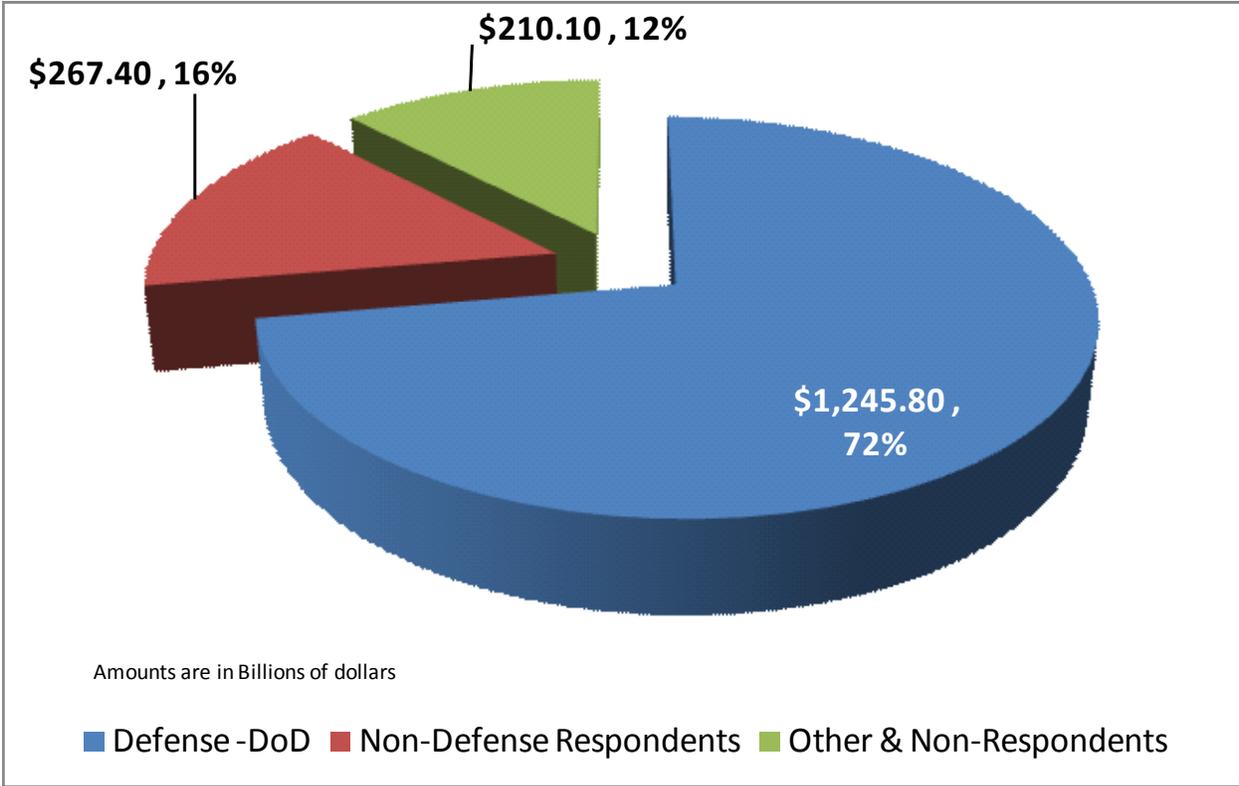
Figure 1.0 - Fiscal Year 2010 and 2011 PP&E Amounts Represented by Respondent and Other/Non-Respondent Agencies

(billions of dollars)

<u>Agency</u>	<u>FY2010 PP&E Cost</u>	<u>FY2011 PP&E Cost</u>	<u>Percent Change</u>	<u># of Respondents</u>
Defense	\$1,181.7	\$1,245.8	+5.4%	2
Energy	67.3	67.5	+0.3%	1
GSA	38.0	39.9	+5.0%	1
Interior	32.9	34.1	+3.6%	1
NASA	31.8	30.5	-4.1%	2
VA	31.0	34.4	+11.0%	1
State	19.2	21.4	+11.5%	1
Commerce	13.1	14.7	+12.2%	2
Agriculture	8.0	8.3	+3.7%	1
Treasury	6.0	6.3	+5.0%	1
SSA	5.8	6.1	+5.2%	1
Labor	2.2	2.3	+4.5%	2
EPA	1.5	1.5	0.0%	1
HUD	0.4	0.4	0.0%	1
Other³ / Non-Responding Agencies	201.6	210.1	+4.2%	2
Total (amounts rounded)	\$1,640.5	\$1,723.3	+5.0%	20

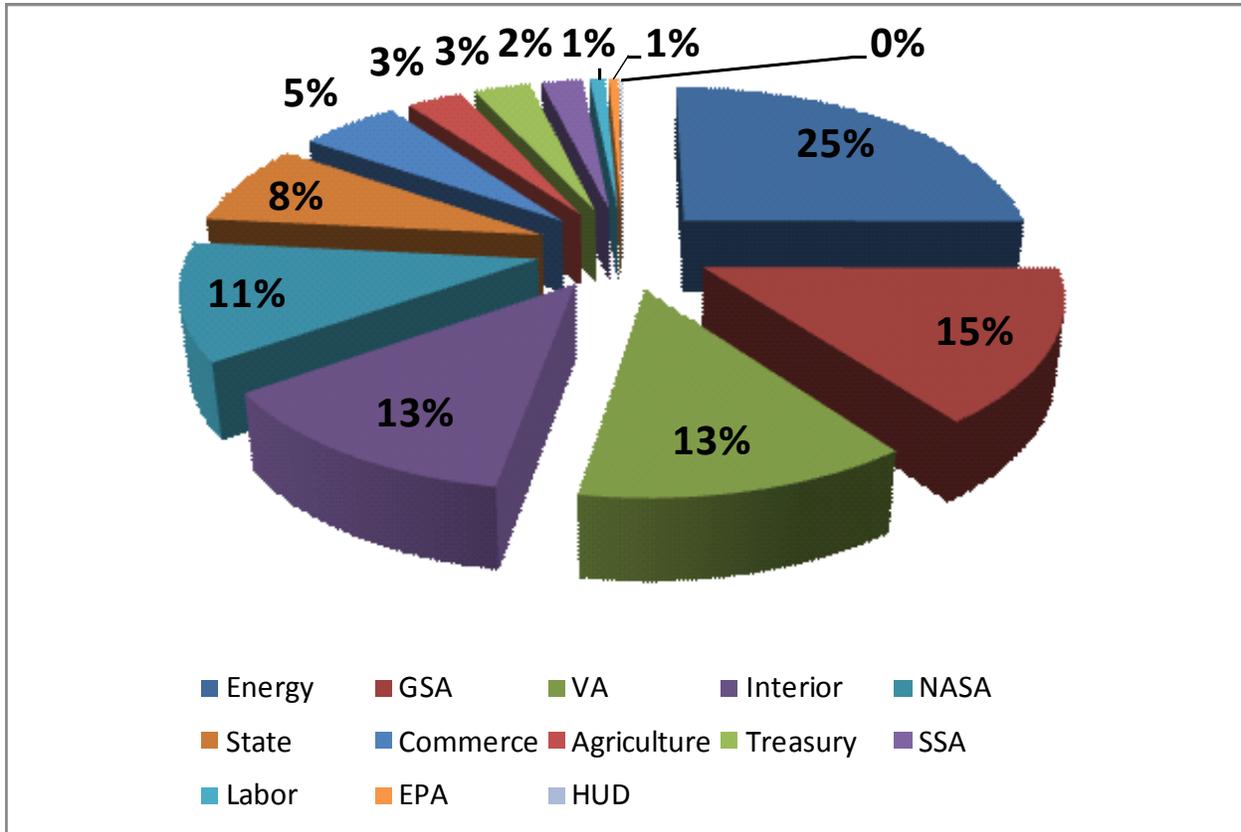
³ The OPM and SEC reported G-PP&E amounts are negligible for illustration purposes and are not separately reported and are included within the *Other / Non-Responding Agencies* category.

Figure 1.1 - Distribution of Fiscal Year 2011 PP&E Amounts Represented by Respondent and Other/Non-Respondents



Note: The OPM and SEC reported G-PP&E amounts are negligible for illustration purposes and are not separately reported and are included within the *Other/Non-Respondents* category.

Figure 1.2 – Percentage Distribution of Fiscal Year 2011 PP&E Amounts Represented by Non-Defense Respondent Agencies



Note: Non-defense respondent agencies total \$267.4 billion in reported G-PP&E amounts (at cost). This amount represents 16.0% of the total FY 2011 reported G-PP&. Refer to Figure 1.0 on page 6 for details.

Table 2.0 – Tally of Responses by Question

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Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
1.	<p>The Board proposes to establish a requirement to recognize impairment losses when there is a <i>significant and permanent</i> decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	18	2	<p>The two respondents who disagreed did so for similar reasons.</p> <p>a. <u>Impairment factors are already included in useful life estimates.</u></p> <p>One respondent noted that because initial estimation of G-PP&E's useful life already considers impairment such as technological obsolescence and depreciation, impairment accounting would not apply and that the Board's proposal overlaps with current internal agency methods and processes.</p> <p>b. <u>Avoid mistaking routine or anticipated declines for impairment.</u></p> <p>The second respondent took issue with the definition because of the phrase “<i>whether gradual or sudden</i>”, noting that the phrase should be eliminated and suggested a revised definition that would be based on the following:</p> <p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E that is not already recognized by routine depreciation.</p>

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
2.	<p>The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.</p>	22	0	N/A
3.	<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract</p>			<p>Nine respondents questioned the following indicators shown below. The most questioned indicator was 12 (g), <i>G-PP&E scheduled or awaiting disposal</i>:</p> <p>a. <u>1 respondent</u> - 12(c) Changes in environmental or economic factors. <u>Market/Economic factors</u> - This respondent asked if 12(c) would include changes in the real estate market or other environmental or</p>

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Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
	<p>termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	<p>13</p>	<p>9</p>	<p>economic factors. If so, they noted this would be difficult to review and measure.</p> <p>b. <u>2 respondents</u> - 12 (e) Changes in manner or duration of use.</p> <p><u>Specialized G-PP&E</u> - One respondent noted that changes in the manner or duration of use for Specialized G-PP&E may not follow consistent utilization patterns.</p> <p><u>Accelerate depreciation</u> - The other respondent noted that rather than recognizing impairment losses in such cases it would seem more appropriate to accelerate the depreciation expense.</p> <p>c. <u>1 respondent</u> 12 (f) Construction stoppage or contract termination.</p> <p><u>Indicators should not be definitive or conclusive</u> - This respondent noted that construction stoppages are not permanent until the contract is terminated and that while a contract termination is permanent, the contract may be re-solicited or the G-PP&E may be transferred to another project/contract for use. Please note that the respondent concurred with the staff’s response and recommendation on May 24, 2012.</p>

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				<p>d. 5 respondents 12(g) G-PP&E scheduled or awaiting disposal.</p> <p><u>Conflict with SFFAS 6</u> – Three respondents note that assets awaiting disposition should be simply handled by SFFAS 6.</p> <p><u>Idled assets should not be impaired</u> – One respondent notes that unserviceable property awaiting removal should be simply handled by SFFAS 6.</p> <p><u>All assets awaiting disposition would be impaired and considered not in use</u> – One respondent notes that 12(g) would require all assets awaiting disposition to be subject to impairment. Further, assets awaiting disposition are not in use and thus, would be exempt from impairment.</p> <p>e. 1 respondent - 12 (a) thru 12 (g).</p> <p><u>Redundant with FRPP requirements</u> - This respondent notes that the Federal Real Property Guidelines contain a list of indicators and related guidance concerning impairment.</p>

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Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
4.	<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	16	4	<p>Two of the four respondents who disagreed with the proposed measurement methods were real property professionals and primarily cited differences with their industry-specific guidance and application techniques. Their concerns follow:</p> <p>a. <u>Not an FRPP requirement to adjust “value”</u> – One respondent noted that the proposed measurement methods to adjust a real property’s “value” is not a federal real property requirement and,</p> <p>b. <u>Determination of “value” is not reflected</u> – the second real property professional noted that the proposed illustrations do not appropriately reflect an asset’s value.</p> <p>The remaining two respondents were federal CFO professionals with the following concerns:</p> <p>c. <u>Inappropriate method used for real property</u> - One respondent noted that the Service units method is not appropriate for Real Property assets.</p> <p>d. <u>Too many methods to select from</u> - The remaining respondent noted that we should decrease the number of methods to decrease associated costs that would be required for an entity to decide which method to select.</p>

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
5.	<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature⁴ to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related</p>			

⁴ “Other accounting literature”, such as standards developed by the Financial Accounting Standards Board or the Governmental Accounting Standards Board, may be considered if the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice. Consideration of other accounting literature is explained in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
	<p>explanation.</p> <p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	8	14	<p>a. Eight respondents cited the following examples of other costs or factors that should be considered:</p> <ol style="list-style-type: none"> 1. annual recalculations and examining entire portfolio to achieve the Board’s objective, 2. demands for real property professionals to feed information into financial systems, 3. adding a separate line on the statement of net cost, 4. opportunity costs of being diverted from general operations, 5. documenting methods and additional costs for policies and procedures, 6. training, system changes, 7. internal control, additional controls, and 8. reviews, and audits.

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
	<p>b. Are there G-PP&E categories, classes, or base units⁵ to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	5	16	<p>The five respondents who answered in the affirmative provided the following examples of G-PP&E that should be exempt from this standard:</p> <ol style="list-style-type: none"> 1. Real property and capital leases (Resp. 2) 2. Any immaterial G-PP&E (Resp. 8) 3. G-PP&E below a minimum dollar threshold (Resp. 13) 4. Military equipment (Resp. 14) 5. Any immaterial G-PP&E such as personal property and leasehold improvements (Resp. 13)

⁵ Per SFFAS 6, *Accounting for Property, Plant, and Equipment*, the term “base unit” refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. For example, units as large as entire facilities or as small as computers could be categorized. In determining the level at which categorization takes place, an entity should consider the cost of maintaining different accounting methods for property and the usefulness of the information, the diversity in the PP&E to be categorized (e.g., useful lives, value, alternative uses), the programs being served by the PP&E, and future disposition of the PP&E (e.g., transferred to other entities or scrapped).

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE	RATIONALE FOR “NO/DISAGREE”
	<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer</p>	<p>15</p>	<p>7</p>	<p>Many of the seven respondents who question or disagree with the Board’s premise (that benefits outweigh costs) either cite or repeat their answer to Question 5a above. Additional reasons follow:</p> <ol style="list-style-type: none"> 1. OMB approvals of all major construction projects. (Resp. 2) 2. Implementing this proposal for isolated events that have low probabilities of occurrence is redundant to existing maintenance policies. (Resp. 9) 3. G-PP&E is not internally managed by balance sheet values. (Resp. 14) 4. Due to the nature of the assets (can be easily replaced) and the relationship to agency mission (non-mission critical), there is no benefit derived from this standard. (Resp. 17) 5. Increased effort to adjust and reconcile G-PP&E records and associated audit costs, (Resp. 21)

Table 3.0 – Quick Table of Responses by Question

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Respondent ▼ (see Table 6.0)	1 Do you Agree? (Significant, permanent, gradual or sudden) decline)	2 Do you Agree? (Not requiring entities to search for potential impairments)	3 Do you Agree? (Indicators of impairment)	4 Do you Agree? (Measurement methods)	5a Are there? (Other costs or benefits)	5b Are there? (Categories, classes, or base units to exclude)	5c Do you Agree? (Benefits outweigh Costs)
1 – HUD/CFO	Yes	Yes	Yes	Yes	No	No	Yes
2 – NOAA/RP	N/A	N/A	N/A	No	Yes	Yes	No
3 - SSA/DCFO	Yes	Yes	No (12c)	Yes	No	No	Yes
4 - EPA	Yes	Yes	No (12g)	Yes	No	No	Yes
5 - DOD/OIG	Yes	Yes	No (12f)	Yes	No	No	Yes
6 - DOC/OCFO	Yes	Yes	Yes	No	No	No	Yes
7 –NASA/RP	Yes	Yes	No	No	N/A	N/A	No
8–NASA/DCFO	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 3.0 – Quick Table of Responses by Question

Respondent ▼ (see Table 6.0)	1 Do you Agree? (Significant, permanent, gradual or sudden) decline)	2 Do you Agree? (Not requiring entities to search for potential impairments)	3 Do you Agree? (Indicators of impairment)	4 Do you Agree? (Measurement methods)	5a Are there? (Other costs or benefits)	5b Are there? (Categories, classes, or base units to exclude)	5c Do you Agree? (Benefits outweigh Costs)
9 – DOI/DCFO	No	Yes	Yes	No	Yes	No	No
10 –GWSCPA	Yes	Yes	Yes	Yes	No	No	Yes
11 –DOS/DCFO	N/A	Yes	No (12g)	N/A	Yes	N/A	No
12 – USDA/OCFO	Yes	Yes	Yes	Yes	No	No	Yes
13 – GSA/DCFO	Yes	Yes	Yes	Yes	No	Yes	Yes
14 – DOD/ DCFO	N/A	Yes	No (12e)	N/A	Yes	Yes	No
15 – DOL/OIG	Yes	Yes	No (12g)	Yes	No	No	N/A
16 – OPM/OCFO	Yes	Yes	Yes	Yes	No	No	Yes

Table 3.0 – Quick Table of Responses by Question

Respondent ▼ (see Table 6.0)	1 Do you Agree? (Significant, permanent, gradual or sudden decline)			2 Do you Agree? (Not requiring entities to search for potential impairments)			3 Do you Agree? (Indicators of impairment)			4 Do you Agree? (Measurement methods)			5a Are there? (Other costs or benefits)			5b Are there? (Categories, classes, or base units to exclude)			5c Do you Agree? (Benefits outweigh Costs)		
	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A
17 – SEC	Yes			Yes			Yes			Yes			Yes			Yes			Yes		
18 –AGA	Yes			Yes			Yes			N/A			No			No			Yes		
19 – DOL/OCFO	Yes			Yes			Yes			Yes			No			No			Yes		
20 – KPMG	Yes			Yes			No (12g)			Yes			No			No			Yes		
21 – DOE	No			Yes			No (12e, 12g)			Yes			Yes			No			No		
22 - VA	Yes			Yes			Yes			Yes			Yes			No			Yes		
23 - TREASURY	Yes			Yes			Yes			Yes			No			No			Yes		
Totals	18	2	3	22	0	1	13	9	1	16	4	3	8	14	1	5	16	2	15	7	1
KEY	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A

Table 4.0 – Summary of Responses by Question

Table 4.0 – Summary of Responses by Question ⁶

QUESTION - 1	
<p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	
1. HUD/OCFO	The Department agrees with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E.
3. SSA/DCFO	SSA agrees with the Board’s proposal.
4. EPA	<p>Agreed - The Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E.</p> <p>The Statement of Federal Financial Accounting Standards (SFFAS) No. 6, “Accounting for Property, Plant, and Equipment,” does not cover accounting for an impairment loss, which is required by GAAP.</p>
5. DOD/OIG	We agree with the proposal to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E. This will allow asset managers to more accurately account for the value of property, which will lead to more accurate and reliable financial reporting of assets.
6. DOC/OCFO	Commerce agrees with the proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E because it will more accurately reflect the current value of the asset. The entity must exercise judgment and consider whether material information would be changed or influenced by the omission or the misstatement, and the need for relevant, reliable, and consistent financing reporting over time.

⁶ In some cases the staff’s summary takes excerpts from each respondents reply and as such, is not intended to substitute for a complete reading of the individual letters.

Table 4.0 – Summary of Responses by Question

QUESTION - 1	
<p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	
7. NASA/RP	<p>We agree with the recognizing impairment losses for a significant/catastrophic event such as a building Destruction from a hurricane, tornado, or earthquake. In the Facilities GSA / Federal Real Property Council Reporting Requirements (FRPCRR), we account for all the assets in our inventory until they are demolished or disposed of. NASA and all the Federal Agencies are required by the FRPCRR to report the condition and Deferred Maintenance and Repair (DM&R) on an annual basis. We can provide additional information when asked about a particular asset.</p>
8. NASA/DCFO	<p>We agree with recognizing impairment losses when there is a significant and permanent decline in the service utility of the asset. We believe that this would help consistent and comparable financial reporting of impairment losses by Federal agencies.</p>
9. DOI/DCFO	<p>The Department of the Interior disagrees with the Board's proposal to recognize impairment losses when there is a significant and permanent decline in G-PP&E's service utility. The initial estimation of G-PP&E's useful life already considers factors that on average account for possible future impairments, such as technological obsolescence and depreciation. The service utility of an asset can change over time without changing the asset's estimated useful life; therefore, comparison of the G-PP&E's useful life and service utility may lead to inconsistent results. The Board's proposal overlaps with current methods and processes that many agencies in Interior already use to evaluate the long term utility of G-PP&E.</p>
10. GWSCPA	<p>The FISC generally agrees with the Board’s proposal to recognize impairment losses.</p>
11- DOS/DCFO	<p>The Department of State concurs that it is important to distinguish capitalized PP&E assets that are pending disposal and PP&E assets that are operating at a reduced level of full performance. We concur that this standard will associate the loss at or near the point of impairment. Unfortunately, there could be a delayed decision regarding disposals and agencies may have recognized an initial impairment if an asset is sidelined due to damage/change in environment and subsequently a follow-on loss if disposed of due to actual (complete) obsolescence or unavailability of funds to put the asset into operating condition. Management should have sole discretion in the identification of an impaired asset and there should be no prior period losses for impairments that were not fully or properly recognized in the year of occurrence. Decisions to</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 1	
<p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	
	<p>subsequently dispose of an impaired asset that is never placed back in service should not be considered an error and should be solely subject to the accounting requirements in the Statement of Federal Financial Accounting Standard No.6. The Department of State recommends that this situation be more explicitly stated in the standard to ensure consistency by all agencies.</p>
12 – USDA/OCFO	<p>Agree: A significant and permanent decline in an asset’s value should be recognized in order to properly and timely reflect assets on the financial statements. Significantly impaired assets that remain at their original cost, would materially overstate the financial statements.</p>
13 – GSA/DCFO	<p>GSA agrees. The reporting of G-PP&E impairments will significantly add to the informational value, reliability, and consistency of asset values presented in the entity’s financial report. This proposal will be beneficial in the reporting of Real Property and Operating Equipment, which have been impaired. Applying this proposal to group assets (e.g., computers, furniture) should not be considered.</p> <p>The fact that GPP&E remains in use does not eliminate the fact that it may experience a permanent decline in service utility. Had the asset not remained in use, the asset should be written down to the net realizable value. The same should be true if it remains in use. Finally, the proposed standard can be effectively adopted without undue administrative burden while still satisfying the objectives of federal financial reporting.</p>
14 – DOD/DCFO	<p>The Department of Defense agrees with the theory that recognizing impairment losses is consistent with industry standards and that a standardized method of recognizing significant impairment losses would improve reliability and consistency within and across federal entity financial statements. However, the benefit of recognizing impairment losses is minimal at best for the Department of Defense, and would probably be cost prohibitive. The Department’s myriad of accounting and logistics systems are not programmed to implement and comply with this standard, resulting in additional manual work-around procedures to ascertain loss estimates. Additionally, the Department does not manage GPP& E by acquisition cost. Therefore, recognizing impairment losses adds no value. Finally, the Department will never have a scenario in which G-PP&E is written down, since it is the Department’s policy to either dispose of the asset or repair it. The asset would not be used in an impaired state.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 1	
<p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	
15 – DOL/OIG	We generally agree with the Board's proposal to recognize impairment losses when there is a significant and sudden decline in the service utility of G-PP&E. However, we do not believe an impairment should be recognized when the decline is gradual.
16 – OPM/OCFO	Agree. Recognizing impairment losses when there is a significant and permanent decline, whether gradual or sudden, when they occur will improve financial reporting.
17 – SEC	We agree with the proposal in the Exposure Draft. However we suggest an edit to make it clear up front that this definition applies to assets that will remain in use. Specifically, <i>Impairment is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E <u>that will remain in service.</u></i>
18 –AGA	The FMSB agrees with the proposal to recognize impairment losses when there is a permanent and a significant decline in the service utility of an item of general property plant and equipment (G-PP&E). We believe that this approach is consistent with the concept of providing the user with information on the cost of providing specific programs and activities, the efforts and accomplishments associated with federal programs, and the efficiency and effectiveness of government’s management of its assets.
19 – DOL/OCFO	We believe that an impairment loss may occur when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E.
20 - KPMG	We agree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline. However, the Board’s inclusion in paragraph 8 of a significant and permanent gradual decline in the service utility of an asset as an impairment is not clear. We believe the term “gradual” means that service utility is declining in small degrees over a period of time and such a decline would be more appropriately accounted for through depreciation expense.

Table 4.0 – Summary of Responses by Question

QUESTION - 1	
<p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.</p>	
21 - DOE	<p>The Department partially agrees with the proposed standard. If the standard is to be enacted, the Department suggests clarifications to the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. While the definition appears simple, it remains difficult to assess for an organization that does not create revenue or gross profit. Leaving the proposed definition unchanged would require additional non-prescriptive guidance. We want to avoid differences of opinion between external auditors and the management of an organization. Eliminating the phrase "whether gradual or sudden" and adding "that is not already recognized by routine depreciation" after the word "decline" would avoid mistaking routine or anticipated decline for impairment. The revised statement of purpose would then read:</p> <p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E that is not already recognized by routine depreciation.</p>
22 - VA	<p>We agree that reporting impairments when they occur, rather than through depreciation expense or eventual disposal, would more accurately present an agency’s financial condition. We agree with the Board’s intention that the standard should be applied in limited and rare circumstances and only to assets material to the agency.</p>
23 – TREASURY	<p>Agree. To do so would show a more appropriate value of the G-PP&E and will make G-PP&E more relevant, reliable, and consistent for financial reporting purposes by providing guidance on material impairments.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 2	
<p>The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.</p>	
1. HUD/OCFO	HUD agrees with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments.
3. SSA/DCFO	SSA agrees. To alter existing assessment methodologies or implement new reviews solely for this purpose would not be cost beneficial.
4. EPA	<p>EPA agrees with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments.</p> <p>EPA is following SFFAS No. 6, therefore there is no need to alter the existing assessment method for G-PP&E portfolios.</p>
5. DOD/OIG	We agree with the proposal to not require entities to review their G-PP&E portfolios solely for potential impairments. The identification of impairments should be discovered through required use of internal controls and normal monitoring to ensure that controls are in place and operating. Special reviews would require more resources and ultimately, if controls are in place and operating, there is little benefit to expending the additional resources.
6. DOC/OCFO	The Department of Commerce agrees with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Any significant and permanent impairment would be indentified by existing processes and internal controls already in place. We are concerned that the language in the proposal does not go far enough to protect entities from "undue administrative burden" *
7. NASA/RP	We agree. As mentioned above, we do a complete assessment of our facilities every year to address the condition, DM&R, and track and trend our change in order to manage our portfolio within our budget guidelines.

Table 4.0 – Summary of Responses by Question

QUESTION - 2	
<p>The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.</p>	
8. NASA/DCFO	Agree. As stated in paragraph 14 of this ED, potential impairment could be identified from entity's existing asset management reviews. Also, this ED is in general consistent with GASB Statement No. 42 and FASB Statement No. 144.
9. DOI/DCFO	The Department of the Interior agrees that entities should not be required to review their G-PP&E solely for potential impairments. Interior already has regular reviews of G-PP&E, as well as processes for maintenance, repair, and replacement of assets in order to mitigate possible operational and/or safety issues.
10. GWSCPA	The FISC generally agrees with the Board's proposal that entities should not be required to review their portfolios solely for potential impairments.
11- DOS/DCFO	Disagree in light of the response to question number one above and how auditors will interpret the need for consistency. State agrees that the effort to comb through an inventory of G-PP&E assets is time consuming and a drain on available resources needed for other priorities so, in this regard, we concur with the Board's desire to limit the burden on agency reviews of their portfolios since we prefer not to review G-PP&E portfolios solely for potential impairments. Nonetheless, the need for consistency in reporting on government operations will not occur without the portfolio reviews and we anticipate our auditors will insist on the reviews as part of an audit compliance requirement. Essentially, we anticipate that our auditors will require any capitalized out of service or under-performing PP&E to be designated as either impaired or pending disposal.
12 – USDA/OCFO	Agree: Asset impairments that warrant a write down of asset value are caused by significant events or changes in circumstances. Managing and processing these events or changes in circumstances are part of Management’s routine evaluation. Accordingly, valid impairments will be uncovered during an organization’s normal evaluation processes and timelines; and therefore do not warrant a separate review solely to evaluate potential impairments.

Table 4.0 – Summary of Responses by Question

QUESTION - 2	
<p>The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.</p>	
13 – GSA/DCFO	GSA agrees that entities should not be required to review their G-PP&E for potential impairments unless an entity does not have an existing process and internal control in place. GSA feels that reviewing solely for this activity would be an administrative burden and potentially cost prohibitive.
14 – DOD/DCFO	DoD agrees. To require entities to review G-PP&E portfolios solely for potential impairments is a costly exercise, with little or no benefit. Significant changes to G-PP&E should be the indication that additional work is necessary to determine if the G-PP&E is impaired. Also, conditional reporting for deferred maintenance and repairs could also lead to an asset being deemed as impaired.
15 – DOL/OIG	We generally agree that entities should not be required to review their G-PP&E portfolios solely for potential impairments. However, we believe the Board should revise the third sentence in paragraph 13 which currently reads, "This Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E." We believe federal entities will misinterpret the intent of this sentence and determine they are not required to identify potential impairments of G-PP&E.
16 – OPM/OCFO	Agree. Potential impairments is rather indefinite or vague. This Statement’s focus is on a “significant and permanent decline”.
17 – SEC	We strongly agree with the proposal. We believe this statement is critically important to prevent wasteful and unnecessary reviews of property, plant and equipment for impairments. This concept should be emphasized.
18 – AGA	The FMSB agrees with the FASAB’s proposal to not require entities to conduct reviews of their portfolio of G-PP&E solely for the purpose of identifying potential impairments. First, the addition of a new, specific requirement at this time might be difficult, given the size of such an undertaking and budget resources. Second, we believe that the definition of an impairment as covered in paragraph 8 coupled with the concept of materiality in paragraph 4 would not warrant such a survey. As indicated in the document, information on impairments will be identified through the normal course of events throughout the fiscal year. Therefore a separate and specific survey will not be warranted.

Table 4.0 – Summary of Responses by Question

QUESTION - 2	
<p>The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with the Board’s proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.</p>	
19 – DOL/OCFO	We agree with the Board’s proposal that the Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. We agree that the implementation of the standard should not cause undue administrative burden and should allow the Agency to effectively use its resources.
20 - KPMG	While we agree that entities do not need to review their G-PP&E portfolios solely for potential impairments, we believe it is not possible to determine the extent of additional procedures federal entities would need to comply with this ED, if any, without first understanding the controls and procedures that are currently in place.
21 - DOE	The Department agrees with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities should not solely review their portfolio for potential impairments and may incorporate checking for indicators of impairment through other reviews conducted on regular intervals.
22 -VA	Agree. Managerial judgment must decide when these circumstances exist and that the decline in service utility is material and considered permanent. Because these events are likely to be unforeseen, unpredictable, and infrequent; it is appropriate to lessen the administrative burden of implementing the proposed standard by not requiring periodic reviews specifically to assess capital assets for potential impairment.
23 – TREASURY	Agree. It will be probably become very apparent if a G-PP&E becomes significantly or permanently impaired through the daily operations of the company. The current assessment in place (under SFFAS 6) along with internal control standards, with further consideration, are adequate to determine impairments. A special G-PP&E portfolio review is unnecessary.

Table 4.0 – Summary of Responses by Question

QUESTION - 3	
<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	
1. HUD/OCFO	The Department agrees with each of the indicators of G-PP&E impairment.
3. SSA/DCFO	We believe that more information should be provided on the “Changes in environmental or economic factors” criteria. Would these changes include changes to the value of buildings depending on the real estate market or other environmental or economic factors? If so, these criteria would be difficult to review and measure.
4. EPA	EPA does not agree with indicator “G”. The statement should be modified to read: "the G-PP&E is expected to be disposed of ahead of its previously estimated useful life". G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods should follow the Statement of Federal Financial Accounting Standards (SFFAS) No. 6.
5.DOD/OIG	We agree with all of the listed indicators of G-PP&E impairments except construction stoppage or contract termination. Impairments are defined as a significant and permanent decline in the service utility of G-PP&E. Construction stoppages are not permanent until the contract is terminated. While a contract termination is permanent, the contract may be re-solicited or the G-PP&E may be transferred to another project/contract for use.
6. DOC/OCFO	The Department of Commerce agrees with each of the indicators of G-PP&E. impairment, because the elements within the indicators have been clearly stated in paragraph 12 of the proposed standards and Appendix A paragraphs A4 through A9 and All through A16. In addition, we believe that some guidance regarding maintenance that has not been done for years (maintenance deferred for excessively long periods of time) should be added so that there is clear distinction between deferred maintenance and impairment.

Table 4.0 – Summary of Responses by Question

QUESTION - 3	
<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	
7. NASA/RP	<p>We disagree. The Federal Facilities and Real Property organizations report a number of data elements per the FRPCRR, which we consider as excellent indicators. Facilities support the various Program Requirements within the agency. These facilities, programs, and requirements all have various schedules. It would be very difficult to rate and grade by these indicators on a yearly start and stop basis. We can provide additional information when asked about a particular asset.</p>
8. NASA/DCFO	<p>We agree with the Indicators of G-PP&E impairment: evidence of physical damage; enactment or approval of laws or regulations which limit or restrict G-PP&E usage; changes in environmental or economic factors; technological changes or evidence of obsolescence; changes in the manner or duration of use of G-PP&E; construction stoppage or contract termination; and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. All of these indicators could cause diminished service.</p>
9. DOI/DCFO	<p>The Department of the Interior recognizes that these indicators are good guidelines for assessment of G-PP&E, but are not specific enough. Not every event that meets the criteria of an indicator needs to be assessed for significance and impairment; for example, fully depreciated assets and other G-PP&E with no material carrying value should not be subject to this proposal. In addition, the same asset may be evaluated multiple times in a year due to multiple indicator occurrences, even if the indicator occurrences may be related to each other.</p> <p>FASAB should expand the indicators criteria to include the effects of magnitude, permanence and materiality, as well as include procedures for recognizing multiple impairment losses.</p>
10. GWSCPA	<p>The FISC generally agrees with the indicators of G-PP&E impairment found in paragraph 12 of the ED.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 3	
<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	
11- DOS/DCFO	<p>With the exception of item "g" in paragraph 12, the Department of State concurs that the cited indicators could impair capitalized property, plant, and equipment (PP&E) and that these indicators have the potential to provide an appropriate approach for reducing the intended life span or purpose of the PP&E. However, item "g" which references "idled or unserviceable" is confusing and inconsistent with the purpose of the standard. Idle PP&E that has operating capability or will be repaired at some point may be considered an impaired piece of PP&E. Property that is "unserviceable" and awaiting removal from the accounting records should not fall under the impairment definition and should be handled in accordance with SFFAS 6, Accounting for Property, Plant, and Equipment. Such treatment would also be consistent with the AAPC guidance in Technical Release 14.</p>
12 – USDA/OCFO	<p>Agree: The indicators stated appear to cover a wide range of assets thereby allowing for varying circumstances per asset; and are measurable factors that cover tangible, intangible, social, and natural causes that could impact the value of assets. Indicators should be considered in conjunction with considering whether the asset is significantly and permanently impaired.</p>
13 – GSA/DCFO	<p>The list of indicators would help to identify potential impairment of an asset. However, the list should not be considered as all-inclusive. The standard should be clear that just because one or more of these indicators are present does not automatically indicate impairment is present. Management should adopt the most efficient method available given the under the circumstances.</p>
14 – DOD/DCFO	<p>DoD partially agrees. Recognizing impairment losses does not seem appropriate for “changes in the manner or duration of use of G-PP&E or retirement.” It would seem more appropriate to accelerate the depreciation expenses of items falling under these indicators rather than categorize them as impairment losses.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 3	
<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	
15 – DOL/OIG	We agree with each of the indicators of G-PP&E impairment except for the indicator in paragraph 12.g. We believe PP&E scheduled or waiting disposal should be addressed in accordance with SFFAS No.6 and should not be treated as an indicator of impairment in this standard.
16 – OPM/OCFO	Agree. All are good indicators.
17 – SEC	Yes, we agree with these indicators. However, clarification of some of the indicators may be helpful. Specifically, in item g, paragraph 12, we suggest that the difference between impairment of assets expected to remain in use and assets identified for disposal be clarified.
18 – AGA	The FMSB agrees with the FASAB’s indicators on G-PP&E impairment. The FMSB agrees with the basis for conclusions used by the FASAB.
19 – DOL/OCFO	We agree with each of the indicators of G-PP&E impairment listed in paragraph 12. However, if G-PP&E scheduled or awaiting disposal, retirement, or removal for excessively long periods is included in the list of indicators in paragraph 12, then the standard should be “Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use or Other than Permanently Removed from Service” instead of “Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.” The addition of “Other than Permanently Removed from Service” would render the standard consistent with footnote 10 on page 12.
20 - KPMG	We generally agree with the indicators provided. However, paragraph 12.g states that “G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods” would be an indicator of impairment.

Table 4.0 – Summary of Responses by Question

QUESTION - 3	
<p>The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.</p>	
21 -DOE	<p>The Department generally agrees with having indicators of G-PP&E impairment. These indicators should be kept general in nature and not be a prescriptive list as to allow for proper management/business judgment. At least one comment indicated that two of the seven indicators will lead to false impairment determinations, including:</p> <ul style="list-style-type: none"> • Changes in the manner or duration of use - Specialized G-PP&E used on an as-needed basis or required for work performed on behalf of other entities may follow inconsistent utilization patterns. • G-PP&E scheduled or awaiting disposal- In cases where this indicator does not overlap any of the aforementioned six in paragraph 12, the G-PP&E has most likely reached the end of its mission. Retaining this indicator would mean that all assets would appear impaired prior to disposition. This seems contrary to the stated scope and applicability of the is proposed standard as paragraphs 7 and 11 both refer to G-PP&E "remaining in use."
22 - VA	<p>Agree. These indicators of impairment are useful in terms of evaluating circumstances potentially decreasing the service utility of G-PP&E. As an additional suggestion, we note the decision process in the illustrations does not include a reference, where applicable, to consider the relevant accounting standard. For example, for the environmental indicators, we suggest adding a reference to the Statement of Federal Financial Accounting Standard #6, "Accounting for Property, Plant and Equipment," to consider hazardous clean-up as part of the evaluation process in assessing the potential permanence of the decreased service utility.</p>
23 - TREASURY	<p>Agree. They provide preparers of financial statements formation to consider when reviewing G-PP&E for impairment.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 4	
<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	
1. HUD/OCFO	<p>HUD agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. In addition, the Department agrees with the use of the measurement methods identified.</p>
2. NOAA/RP	<p>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.</p> <p>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.</p>
3. SSA/DCFO	<p>SSA agrees with the methods identified.</p>
4. EPA	<p>EPA agrees with the Board's proposal that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E.</p> <p>General PP&E is used to provide services or to support the mission of the agency. Mission property, plant, and equipment can be characterized differently according to the agency defining it, and as a result, one method may not be appropriate for measuring all impairments for all federal agencies.</p>
5. DOD/OIG	<p>We agree that whatever measurement method is used should reasonably reflect the diminished service utility of the G-PP&E.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 4	
<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	
6. DOC/OCFO	<p>The Department of Commerce agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. However, we have the following real property related concerns:</p> <ol style="list-style-type: none"> 1. Use of the service-units method and some of these other methods described in the Statement would not be appropriate for real property valuation. 2. 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. 3. In illustration 1 d, treating floors of a building in a service units approach is not appropriate. 4. Rather than a mathematical formula to reduce net book value, the plans of management should determine which solution provided in 1a or 1b is appropriate. Further, when truly valuing a property, location, local economy, and the build-ability of the land along with potential alternative uses of the land/improvement have a much greater impact on the interpretation of value.
7. NASA/RP	<p>We disagree. The Federal Facilities organizations are required to report annually per the FRPCRR, which does not include a number of the budget factors, such as depreciation. A Federal facility, even if it is historical, requires the identical FRPCRR reporting. The CRV and DM&R remains on the books until demolition or disposition. We can provide additional information when asked about a particular asset.</p>
8. NASA/DCFO	<p>We agree with the measurement methods outlined: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages! contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value in-use estimate approach. Multiple methods provide an organization the flexibility needed to determine the amount of diminished service.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 4	
<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	
9. DOI/DCFO	<p>The Department of Interior agrees that the measurement methods should reasonably reflect the diminished service utility of the G-PP&E, but disagrees on including all of the measurement methods described in the Board's proposal. GASB only uses three partial impairment reporting methods (restoration, service units, and deflated depreciated cost approach) and excludes the cash flow approach. A decrease in the number of measurements methods would still allow accurate indication of impaired assets while decreasing additional costs associated with determining which method would be most appropriate.</p>
10. GWSCPA	<p>The FISC generally agrees with the measurement methods described in paragraph 17.</p>
11- DOS/DCFO	<p>The Department of State recognizes that there may be many different types of U.S. government PP&E procured and justified with different methodologies and purposes in mind. We also recognize that the measurement methodology selected should reasonably reflect the diminished service utility of the PP&E. While most of the measurement methods in the standard would not be used by the Department and their presence in the standard makes the standard relatively complex, the Department recognizes that each measurement method could have an appropriate application to an individual agency given the wide variation of PP&E within the U.S. Federal Government.</p>
12 – USDA/OCFO	<p>Agree: Selected measurements are good matches to the various types of assets that entities could have recorded in their financial statements. However, entities still need to exercise sound professional judgments in selecting a measurement, or a mixture of measurements when determining impairment amounts.</p>
13 – GSA/DCFO	<p>GSA agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. The methods identified are reasonable and widely recognized methods of measurement. GSA agrees that entities should use good judgment when selecting which method to use.</p>

Table 4.0 – Summary of Responses by Question

QUESTION - 4	
<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	
14 – DOD/DCFO	Agree that measurement methods selected should reasonably reflect the diminished service utility of G-PP&E. To attain a reasonable estimate of the impairment, the proper measurement method is essential. Otherwise, an unreasonable net book value could be estimated and recorded.
15 – DOL/OIG	We agree with the use of the measurement methods identified.
16 – OPM/OCFO	Agree. The diminished service utility of the G-PP&E is what is “lost”.
17 – SEC	We agree that the reporting entity should select a measurement method that reasonably reflects the diminished service utility of the G-PP&E. We also agree that the Standard should identify common measurement methods.
18 – AGA	The FMSB agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. We also believe that the entity has the knowledge and expertise to know and select the most appropriate method for measuring the diminished service utility of the G-PP&E.
19 – DOL/OCFO	We agree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. We agree that each of the methods may be used with the circumstances described as examples in paragraphs 17.a. through 17.f. The wording in paragraph 17 allows for Agencies to use other methods; for example, “A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the GPP&E.”

Table 4.0 – Summary of Responses by Question

QUESTION - 4	
<p>The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.</p> <p>Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.</p>	
20 - KPMG	We generally agree with the ED. However, we have comments.
21 - DOE	The Department agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. There should be multiple methods of determining impairment. This keeps management judgment as a prime consideration and removes prescribed methods from limiting possible methods of use. The measurement method selected should reflect the diminished service utility of the G-PP&E as the government does not typically sell its assets whole in the marketplace nor does it pledge its assets in exchange for consideration.
22 – VA	Agree. The measurement methods outlined are reasonable and appropriate methods of measuring a capital asset’s net realizable value at the time of impairment.
23 – TREASURY	Agree. The measurement method selected should reasonably reflect the diminished service utility of the G-PP&E in order to reflect the portion of the net book value associated with the diminished service utility of the G-PP&E. Agree. They are reasonable to determine impairment loss based on daily operations.

Table 4.0 – Summary of Responses by Question

QUESTION – 5	
<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.</p>	
<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
1. HUD/OCFO	<p>a. HUD has not identified other costs or benefits in addition to those identified by the Board.</p> <p>b. The Department has not identified any G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.</p> <p>c. HUD agrees that the benefits of implementing this Statement will likely outweigh its costs. The Statement does not require users to search out impairments or to apply the Statement to immaterial items thus eliminating additional administrative costs to implement.</p>
2. NOAA/RP	<p>a. 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.</p> <p>b. Unfortunately, I wish to share that I am not comfortable with the Exposure Draft on Accounting for Impairment, 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.</p> <p>c. 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.</p>

Table 4.0 – Summary of Responses by Question

QUESTION – 5	
<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.</p>	
<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
3. SSA/DCFO	<p>a. SSA believes the Board considered the major costs and benefits. As there are no special reviews required, there are no additional costs to consider.</p> <p>b. For consistency, this Statement should apply to all categories, classes, and base units of GPP&E.</p> <p>c. Due to materiality and other issues, we do not believe this Statement will cause any changes to our current reporting for GPP&E. Since our impairment activity will be immaterial, we do not anticipate incurring any new costs related to the implementation of the Statement.</p>
4. EPA	<p>EPA agrees that the benefits of implementing this statement outweigh its costs. Implementing the impairment loss standard will provide standardized guidance to agencies in recognizing and reporting impairment losses.</p>
5. DOD/OIG	<p>a. There are no other costs or benefits, in addition to those identified by the Board, that should be considered in determining whether benefits outweigh costs.</p> <p>b. There are no G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.</p> <p>c. We agree that the benefits of implementing this Statement outweigh its costs. The benefits of accurate and reliable financial reporting cannot be measured as it helps to instill in taxpayers a level of trust that the Federal Government is accounting for assets acquired with taxpayer funds in a responsible and efficient manner.</p>

Table 4.0 – Summary of Responses by Question

QUESTION – 5	
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6. DOC/OCFO	<p>a. The Department of Commerce did not identify any additional benefits that should be considered in determining whether benefits outweigh costs. We note that the Statement does not identify any specific costs; however, we recognize that costs may be difficult to identify since each entity's costs will differ based on the level of that entity's current review.</p> <p>b. The Department of Commerce does not feel that there are G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.</p> <p>c. The Department of Commerce agrees that the benefits of implementing this Statement outweigh its costs if the impairment is significant because it would more accurately reflect the value of the asset on the financial statements and not create any additional work. We believe that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives.</p>
7. NASA/RP	<p>A, B, C, We disagree. The Facilities Organizations provide a complete cost analysis of the different options for Maintenance, Repair, Rehabilitation, Repair by Replacement, and Construction in order to satisfy the Program Requirements, Safety, Health, Environmental, Code Compliance, etc. A project description/synopsis is submitted to OMB for approval of all Major Construction Projects. We can provide additional information when asked about a particular asset.</p>
8. NASA/DCFO	<p>a. The reporting requirement, as a possible line item in the statement of net cost (for significant impairment) and information in the notes to the financial statements, will provide transparency into the impairment.</p> <p>b. The Board should consider proposing that any G-PP&E category, class or base unit that is not material to the financial statements should be exempt from the impairment review, even if the impairment might be</p>

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<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
	<p>material to the individual item.</p> <p>c. We concur that the benefits of implementing this proposed statement will outweigh its costs as long as it is implemented from a materiality standpoint. We recommend that a risk assessment be performed to determine and identify the categories, classes, or base units within the organization that will require implementation of this statement.</p>
9. DOI/DCFO	<p>a. In addition to the additional expenditures required for compliance with this proposal, agencies may also incur an opportunity cost of not being able to dedicate the same resources and time to their important tasks associated with general operations. Compliance with the board's proposal would require additional costs, policies, procedures, training, system changes, internal control reviews, audits, and changes. For agencies which may not experience as many G-PP&E impairments, the costs outweigh the possible benefit.</p> <p>b. The Department has concerns over how this proposed Statement will mesh with elements of SFFAS No.6 paragraph 42 which states: "For general PP&E that would be substantially depreciated/amortized had it been recorded upon acquisition based on these standards, materiality and cost-benefit should be weighed heavily in determining estimates. Consideration should be given to: • recording only improvements made during the period beyond the initial expected useful life of general PP&E; and, • making an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building by building estimate)."</p> <p>Will FASAB consider requiring entities to record only impairment losses on improvements made after the estimated useful life of an asset? Will the new standard allow entities to record a partial impairment loss entry to an aggregated group of G-PP&E? If not, the reassessment costs that agencies would incur to establish a net book value for an individual asset included in the original aggregate could outweigh the possible benefits.</p>

Table 4.0 – Summary of Responses by Question

QUESTION – 5

The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.**
- b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.**
- c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.**

Additionally, FASAB's proposal should include a statement detailing the treatment for scenarios in which an impairment loss is greater than NBV.

c. The Department of the Interior disagrees that the benefits of implementing this Statement outweigh its costs. The Board's proposal would add additional reporting burdens to agencies that already have G-PP&E reviewing and reporting techniques in place. The current methodologies already take into account 11 factors concerning possible impairments in assets, and also involve maintenance policies to mitigate for any concerning issues.

Since this proposal concerns isolated issues that vary in probability and impact based on individual agencies, it is unclear whether comparability among entities in this aspect would be useful in valuation and comparison of entities' financial positions. Net book value, a key component of impairment calculations, is driven by the estimated useful life. The variability of estimated useful life across different assets and entities presents barriers to impairment calculations (refer to : October 2002 GAO Report 03 -42 Survey of Capitalization Threshold and Other Policies for Property, Plant, and Equipment at [www.gao.gov/newitems/d0342 .pdf](http://www.gao.gov/newitems/d0342.pdf)).

Additional auditing issues may also arise from implementation of this proposal. The impairment determination and financial adjustments may not take place immediately after the impairment occurs; for example, Hurricane Rita landed on September 24, 2005 , six days before the end of the fiscal year.

The Board's proposal would pertain to isolated events that have low probabilities of occurrence and a wide range of impact across different entities. Implementing this proposal would result in increased and sometimes redundant policies, procedures, fees, etc.

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10. GWSCPA	<p>a. The FISC did not identify other costs for benefits not already identified by the Board.</p> <p>b. The FISC did not identify any G-PP&E categories, classes or base units to which these provisions should not apply.</p> <p>c. The FISC agrees that the benefits of implementing these provisions outweigh the costs.</p>
11- DOS/DCFO	<p>a. The Department of State respectfully disagrees with the Board's position on this question.</p> <p>b. The Department of State has no position on this question.</p> <p>c. See the response to question 5a.</p>
12 – USDA/OCFO	<p>a. No</p> <p>b. No</p> <p>c. Agree. Adopting this statement would provide a standard for evaluating and recognizing impaired assets; thereby facilitating a process for timely recognition of impairment at the time when significant events or changes in circumstance occurred.</p>
13 – GSA/DCFO	<p>a. GSA could not identify any additional costs or benefits.</p>

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<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
	<p>b. GSA agrees with the treatment proposed for G-PP&E that will no longer being used by the entity and that it should be accounted for in accordance with SFFAS 6, paragraphs 38 and 39 (disposal). The Board may even want to consider minimum dollar thresholds for recognizing impairments, perhaps even for more complex acquisitions involving higher dollar thresholds. The proposal should not apply to group assets, such as computers and furniture.</p> <p>c. GSA agrees that the benefits of implementing this Statement outweigh its administrative costs given that there is no requirement to initiate reviews for impairments, separate from established practices. This Statement will also provide consistency in comparability between entities.</p>
14 – DOD/DCFO	<p>a. Yes. Additional controls, with their added costs, will be needed to assure that risks are monitored. Professional judgment is subjective and will require monitoring. The impression that agencies making this type of adjustment have made their balance sheet disclosure more reliable (if the underlying number is not auditable, the reliability will not be changed by this type of adjustment) is a risk. All risks are costs, in that controls must be implemented to manage risk and inefficiency results if risk is not managed effectively. There are benefits to be realized, but only when all agencies implement consistently.</p> <p>b. Yes. Consideration should be given to military equipment impaired during combat operations. These types of impairment should be expensed since they would normally be considered a cost of doing business.</p> <p>c. Disagree. The additional costs to implement the policy have not yet been fully investigated. Second, certain agencies, such as the Department of Defense, do not manage G-PP&E by values placed on the balance</p>

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<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
	<p>sheet and, therefore, would not benefit from the standard. Finally, this guidance should not apply to unaudited agencies. Implementation without audit scrutiny and confidence imposes cost with no value added.</p>
15 – DOL/OIG	<p>a. We did not identify any costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs.</p> <p>b. We believe the provisions of this proposed statement should be applied to all G-PP&E categories, classes, and base units except for internal use software. SFFAC No.1 states, "To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions.... "</p> <p>c. As auditors, we have no comment on this matter. This question is more appropriate for agencies (Le., management) to respond to, as it relates to costs associated with Federal agencies' implementation of the proposed.</p>
16 – OPM/OCFO	<p>a. No</p> <p>b. No</p> <p>c. Agree. Benefits include: specific impairment guidance for federal G-PP&E, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity, and enhancing comparability between entities.</p>

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17 – SEC	<p>a. This standard is beneficial only in relationship to assets that are critical to an agency’s mission and that are difficult and costly to replace, and only to the extent that the standard provides additional information to agency management. If this standard were to be applied more broadly, or result in the expectation that agencies hunt for all asset impairments, costs of gathering and maintaining information would quickly dwarf the benefits. As discussed in response to Question 4, even when an asset is clearly impaired, the expense of calculating the impairment should be considered, and cost effective estimation methodologies should be applied.</p> <p>b. We suggest that reporting entities should be permitted, or even better, expected to identify categories for assets that will not be subject to impairment reporting. This should include categories of assets that are immaterial to agency operations, that are commercially available and/or that are easily and commonly replaced in the normal course of business. Specific categories that might be excluded include office furniture, office equipment and leasehold improvements.</p> <p>c. Any costs incurred by the SEC to identify impairments would exceed benefits. Due to the nature of SEC assets, and the relationship between agency assets and the accomplishment of agency mission, there is no benefit whatsoever to the identification, valuation, tracking or reporting of any impairments of SEC assets. Existing standards adequately cover any situation that the SEC may encounter. Provided that the standard is strongly and clearly limited to agencies with material mission-critical assets not easily replaced in the normal course of business, this standard will have no impact on the SEC.</p>
18 –AGA	<p>a. None</p>

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<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.</p> <p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p> <p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p> <p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
	<p>b. No, we believe it is appropriate to apply this standard to the items identified in the exposure draft.</p> <p>c. We agree that the benefits outweigh the costs.</p>
19 – DOL/OCFO	<p>a. At this time, we have not identified other costs or benefits in addition to those identified by the Board.</p> <p>b. At this time, we have not identified G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.</p> <p>c. We believe that the benefits of implementing this Statement would outweigh its costs, provided that the Statement (1) permits an Agency to select a method that is not listed in paragraphs 17.a through 17.f on pages 14—16 as long as the method selected reasonably estimates the portion of the net book value associated with the diminished service utility and (2) describes that the methods in paragraphs 17.a through 17.f on pages 14—16 are not all-inclusive.</p>
20 - KPMG	<p>a. We are not aware of other costs or benefits beside those listed above or in the ED.</p> <p>b. We are not aware of G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.</p> <p>c. We agree.</p>

Table 4.0 – Summary of Responses by Question

QUESTION – 5	
<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.</p>	
<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
<p>21 -DOE</p>	<p>a. Entities evaluating assets for impairments will incur additional costs. There are the administrative costs of training workers to assess whether an impairment exists under the new standard as well as documenting methodologies used for determination. Independent audit firms will review if an organization is complying with impairment accounting standards. This means additional work (responding to auditors' requests) for a business enterprise during an audit engagement. Once the new statement has been promulgated, auditing firms will have a review section in their work plan. Business enterprises will have to document and respond to satisfy the auditors' due diligence review.</p> <p>b. The proposed standard should apply equally to all categories, classes, or base units of GPP&E remaining in use that entities capitalize since such assets have or had distinct book value.</p> <p>c. The Department disagrees that the benefits of implementing this Statement outweigh the costs. The proposed standard would add administrative burden in several areas:</p> <ul style="list-style-type: none"> • Increased level of effort in making adjustments to G-PP &E records in the Department's accounting system. • Increased level of effort in reconciling the accounting system with the Department's property management system. • Increased level of effort and cost for financial statement audits and Departmental management of those audits.

Table 4.0 – Summary of Responses by Question

QUESTION – 5	
<p>The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A – Basis for Conclusions for a discussion and related explanation.</p>	
<p>a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.</p>	
<p>b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.</p>	
<p>c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.</p>	
22 - VA	<p>a. Yes. An agency would need to evaluate the cost, whether minor or substantial, of modifying its accounting system for the required accounts to record the impairment and for updating the depreciation schedule of impaired assets. To the extent that Fixed Asset Registers are interfaced with the accounting system, they would require modification as well.</p> <p>b. Aside from the already excluded Internal Use Software, no. The proposed standard should apply to the rest of the material assets customarily presented on the Balance Sheet.</p> <p>c. Agree. We agree with the Board’s intention that the standard should be applied in limited and rare circumstances and only to assets material to the agency. As a practical matter, it will be labor intensive to ensure standard and consistent application across a large agency with multiple locations with similar assets. The proposed Statement is beneficial for improving the accuracy of financial reporting of the current value of G-PP&E by requiring the reporting of significant and permanent losses due to impairment.</p>
23- TREASURY	<p>a. None identified.</p> <p>b. None identified.</p> <p>c. Agree. Benefits outweigh the costs. The costs are minimal administratively speaking. The benefits allow for a more clear guidance on the treatment of impaired G-PP&E.</p>

Table 5.0 – Analysis of Respondent Suggestions

Table 5.0 – Analysis of Respondent Suggestions ⁷

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
2. NOAA/RP	<p>a. 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.</p>	<p>a. The Task Force believes that impairments (as defined by this proposed statement) to land will be rare because they are typically temporary in nature. Impairments to land classified as G-PP&E as well as multi-use heritage assets are usually remediated because of operational or stewardship requirements. Please note that per SFFAS 6, <i>Accounting for Property, Plant, and Equipment</i>, land (including land rights) acquired for or in connection with general PP&E would be included in that PP&E category while land not associated with general PP&E would be considered stewardship land. As no balance sheet value is typically assigned to stewardship land, the proposed impairment standards would not apply. This also holds true for Heritage (non multi-use) assets. Preparers should refer to SFFAS 29, <i>Heritage Assets and Stewardship Land</i>, for guidance related to land acquired in connection with heritage assets.</p>

⁷ In some cases the staff's summary takes excerpts from each respondents reply and as such, is not intended to substitute for a complete reading of the individual letters.

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>b. Based upon my previous experience it is important to emphasize that as a lessee whether federal to federal or federal to outside party, that the impairment decision of the real property is the sole responsibility of the holding entity or lead entity not a tenant or lessee even if the tenant or lessee is another federal entity.</p> <p>c. One of the Department's bureaus, the National Oceanic and Atmospheric Administration (NOAA), has an additional measurement method to recommend - actual cost. If part of the asset is damaged and the cost of the damaged part is known, then the net book value of the damaged part should be impaired. NOAA does track costs on a lot of the components of their assets, especially their constructed assets.</p>	<p>b. SFFAS 6 states that assets acquired via capital lease are considered PP&E. Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. Accordingly, the proposed impairment standards would apply to capital assets held by the lessee. Preparers should refer to the FASAB Leases Project page for related comments: http://www.fasab.gov/projects/active-projects/leases/</p> <p>c. As stated at paragraphs 17 and BFC A17, impairment losses should use a method that reasonably estimates the asset's diminished service utility. The ED has made clear that it does not seek exact precision nor is it prescribing any particular method. Preparers are not restricted to the methods shown at paragraph 17 and may use other methods that accomplish two (2) objectives: (1) reasonably estimate the diminished service utility and (2) reasonably estimate net book value associated with the remaining service utility.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
<p>4 - EPA</p>	<p>a. EPA does not agree with indicator “G”. The statement should be modified to read: “the G-PP&E is expected to be disposed of ahead of its previously estimated useful life”.</p> <p>G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods should follow the Statement of Federal Financial Accounting Standards (SFFAS) No. 6.</p> <p>b. Page 12- change “G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods” to “ The G-PP&E is now expected to be disposed of ahead its previously estimated useful life”.</p> <p>c. Page 19- Please note: the Statement of Financial Accounting Standard (SFAS 144) is same as FASB statement No.144 - Accounting for the Impairment or Disposal of Long-Lived Asset. This information should be added to make the citation more accurate.</p>	<p>a. SFFAS 6 does not specifically address partial impairments (i.e., impaired assets remaining in-use). The Task Force in conjunction with members of the AAPC addressed partial impairments and concluded that SFFAS 6, paragraph 39 dealt with an asset’s <u>total and permanent</u> removal from service. As a result, idled or unserviceable assets not disposed of, nor retired, or removed from service for excessively long periods should be considered for potential impairment.</p> <p>b. <u>Staff Recommendation</u> – staff advises that we rephrase paragraph 12g so that it clarifies its focus on “excessively long periods” and not SFFAS 6 paragraph 39 language. The proposed change would be as follows:</p> <p style="padding-left: 40px;">g. G-PP&E idled or unserviceable for excessively long periods.</p> <p>c. <u>Staff Recommendation</u> - The page 19, BFC paragraph A2 reference has been updated to also note that it has been superseded by the AICPA’s codification.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
5 – DOD/OIG	<p>We agree with all of the listed indicators of G-PP&E impairments except construction stoppage or contract termination. Impairments are defined as a significant and permanent decline in the service utility of G-PP&E. Construction stoppages are not permanent until the contract is terminated. While a contract termination is permanent, the contract may be re-solicited or the G-PP&E may be transferred to another project/contract for use.</p>	<p>As stated at BFC paragraphs A6 through A9 entitled <i>Common Indicators of Potential Impairment</i>, the paragraph 12 indicators are <u>not</u> meant to be definitive in nature nor a fully inclusive list. Therefore, management must still exercise discretion and judgment when assessing potential impairment losses. This is in fact suggested by the respondent’s comments - construction stoppages and contract terminations <u>are</u> in fact <i>indicators</i> of <u>potential</u> impairment loss.</p> <p><u>Staff Recommendation</u> - Staff advises that we add the word “potential” to the paragraph 12 title so that it mirrors the BFC and helps clarify our intent. The revision would read as follows: <i>Step 1 – Identify Indicators of Potential Impairment.</i>”</p> <p>The DoD-IG concurred with the staff’s response and recommendation on May 24, 2012.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
<p>6 – DOC/OCFO</p>	<p>We believe that some guidance regarding maintenance that has not been done for years (maintenance deferred for excessively long periods of time) should be added so that there is clear distinction between deferred maintenance and impairment.</p>	<p>The Task Force has spent considerable time working on both deferred maintenance and asset impairment issues. It looks forward to suggestions from the community on how to support and improve financial reporting in this regard. It is important to note that due to the highly technical (i.e., engineering, facilities management, etc) nature of this area, some issues may not be appropriate for the Task Force’s consideration. Please refer to the recently issued standards addressing deferred maintenance and repairs: SFFAS 40, <i>Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment</i> and SFFAS 42, <i>Deferred Maintenance and Repairs Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32</i>. Please contact assigned staff should you have any further questions or suggestions in this regard.</p>
<p>7 - NASA/RP</p>	<p>The Federal Facilities and Real Property organizations report a number of data elements per the FRPCRR, which we consider as excellent indicators.</p>	<p>The indicators referred to are contained in GSA’s <i>2011 Guidance for Real Property Inventory Reporting</i> (Version 3). Examples of these indicators include: real property predominant use, operational status, space utilization, and condition index. These indicators can in</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
		fact be used to identify potential impairments however they only pertain to real-property and are asset specific (e.g., predominant use categories, space utilization percentages, condition indices, restrictions, etc) than the paragraph 12 indicators. Where appropriate, these real property indicators can be considered ancillaries to the paragraph 12 indicators.
8 - NASA/DCFO	a. The Board should consider proposing that any G-PP&E category, class or base unit that is not material to the financial statements should be exempt from the impairment review, even if the impairment might be material to the individual item. b. We concur that the benefits of implementing this proposed statement will outweigh its costs as long as it is implemented from a materiality standpoint. We recommend that a risk assessment be performed to determine and identify the categories, classes, or base units within the organization that will require implementation of this statement.	a. Please refer to paragraphs 4 and BFC A5 which addresses materiality. b. As stated at BFC paragraphs A6 through A9 entitled <i>Common Indicators of Potential Impairment</i> , the paragraph 12 indicators are not meant to be definitive in nature nor a fully inclusive list. Therefore, management must still exercise discretion and judgment when assessing potential impairment losses in light of materiality.

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
<p style="text-align: center;">9 – DOI/DCFO</p>	<p>a. FASAB should expand the indicators criteria to include the effects of magnitude, permanence and materiality, as well as include procedures for recognizing multiple impairment losses.</p> <p>b. The following comments pertain to the Illustrations and are offered so that certain illustrations can be clarified. Please see letter for detailed comments.</p> <p>c. A decrease in the number of measurements methods would still allow accurate indication of impaired assets while decreasing additional costs associated with determining which method would be most appropriate.</p>	<p>a. The Task Force determined that FASAB should adopt indicators, as modified appropriately for federal usage that other standard-setters have adopted. Moreover, an expansion of the indicators could be viewed as being overly prescriptive. Also, a discussion over procedures for multiple impairment losses may be best handled via a technical inquiry because implementation issues are typically reserved for entity management. Refer to this link for technical inquiries: http://www.fasab.gov/technical-inquiry/technical-inquiries-about-accounting-by-federal-government-agencies/</p> <p>b. <u>Staff Recommendation</u> - In working with the respondent, staff has adopted some of the suggestions to the illustrations. Other suggestions have not been made so that the illustrations can remain as straight-forward as possible.</p> <p>c. The different types of measurement methods are required because (1) different asset types require different measurement approaches. For example, the service units approach is typically used for equipment and the restoration approach for multi-use heritage asset, (2) different operating environments. For</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
		example, a cash generating asset is best measured using the cash flow approach. Restricting or limiting the use of the measurement methods could result in an improper impairment loss assessment and related estimate.
10 – GWSCPA	<p>a. The FISC suggests that the Board reconsider its position in paragraphs 13 and A4, which contain ambiguous language or are contradictory with paragraphs 7 and A21.</p> <p>b. In paragraph 12(b), footnote 9, and paragraph 12(e), the terms “usage” (found in paragraph 12(b)), “usable capacity” (found in footnote 9), and “use” (found in paragraph 12(e)) are unclear. The FISC recommends that the terms cited in the previous sentence be replaced with “service utility” or “level of utilization” since those terms are key elements of the definition of impairments in the ED, and are defined in paragraphs 8 and 9, respectively. Use of similar terms found in the ED would eliminate reader confusion.</p> <p>c. In paragraph 12(d), the current narrative does not explicitly indicate the Board’s intentions that “major” technology changes should be the</p>	<p>a. <u>Staff Recommendation</u> – conform paragraphs 13 and BFC A4 language to paragraph 7 by eliminating references to “procedures” and using the paragraph 7 language that the “...entity is not required to conduct an annual or other periodic survey solely for the</p> <p>b. <u>Staff Recommendation</u> – Change FN 9 (renumbered to FN 7) from “usable capacity” to “service utility”. The remaining terms “use” and “usage” are contained in sufficient contextual form as to not require change. Making those changes would place additional and unnecessary administrative burden on entities because they would pre-suppose that an analysis of an asset’s service utility or level of utilization would have to accompany these potential indicators. Furthermore, use of <u>similar</u> terms in dissimilar situations having different applications would cause confusion and increased administrative burdens.</p> <p>c. The Task Force did not specifically distinguish between major and minor technology changes. As noted in the ED, BFC paragraph A5, the changes</p>

Table 5.0 – Analysis of Respondent Suggestions

<p>Respondent Number (see Table 6.0)</p>	<p>RESPONDENT SUGGESTIONS</p>	<p>STAFF ANALYSIS & RECOMMENDATION</p>
	<p>indicator for impairment. The addition of the word “major” at the beginning of paragraph 12(d) would satisfy this request.</p> <p>d. In paragraph 12(e) it is unclear how the Board expects when “a change in the manner or duration of use of an asset” would be considered an impairment versus normal and ordinary use (i.e., depreciation). Similar to our response in A1, the FISC recommends that the ED be revised to provide additional information to the reader how the Board distinguishes between depreciation and an impairment.</p> <p>e. In paragraph 12(g), it is unclear how “G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods” would constitute an impairment since, as noted in paragraph 21 of the ED, the Board expects agencies to account for</p>	<p>referred to in 12e should be subjected to entity judgments that would include materiality. Furthermore, as stated at BFC A10, it is not the nature of the change (i.e., whether the change is major or minor), but whether the nature of the change results in a significant decline in service utility.</p> <p>d. <u>Staff Recommendation</u> – We should consider providing additional information to the reader that would assist them in distinguishing between depreciation and impairment. For example, if an entity operates in an earthquake prone part of the country, its regular and on-going depreciation may account for asset deterioration resulting from damages arising from tremors and quakes. In such cases the entity might shorten the useful life estimate or reduce the salvage value estimate. If so, such “wear and tear” would inherently consider the impairment event thus avoiding the need to recognize an impairment loss.</p> <p>e. <u>Staff Recommendation</u> – staff advises that we rephrase paragraph 12g so that it clarifies its focus on “excessively long periods” and not SFFAS 6 paragraph 39 language. The proposed change would be as follows: g. G-PP&E idled or unserviceable for</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	these conditions in accordance with SFFAS 6 paragraphs 38 and 39, which do not provide for impairment as an accounting treatment.	excessively long periods.
11- DOS/DCFO	We want to note that actual impairment losses are not always fully recognized in the appropriate fiscal year and may be subject to interpretation when PP&E is "idled" or indefinitely sidelined in a property portfolio. In this regard, the language in the standard should be strengthened to make it clear when "impairment losses" are actually realized particularly in light of the language in paragraph I2g which allows for unserviceable assets "awaiting disposal" to remain in the portfolio. Addressing this point would make the proposed standard more consistent with Accounting and Auditing Policy Committee (AAPC) Technical Release 14 Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment.	<p><u>Staff Recommendation</u> – Staff advises that we clearly indicate in this in paragraph 18 that impairments are reported when management makes a determination regarding significance and permanence. Suggested wording:</p> <p>18. The loss from impairment should be recognized and reported in the statement of net cost when management concludes that the impairment is (1) a significant decline in service utility and (2) expected to be permanent.</p>

Table 5.0 – Analysis of Respondent Suggestions

<p>Respondent Number (see Table 6.0)</p>	<p>RESPONDENT SUGGESTIONS</p>	<p>STAFF ANALYSIS & RECOMMENDATION</p>
<p>13 – GSA/DCFO</p>	<p>a. GSA has instances where an asset may not yet be declared excess. These assets may have impairments that this statement would require be written down. Once that asset is determined to be excess it may be sold at a significant gain giving us a loss on impairment and then a gain on sale. How should this scenario be treated?</p> <p>b. Paragraph 16a - The sentence "The costs associated with previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility" is confusing. The terms previous service utility and new expected service utility need to be either replaced or an additional sentence should be added to provide context.</p>	<p>a. Accounting guidance exists in SFFAS 6 <i>Accounting for Property, Plant, and Equipment</i>, Technical Release 14, <i>Implementation Guidance on the Accounting for Disposal of General Property, Plant, and Equipment</i>, and SFFAS 7 <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>.</p> <p>b. <u>Staff Recommendation</u> – Add the following language to BFC paragraph A10:</p> <p>(2) <i>Costs associated with the previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility. For example, when comparing the benefits and related costs after the impairment with those existing prior to the impairment, management may confirm that costs exceed future benefit. As a result, the decline is significant and a test of impairment is required.</i></p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>c. Paragraphs 23 and A20 need clarification. These paragraphs are confusing and almost seem contradictory.</p>	<p>c. <u>Staff Recommendation</u> - Staff believes respondent was referring to paragraph 22, <i>Reversing Previously Reported Impairments</i> and BFC A20, <i>G-PP&E Impairment Loss Reversals</i>. Staff advises that we re-title both paragraphs for clarity as follows:</p> <p style="padding-left: 40px;">BFC Par. A20 - <i>G-PP&E Impairment Loss Reversals</i> Not Allowed</p> <p style="padding-left: 40px;">Par. 22 – Remediating <i>Previously Reported Impairments</i></p>
<p>14 – DOD/DCFO</p>	<p>This guidance should not apply to unaudited agencies. Implementation without audit scrutiny and confidence imposes cost with no value added.</p>	<p>This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.</p>
<p>15 – DOL/OIG</p>	<p>a. We do not believe an impairment should be recognized when the decline is gradual. G-PP&E is expected to gradually decline over its useful life through the ordinary course of business, and this is captured through depreciation. As noted in paragraph 8 of the proposed statement, "The events or changes in circumstances that lead to</p>	<p>a. <u>Staff Recommendation</u> - Staff advises that we can simplify the definition and increase clarity by removing the term "gradual". In this way we define impairments as being sudden, significant, and permanent and not as a result of normal and ordinary business conditions. Although there could be conceptual reasons supporting a "gradual" impairment, several respondents have</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>impairments are not considered normal and ordinary." Therefore, we recommend the Board consider removing the term "gradual".</p> <p>b. The Board should consider recognizing impairments for significant and sudden declines in the service utility when the decline is expected to be long-term (e.g., a year or more) rather than permanent. If management has long-term plans to replace or restore the service utility but does not recognize the current impairment, the financial statements may not be properly presented.</p>	<p>questioned the connection of this term to the concept of depreciation. We should consider providing additional information to the reader that would assist them in distinguishing between depreciation and impairment. For example, if an entity operates in an earthquake prone part of the country, its regular and on-going depreciation may account for asset deterioration resulting from damages arising from tremors and quakes. In such cases the entity might shorten the useful life estimate or reduce the salvage value estimate. If so, such "wear and tear" would inherently consider the impairment event thus avoiding the need to recognize an impairment loss.</p> <p>b. This is the intent of including the paragraph 12g indicator of G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. The Task Force recognized that there are times when management has long-term plans to replace or restore the service utility but such plans never seem to materialize.</p> <p><u>Staff Recommendation</u> – staff advises that we rephrase paragraph 12g so that it clarifies its focus on "excessively long periods" and not SFFAS 6 paragraph</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>c. We believe the Board should revise the third sentence in paragraph 13 which currently reads, "This Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E." We believe federal entities will misinterpret the intent of this sentence and determine they are not required to identify potential impairments of G-PP&E. Alternatively, we recommend the Board revise this sentence to read as follows: "Absent such events or changes in circumstances, entities are not required to perform additional procedures to identify potential impairment of G-PP&E beyond those already performed as part of their normal operations." We believe this revised language would better clarify Federal entities requirements to identify impairments of G-PP&E, and it is consistent with the language used by GASB.</p>	<p>39 language. The proposed change would be as follows:</p> <p style="padding-left: 40px;">g. G-PP&E idled or unserviceable for excessively long periods.</p> <p>c. <u>Staff Recommendation</u> - Staff suggests a change to paragraph 13 as it in fact embodies the Board's intent – the Board has presumed that entities, as part of their internal controls, have systems in place that would identify and communicate impairments. Refer to the Respondent 10 analysis for related comments.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>d. In addition, we also recommend the Board delete the fourth sentence in paragraph 7 which also states that the entity is not required to conduct procedures solely for the purpose of applying these standards.</p>	<p>d. The Board has made it clear that it does not wish to require entities to conduct procedures solely for the purpose of applying these standards.</p>
<p>17 – SEC</p>	<p>a. We suggest an edit to make it clear up front that this definition applies to assets that will remain in use. Specifically, <i>Impairment is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E that will remain in service.</i></p> <p>b. We suggest expanding on this concept either in the standard to relate property reviews to the importance of the property and the risks of failure. Specifically, where the risk of failure of equipment is important to agency operations, managers will normally have existing procedures in place to identify and monitor impairment. If management does not have such procedures in place, this is indicative of low risk and minimal operating need for this information. For example, the SEC’s</p>	<p>a. The current title, <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i> appears to sufficiently convey that it is addressing partial impairments. Also, there is a general notion of “impairment.” The modifier relates to recognition of impairment losses rather than the general meaning of impairment.</p> <p>b. The Board has no basis for making such a unilateral statement. Resource prioritizations and allocations via an entity’s risk management strategies are beyond the Board’s remit.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>PP&E largely consists of office equipment and leasehold improvements. The SEC does not monitor assets for impairment because the failure rate is extremely low, failure would have minimal impact on agency mission, and the assets are easily replaced. On the other hand, agencies with mission critical assets that are difficult to replace will monitor that equipment to meet operational needs. The Standard should state the absence of monitoring is likely a reflection of management’s proper prioritization of resources and is not a deficiency in asset management.</p> <p>c. Par. 7 contains three discrete and unrelated concepts. We suggest that for clarity, these three concepts be separated into different paragraphs.</p> <p>d. We suggest a clear statement that this standard does not apply to impairments of assets with \$0 net book value. Specifically, no financial impairment needs to be calculated for fully-depreciated assets and for non-capitalized stewardship assets. Without this caveat, some readers might argue that a portion of the gross cost and accumulated depreciation of fully</p>	<p>c. The three discrete concepts mentioned are not necessarily meant to relate with one another but rather, to fall under the umbrella of “Scope and Applicability”.</p> <p>d. <u>Staff Recommendation</u> - Staff suggests that we add the following language to Paragraph 17:</p> <p style="color: red;">“While using any method, if an impairment loss results in an amount greater than an asset’s net book value the loss should be limited to the asset’s net book value.”</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>depreciated impaired assets should be adjusted.</p> <p>e. However, clarification of some of the indicators may be helpful. Specifically, in item g, paragraph 12, we suggest that the difference between impairment of assets expected to remain in use and assets identified for disposal be clarified. This sentence implies that G-PP&E scheduled for disposal might be recognized as impaired, while other standards indicate that these assets should be written down to net realizable value.</p> <p>Specifically, in paragraph 12, “idled and unserviceable” assets awaiting disposal are recognized as impaired, while “G-PP&E that is no longer being used by the entity” (paragraph 21) are removed from asset accounts.</p> <p>f. We suggest that the Standard be revised to clarify that the selection of a methodology is a matter for agency judgment, and to make it clear that there is not a one-to-one relationship between</p>	<p>e. As stated at BFC paragraphs A6 through A9 entitled Common Indicators of Potential Impairment, the paragraph 12 indicators are not meant to be definitive in nature nor a fully inclusive list. Therefore, management must still exercise discretion and judgment when assessing potential impairment losses. This is in fact suggested by the respondent’s comments - construction stoppages and contract terminations are in fact indicators of potential impairment loss.</p> <p><u>Staff Recommendation</u> - Staff advises that we add the word “potential” to the paragraph 12 title so that it mirrors the BFC and helps clarify our intent. The revision would read as follows: Step 1 – Identify Indicators of Potential Impairment.”</p> <p>f. Refer to paragraph 17 and paragraphs BFC A11 and A13. The ED makes clear that professional judgment should be used when selecting a method to measure the decline in service utility of G-PP&E.</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>types of impairments and specific measurement methods.</p> <p>Specifically, we suggest a revision of the discussion of each of the various approaches. In each case, the discussion of the approach begins by identifying a common situation when that approach might be used. This strongly implies that the identified approach must be used for the illustrated type of impairment, and only that type of impairment. This implication is very likely to limit a reporting entity’s flexibility to choose among the various approaches. We suggest that each approach be defined first, and then the common use be identified as an illustration. This will remove the implication that there is a one-to-one relationship between type of impairment and estimation methodology.</p> <p>g. All of the measurement methods proposed focus on valuing the impairment. By definition, the other half of the equation is the remaining value of the asset. In some cases, it may be more cost effective to determine how much value remains rather than how much value has been</p>	<p>The ED recognizes that there may be cases where more than one comparable method could be used to measure the decline in an assets’ service utility. In such cases, the entity should use whichever method most reasonably reflects the diminished service utility. In cases where the methods under consideration are expected to yield similar results, management should adopt the most efficient method available given the circumstances. Furthermore, paragraph 17 states, “<i>A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E.</i>” Please note that the ED is not restricting management to the methods described as long as estimates of the loss and remaining net book value are both reasonable.</p> <p>g. Refer to paragraph 17. The ED makes clear that the goal of the measurement approaches discussed below is to reasonably estimate the portion of the net book value associated with the diminished service utility of the G-PP&E. A specific method, including any of the one’s listed would not be considered appropriate if it</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	lost. This additional valuation method should be included.	would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E.
19 – DOL/OCFO	<p>a. We believe that Agencies should consider alternatives before recognizing an impairment loss. These alternatives could be a prospectively applied change in (1) depreciation method to an accelerated method, (2) salvage value to a lower value, and/or (3) useful life to a shorter life. The Board describes these alternatives in paragraph A.5 on page 21 of the Basis for Conclusions and we believe that these alternatives should appear in the accounting standard as well as the Basis for Conclusions. If these alternatives are considered, then we believe that the recognition of an impairment loss would tend to be infrequent, significant, and occur as a result of sudden changes in circumstances.</p> <p>b. If G-PP&E scheduled or awaiting disposal, retirement, or removal for excessively long periods is included in the list of indicators in paragraph 12, then the standard should be</p>	<p>a. <u>Staff Recommendation</u> - Staff suggests incorporating the last sentence of BFC paragraph A5 into paragraph 18 as follows:</p> <p style="color: red;">“However, in cases where an entity decides that an impairment loss is immaterial, it should consider the need for adjustments to the GPP&E’s depreciation methods, useful life or salvage value estimates.”</p> <p>b. <u>Staff Recommendation</u> - Staff advises keeping the title as-is and clarifying the paragraph 12g indicator’s intent; that it is addressing <u>partial impairments</u> of G-PP&E that is being held for periods which are deemed excessive by</p>

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	<p><i>“Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use or Other than Permanently Removed from Service”.</i></p> <p>c. Also, we suggest that the following indicator be added to the list:</p> <p>-- In the current accounting period, changing the depreciation method, salvage value, and/or useful life to increase the depreciation expense will not reasonably reflect the change in circumstances.</p> <p>In this way, Agencies may consider changes to the depreciation method, salvage value, and/or useful life to increase depreciation expense as an alternative to recognizing an impairment loss on a depreciable asset.</p> <p>d. We believe that the standard should include</p>	<p>management. Staff further advises that we rephrase paragraph 12g so that it clarifies its focus on “excessively long periods” and not SFFAS 6 paragraph 39 language. The proposed change would be as follows:</p> <p style="padding-left: 40px;">g. G-PP&E idled or unserviceable for excessively long periods.</p> <p>c. This is not an indicator. This proposed language change would restrict management’s ability to adjust for changes (non-reportable) impairments where service utility has been lost. Please refer to the flowcharts on pages 26 and 27 wherein we discuss adjustments to reflect diminished or lost service utility via changes to depreciation methods, useful life and salvage value estimates. Such adjustments could in fact reasonably reflect changes in circumstances <u>after</u> an entity considers both the magnitude and permanence of the lost service utility.</p> <p>d. Refer to paragraph 17 and paragraphs BFC A11 and A13. The ED makes clear that professional judgment should be used when selecting a method</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>clearer wording that would allow an Agency to use a method that is not listed in paragraphs 17.a through 17.f on pages 14—16 as long as the method reasonably estimates the portion of the net book value associated with the diminished service utility and that the methods described in paragraphs 17.a through 17.f on pages 14—16 are not all-inclusive.</p>	<p>to measure the decline in service utility of G-PP&E. The ED recognizes that there may be cases where more than one comparable method could be used to measure the decline in an assets' service utility. In such cases, the entity should use whichever method most reasonably reflects the diminished service utility. In cases where the methods under consideration are expected to yield similar results, management should adopt the most efficient method available given the circumstances. Furthermore, paragraph 17 states, "A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E." Please note that the ED is not restricting management to the methods described as long as estimates of the loss and remaining net book value are both reasonable .</p>
	<p>a. We believe the term "gradual" means that service utility is declining in small degrees over a period of time and such a decline would be more</p>	<p>a. <u>Staff Recommendation</u> - Staff advises that we remove "gradual" from the definition as several respondents have found this to be in potential conflict</p>

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<p>20- KPMG</p>	<p>appropriately accounted for through depreciation expense. If the event that caused the decline could not be reasonably expected at the time the asset’s useful life was estimated, the federal entity would revise its estimate in accordance with Statement of Federal Financial Accounting Standards No. 6, Accounting for Property, Plant, and Equipment (SFFAS No. 6) rather than this ED. Paragraph 35 of SFFAS No. 6 states “Any changes in estimated useful life or salvage/residual value shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization”. We recommend deleting the term “gradual” from the ED to avoid confusion with the depreciation concept.</p> <p>b. We believe that the discussion in paragraph 14 about possible existence of management processes provides appropriate guidance for federal entities’ management as they assess and determine the sufficiency of controls over this aspect of financial reporting. We recommend deleting the proposed language in paragraphs 7,</p>	<p>with depreciation concepts.</p> <p>In staff’s opinion, although impairments can be brought about in a gradual manner, it is a concept which is difficult to apply in practice. By deleting the term “gradual”, we further limit the application of this standard by excluding “gradual” impairments while focusing on those that are <u>sudden, significant, permanent and lastly, material.</u></p> <p>b. Staff does not advise deleting the proposed language as suggested but advises that changes be made among the paragraphs to keep them consistent with the Board’s intent – the ED presumes that entities, as part of their internal controls, have systems in place that would identify and communicate impairments. Also, the ED makes clear that it does not wish to require entities to conduct procedures solely for the purpose of applying these standards. Refer to the</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>13, and A4 from the ED.</p> <p>c. Paragraph 12.g states that “G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods” would be an indicator of impairment. While we agree this would indicate a decline in service utility that could be significant and deemed permanent, this indicator implies that these assets no longer provide service to the entity’s operation. We believe these instances would be accounted for and reported in accordance with SFFAS No. 6 and Federal Financial Accounting Technical Release No. 14, Implementation Guidance on the Accounting for the Disposal of G-PP&E (TR No.14). We recommend deleting item “g” from the list of indicators.</p>	<p>Respondent 10 analysis for related comments.</p> <p>c. SFFAS 6 does not specifically address partial impairments (i.e., impaired assets remaining in-use). The Task Force in conjunction with members of the AAPC addressed partial impairments and concluded that SFFAS 6, paragraph 39 dealt with an asset’s total and permanent removal from service. As a result, idled or unserviceable assets not disposed of, nor retired, or removed from service for excessively long periods should be considered for either (1) total impairment (SFFAS 6, Paragraph 39 treatment) or (2) partial impairment (this statement), depending upon the circumstances. Such a consideration may in fact prompt a decision that could lead to SFFAS 6, paragraph 38 treatment; e.g., disposal, retirement, or removal.</p> <p><u>Staff Recommendation</u> – staff advises that we rephrase paragraph 12g so that it clarifies its focus on “excessively long periods” and not SFFAS 6 paragraph 39 language. The proposed change would be as follows:</p> <p style="text-align: center;">g. G-PP&E idled or unserviceable for</p>

Table 5.0 – Analysis of Respondent Suggestions

Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>d. We recommend the following change to the second sentence of paragraph 17 to be consistent with the remainder of the paragraph and with Statement of Federal Financial Accounting Concepts No. 7, <i>Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording</i>:</p> <p style="padding-left: 40px;">“Impairment losses on G-PP&E that will continue to be used by the entity should be estimated using a measurement method that reasonably reflects the diminished service utility of the G-PP&E. The goal of the measurement approaches <u>methods</u>.....”</p> <p>e. The measurement method in 17.f does not appear to be different from the method in 17.e. Both methods consider the recoverability of the net book value of the asset and recognize that the recorded value of the asset should ultimately be the lower of the net book value or, the net realizable value or value-in-estimate, whichever is</p>	<p style="color: red;">excessively long periods.</p> <p>d. <u>Staff Recommendation</u> – Staff concurs.</p> <p>e. Staff does not advise making this change. Each of the methods relate to specific types of assets or situations that an entity might confront. The two methods are in fact sufficiently different not only in that regard, but also in practical application. To collapse them into one method would create confusion and</p>

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	<p>higher. We recommend changes to paragraphs 17.e and 17.f as appropriate.</p> <p>f. Construction Work in Process - Paragraph 3 of the ED indicates that the purpose of this ED is to provide accounting requirements for assets already placed in service. However, the ED’s discussion of the impairment caused by construction stoppage implies that the ED is also applicable to construction work in process. There is also an inconsistency between the ED and SFFAS No. 6’s definition of G-PP&E. We recommend changing the title of the proposed standard and adding the following to paragraph 3:</p> <p>“This proposed Statement would provide accounting requirements for all partial impairments of G-PP&E remaining in use and construction work in process expected to provide service in the future.”</p> <p>Adding the following to paragraph 8 to</p>	<p>ambiguity in the selection of a reasonable measurement method.</p> <p>f. <u>Staff Recommendation</u> - Staff concurs. In practice many entities report construction-in-progress either in the G-PP&E category or within another asset category. For all intents and purposes, regardless of where these assets sit on the balance sheet they are subject to impairment.</p> <p>Suggested title change:</p> <p>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use and Construction Work in Process</p> <p>Revised Paragraph 3 change:</p> <p>3. This Statement would provide accounting requirements for all partial impairments of G-PP&E remaining in use and construction work in process expected to provide service in the future.</p>

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Respondent Number (see Table 6.0)	RESPONDENT SUGGESTIONS	STAFF ANALYSIS & RECOMMENDATION
	<p>clarify the scope of the ED:</p> <p>“...Entities generally hold G-PP&E because of the services they provide or will provide in the future; consequently, impairments affect the service utility of the G-PP&E and construction in process.”</p> <p>Adding the following in a new paragraph after paragraph 16:</p> <p>“For construction work in process, the testing of impairment discussed in paragraph 16 should be performed over the expected future service utility rather than current service utility.”</p> <p>g. We recommend that the ED provides guidance on the recognition of asset impairment when the asset is a component of an asset group. This is only mentioned in paragraph 18 and covered by illustrative example 6b but not addressed in detail in</p>	<p>Revised Paragraph 8 change:</p> <p>Entities generally hold G-PP&E because of the services they provide or will provide in the future; consequently, impairments affect the service utility of the G-PP&E and construction in process.</p> <p>New Paragraph 17 added:</p> <p>17. For construction work in process, the testing of impairment discussed in paragraph 16 above should be performed over the expected future service utility rather than current service utility.</p> <p>g. As per SFFAS 6 paragraph 22, the classification of G-PP&E, that is, the selection of the entity’s “base-unit”, as with the capitalization threshold, is left up to management. Therefore, assets that are</p>

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<p>Respondent Number (see Table 6.0)</p>	<p>RESPONDENT SUGGESTIONS</p>	<p>STAFF ANALYSIS & RECOMMENDATION</p>
	<p>the proposed standards.</p> <p>h. The concept introduced in paragraph 8 that the events or changes in circumstances that lead to impairments are not considered normal and ordinary is not included in the two step process discussed later in the ED as a consideration. We recommend the following revision to paragraph 12.a to address such consideration:</p> <p style="padding-left: 40px;">“a. evidence of physical damage, that is not considered normal and ordinary,”</p> <p>i. The last two sentences in paragraph 9 provide considerations related to surplus and maximum capacity but because these two</p>	<p>a component of an asset group are in fact G-PP&E and would be subject to this proposed standard. This proposed standard provides a principle and subsequent implementation guidance can be expected to address such issues.</p> <p>h. Refer to footnote 8 on page 10 of the ED. The phrase “normal and ordinary” is already sufficiently defined and doing so again would be superfluous and confusing. Furthermore, the phrase “physical damage” as contained in paragraph 8 is in sufficient contextual form as to not require change. Coupled with the Board’s desire to not be (overly) prescriptive in this proposed standard, and the Task Force’s recommendation to judiciously consider defining terms that could cause great confusion and ambiguity in practice, this change is not advisable. Please note that the Task Force did in fact address this phrase and decided against using it for the reasons stated.</p> <p>i. <u>Staff Recommendation</u> – Staff suggests adding a footnote description for maximum capacity and</p>

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	<p>terms are not defined, the intended meaning of the two sentences is not clear.</p> <p>j. The terms “previous service utility” and “the new expected service utility” used in paragraph 16.a need to be defined to clarify the intended meaning of the first sentence. We also suggest clarifying in this paragraph whether the term “cost” refers to cost of operations or cost of remediating the lost service utility.</p> <p>k. We recommend the following revision to</p>	<p>including in parenthesis the meaning of surplus capacity.</p> <p><u>ADD footnote:</u> maximum capacity is usable capacity (note: already defined in paragraph 9) plus any surplus capacity.</p> <p><u>INSERT after surplus capacity</u> (is the excess capacity over the usable capacity)</p> <p>j. <u>Staff Recommendation</u> – staff suggests the following language be inserted in BFC paragraph A10:</p> <p>Costs associated with the previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility. For example, when comparing the benefits and related costs after the impairment with those existing prior to the impairment, management may confirm that costs exceed future benefit. As a result, the decline is significant and a test of impairment is required.</p>

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	<p>the third sentence in paragraph 16.b for clarity:</p> <p>“In contrast, reasonable expectation may exist when management has (1) specific plans to replace or restore the lost service utility <u>of this G-PP&E, not the function,</u></p> <p>I. Paragraph 23 states that recoveries reported in subsequent years should be reported as revenue or other financing source. It is not clear why the ED is providing the option of reporting the recoveries as revenue or other financing source and if a federal entity elects to report recoveries as revenue, whether the recoveries should be</p>	<p>k. <u>Staff Recommendation</u> – Staff suggests we insert only the reference to G-PP&E and not to function.</p> <p>“In contrast, reasonable expectation may exist when management has (1) specific plans to replace or restore the lost service utility <u>of this G-PP&E,</u></p> <p>Staff notes that it would be problematic to distinguish between an asset’s service utility and its function. Furthermore, executive level plans may only address function and not necessarily the specific G-PP&E. Management would need to exercise its professional judgment in such cases to ascertain if the lost service utility will be replaced or restored.</p> <p>I. <u>Staff Recommendation</u> – Subsequent discussion with the respondent has clarified their suggestion. Staff concurs with removing the language on when recoveries are realized or realizable from paragraph 23. Staff agrees that the ED should be clarified to the extent of noting that an entity may need to recognize revenue or other financing</p>

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	<p>reported as exchange or non-exchange revenue. We recommend removing the language on when recoveries are realized or realizable from paragraph 23.</p>	<p>sources as either exchange or non-exchange transactions. Staff further advises that we expand the basis for conclusions in this regard.</p> <p>Please refer to the revised paragraph 23 (renumbered to par. 25) and a new BFC paragraph A21.</p>
<p>21 - DOE</p>	<p>We suggest clarifications to the Board's proposed definition. Leaving the definition unchanged would require additional guidance. We want to avoid differences of opinion between external auditors and the management. We recommend eliminating the phrase "whether gradual or sudden" and adding "that is not already recognized by routine depreciation" after the word "decline". The revised statement of purpose would then read:</p> <p>The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E that is not already recognized by routine depreciation.</p>	<p><u>Staff Recommendation</u> – In connection with Staff's analysis concerning Respondent 10's request that we consider providing additional information distinguishing between depreciation and impairment, the Board may wish to consider this suggested definition.</p>

Table 6.0 – Analysis of Respondent Concerns

Table 6.0 – Analysis of Respondent Concerns⁸

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
2. NOAA/RP	<p>a. I am not comfortable with the Exposure Draft on <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i>, as it references real property.</p> <p>b. 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.</p>	<p>a. In light of recent initiatives to reduce the federal real property foot print and associated operating costs, the Task Force agreed that impairments, if permanent and significant/material, should apply to federal real property. Moreover, from an accounting point of view these are assets that have a present and future economic and financial benefit. As such, not reflecting permanent losses overstates both the asset in question and the entity’s net position in addition to distorting the costs of services related to the asset.</p> <p>b. The proposed Statement does not determine an asset’s value but rather determine the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility. This is</p>

⁸ In some cases the staff’s summary takes excerpts from each respondents reply and as such, is not intended to substitute for a complete reading of the individual letters.

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>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.</p> <p>c. In these (illustrations) 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. Rather than a mathematical formula to reduce net book value, the plans of management should determine the financial impact and a disclosure.</p>	<p>significantly different than determining “value”. This proposed Statement would improve financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.</p> <p>c. The proposed Statement at paragraph 16b. is clear that an impairment is considered permanent only when management has no reasonable expectation that the lost service utility will be replaced or restored.</p>

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Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>d. 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.</p>	<p>d. If an obligation to correct (that is, restore utility) is delayed there is no recalculation because there would not have ever been an initial impairment loss calculation to begin with as a result of the proposed Statement. Specifically, by virtue of management having a reasonable expectation that the diminished or lost service will be replaced, the impairment is considered temporary; not permanent. At paragraphs 17 and A17 the ED notes that the measurement approaches are to “reasonably estimate” the diminished or lost service utility and that no impairment loss might in fact result following such methods. Furthermore, the ED grants additional flexibility by allowing the use of “the most efficient and practical method” when a choice among comparable methods exist.</p>
<p>3 – SSA/DCFO</p>	<p>We believe that more information should be provided on the “Changes in environmental or economic factors” criteria. Would these changes include changes to the value of buildings depending on the real estate market or other environmental or economic factors? If so, these criteria would be</p>	<p><u>Some Criteria: Difficult to review/measure</u> – As stated at Par. A7 in the proposed statement, the Board desires to make clear that <u>the indicators identified at paragraph 12 in and of themselves are not conclusive evidence that a measurable or reportable impairment exists</u>. Entities should <u>carefully consider the surrounding circumstances to</u></p>

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	<p>difficult to review and measure.</p>	<p>determine if a test of potential impairment may be unnecessary given the circumstances.</p> <p><u>Changes in Real Estate Market</u> - The proposed standard is not intended to be a surrogate for fair value accounting. Changes to the value of buildings depending on the real estate market <u>alone</u> would not necessitate an impairment test. The important distinction between an asset’s value and its service utility must always be kept in mind. Regardless of an asset’s value, the proposed standard addresses the decline in service utility and the extent that this decline may be both significant and permanent. Please note that references to “value” in the proposed standard are in the context of SFFAC 7, <i>Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording</i>, - value-in-use – defined as “<i>Value in use is the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life.</i>”</p> <p><u>Environmental Indicators</u> – The Task Force discussed environmental indicators in the context of weather and geographic location. For example, moving a piece of equipment to a higher altitude or</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
		<p>where there is increased humidity could affect its performance/quality.</p> <p><u>Economic Indicators</u> – This is a good example of what the Board discussed concerning each of the indicators not being construed as conclusive evidence that a measurable or reportable impairment exists. Economic conditions (e.g., migrations or demographic changes) may reduce the need for or change the nature of certain assets tied to federally provided services. However, although the changed economics may be an indicator of asset impairment, entities should carefully consider the surrounding circumstances (i.e., including the other indicators in paragraph 12) to determine if a test of potential impairment may be unnecessary given the circumstances. For example, can the assets in question continue being used as-is, modified or transferred? It is important to note that even if the answer was no to each of these questions, an entity would need to further consider the significance and permanence of the economic changes; impairment loss.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
<p style="text-align: center;">6 – DOC/OCFO</p>	<p>We have the following real property related concerns:</p> <p>a. Use of the service-units method and some of these other methods described in the Statement would not be appropriate for real property valuation.</p> <p>b. 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.</p>	<p>a. As stated at paragraphs 17 and BFC A17, impairment losses should use a method that reasonably estimates the asset’s diminished service utility. The ED makes clear that it does not seek exact precision nor is it prescribing any particular method. Preparers are not restricted to the methods shown at paragraph 17 and may use other methods that accomplish two (2) objectives: (1) reasonably estimate the diminished service utility and (2) a reasonable net book value associated with the remaining service utility.</p> <p>b. Staff does not see a dilemma as there are no undesirable alternatives under consideration. As stated at paragraph 16b, management has two alternatives present when an asset has been impaired – to replace or restore the lost service utility or not. If management concludes that it has reasonable expectations that the diminished or lost service utility will be replaced or restored, the impairment is not considered permanent and no test for impairment would be required. Please refer to BFC paragraph A8 wherein the Board proposes two</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>c. In illustration 1 d, treating floors of a building in a service units approach is not appropriate.</p> <p>d. Rather than a mathematical formula to reduce net book value, the plans of management should determine which solution provided in 1a or 1b is appropriate. Further, when truly valuing a property, location, local economy, and the build-ability of the land along with potential alternative uses of the land/improvement have a much greater impact on the interpretation of value.</p> <p>e. We are concerned that the language in the proposal does not go far enough to protect entities from “undue administrative burden.”</p>	<p>modifiers (magnitude of decline is significant and decline is permanent) in order to limit the universe of G-PP&E tested for potential impairment.</p> <p>c. Preparers are not restricted to the methods shown at paragraph 17 and may use other methods that accomplish two (2) objectives: (1) reasonably estimate the diminished service utility and (2) a reasonable net book value associated with the remaining service utility.</p> <p>d. The measurement of impairment losses does <u>not</u> precede management’s determination of the two (2) modifiers discussed in note 2 above: magnitude of decline is significant and the decline is permanent. If both of these modifiers are present, then management is free to use a reasonable methodology that accomplishes two (2) objectives: (1) reasonably estimate the diminished service utility and (2) a reasonable net book value associated with the remaining service utility.</p> <p>e. Upon clarification of the proposed standard’s intent (paragraphs 4 and BFC A3b), the DOC/OCFO withdrew this concern on May 24, 2012.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
7 - NASA/RP	<p>It would be very difficult to rate and grade by these indicators on a yearly start and stop basis.</p> <p>The Facilities Organizations provide a complete cost analysis of the different options for Maintenance, Repair, Rehabilitation, Repair by Replacement, and Construction in order to satisfy the Program Requirements, Safety, Health, Environmental, Code Compliance, etc. A project description/synopsis is submitted to OMB for approval of all Major Construction Projects. We can provide additional information when asked about a particular asset.</p>	<p>The indicators in paragraph 12 have been listed as examples and apply to broad categories and classes of assets unlike the indicators contained in GSA's 2011 Guidance for Real Property Inventory Reporting (Version 3). The paragraph 12 indicators are not meant to be real-property specific nor are they meant to supplant any indicators currently in use.</p>
9 – DOI/DCFO	<p>a. In addition to the additional expenditures required for compliance with this proposal, agencies may also incur an opportunity cost of not being able to dedicate the same resources and time to their important tasks associated with general operations. Compliance with the board's proposal would require additional costs, policies, procedures, training, system changes, internal control reviews, audits, and changes. For agencies which may not experience as many G-PP&E impairments, the costs outweigh the possible benefit.</p>	<p>a. The majority of respondents disagree noting that benefits outweigh costs. Some have stated that processes are in place to identify and communicate impairments. As even acknowledged by this respondent, this statement is intended only for those impairments that "would pertain to isolated events that have low probabilities of occurrence." Based on the foregoing and without additional information, staff is unable to assess the adequacy of the respondent's concern.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>b. The Department has concerns over how this proposed Statement will mesh with elements of SFFAS No.6 (1997). SFFAS No.6 paragraph 42 states: "For general PP&E that would be substantially depreciated/amortized had it been recorded upon acquisition based on these standards, materiality and cost-benefit should be weighed heavily in determining estimates. Consideration should be given to: • recording only improvements made during the period beyond the initial expected useful life of general PP&E; and, • making an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building by building estimate)."</p> <p>c. Additionally, FASAB's proposal should include a statement detailing the treatment for scenarios in which an impairment loss is greater than NBV.</p>	<p>b. Staff notes that these appear to be entity-specific policy matters and as such, has no comment other than to refer the respondent to SFFAS 6 or contact us for additional guidance at http://www.fasab.gov/technical-inquiry/</p> <p>c. Staff Recommendation – Staff concurs and suggests the following language at paragraph 17 (to be re-numbered 18) which discusses measurement:</p> <p>While using any method, if an impairment loss results in an amount greater than an asset's net book value the loss should be limited to the asset's net book value.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>d. The Department of the Interior disagrees that the benefits of implementing this Statement outweigh its costs. The Board's proposal would add additional reporting burdens to agencies that already have G-PP&E reviewing and reporting techniques in place. The current methodologies already take into account 11 factors concerning possible impairments in assets, and also involve maintenance policies to mitigate for any concerning issues. Since this proposal concerns isolated issues that vary in probability and impact based on individual agencies, it is unclear whether comparability among entities in this aspect would be useful in valuation and comparison of entities' financial positions. Net book value, a key component of impairment calculations, is driven by the estimated useful life. The variability of estimated useful life across different assets and entities presents barriers to impairment calculations (refer to : October 2002 GAO Report 03 -42 Survey of Capitalization Threshold and Other Policies for Property, Plant, and Equipment a1 www.llao.gov/newitems/d0342 .pdf).</p> <p>e. Additional auditing issues may also arise from implementation of this proposal. The impairment</p>	<p>d. This Statement improves financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.</p> <p>e. Generally accepted accounting principles have long recognized the need to impair long-lived assets.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>determination and financial adjustments may not take place immediately after the impairment occurs; for example, Hurricane Rita landed on September 24, 2005, six days before the end of the fiscal year. The Board's proposal would pertain to isolated events that have low probabilities of occurrence and a wide range of impact across different entities. Implementing this proposal would result in increased and sometimes redundant policies, procedures, fees, etc.</p>	<p>As a result, because this proposed standard is not establishing a new requirement there should be no associated increased costs resulting from guidance intended to facilitate and guide preparers should they be faced with an impairment situation. Please note that the majority of respondents agree by a 2:1 ratio that this proposed standard's benefits outweigh costs.</p>
<p>10 – GWSCPA</p>	<p>We have concerns over the use of two terms in paragraph 8: "Significant" and "Gradual".</p>	<p><u>Staff Recommendations</u> –</p> <p><u>Gradual</u> - Staff advises that we remove "gradual" from the definition as several respondents have found this to be in potential conflict with depreciation concepts. In staff's opinion, although impairments can be brought about in a gradual manner, it is a concept which is difficult to apply in practice. By eliminating the term "gradual", we further limit the application of this standard by excluding "gradual" impairments while focusing on those that are sudden, significant, permanent and lastly, material.</p> <p><u>Significant</u> - Refer to paragraph 16a. In referring to professional judgment the Board has said that , "</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
		<p style="color: red;">Such judgments may be based on: (1) the relative costs of providing the service before and after the decline, (2) the percentage decline in service utility, or (3) other considerations. “</p> <p>Staff advises adding the above language to the paragraph 8 footnote.</p>
<p style="text-align: center;">11- DOS/DCFO</p>	<p>a. We are skeptical that this will result at a reasonable cost to our agency and will, in fact, result in substantially greater audit compliance cost.</p> <p>We anticipate independent auditors will require annual assessments based on this premise even if the portfolio review is not mandated by the standard.</p> <p>b. To achieve the consistency the Standard expects, agencies will have to perform portfolio reviews during a time of ever decreasing resources. We also believe the information will have limited value to either internal management or external oversight decision makers.</p>	<p>a. The majority of respondents disagree and have noted that benefits outweigh costs by a ratio of 2:1. Some have stated that existing processes are in place to identify and communicate impairments. Given that this statement is intended only for those impairments that are significant, permanent and material, it is difficult to associate significant increased costs in light of the reporting benefits.</p> <p>b. This Statement improves financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
		following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.
14 – DOD/DCFO	a. The Department of Defense agrees with the theory that recognizing impairment losses is consistent with industry standards and that a standardized method of recognizing significant impairment losses would improve reliability and consistency within and across federal entity financial statements. However, the benefit of recognizing impairment losses is minimal at best for the Department of Defense, and would probably be cost prohibitive. The Department’s myriad of accounting and logistics systems are not programmed to implement and comply with this standard, resulting in additional manual work-around procedures to ascertain loss estimates. Additionally, the Department does not manage GPP& E by acquisition cost. Therefore, recognizing impairment losses adds no value. Finally, the Department will never have a scenario in which G-PP&E is written down, since it is the Department’s policy to either	a. The majority of respondents disagree and have noted that benefits outweigh costs by a ratio of 2:1. Some have stated that existing processes are in place to identify and communicate impairments. Given that this statement is intended only for those impairments that are significant, permanent and material, it is difficult to associate significant increased costs in light of the reporting benefits.

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>dispose of the asset or repair it. The asset would not be used in an impaired state.</p> <p>b. Recognizing impairment losses does not seem appropriate for “changes in the manner or duration of use of G-PP&E or retirement.” It would seem more appropriate to accelerate the depreciation expenses of items falling under these indicators rather than categorize them as impairment losses.</p>	<p>b. The ED has defined an impairment to be associated with events or changes in circumstances that are not considered normal and ordinary. That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the G-PP&E or, (b) if expected, sufficiently predictable to be considered in estimating the useful life. As such, these events/circumstances would not be factors that lend themselves to depreciation accounting which requires systematic and rational allocation of costs. However, in cases where an entity decides that an impairment loss is immaterial, it should consider the need for adjustments to the GPP&E’s depreciation methods, useful life or salvage value estimates.</p>
<p>17 - SEC</p>	<p>Provided that the standard is strongly and clearly limited to agencies with material mission-critical assets not easily replaced in the normal course of business, this standard will have no impact on the SEC.</p>	<p>As exposed, this Statement would apply to federal entities that present general purpose federal financial reports and in particular to G-PP&E except internal use software.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
<p>19- DOL/OCFO</p>	<p>We believe that the benefits of implementing this Statement would outweigh its costs, provided that the Statement (1) permits an Agency to select a method that is not listed in paragraphs 17.a through 17.f on pages 14—16 as long as the method selected reasonably estimates the portion of the net book value associated with the diminished service utility and (2) describes that the methods in paragraphs 17.a through 17.f on pages 14—16 are not all-inclusive.</p>	<p>The majority of respondents disagree and have noted that benefits outweigh costs by a ratio of 2:1.</p> <p>Refer to paragraph 17 and paragraphs BFC A11 and A13. The ED makes clear that professional judgment should be used when selecting a method to measure the decline in service utility of G-PP&E. The ED recognizes that there may be cases where more than one comparable method could be used to measure the decline in an assets' service utility. In such cases, the entity should use whichever method most reasonably reflects the diminished service utility. In cases where the methods under consideration are expected to yield similar results, management should adopt the most efficient method available given the circumstances. Furthermore, paragraph 17 states, "A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E." Please note that the ED is not restricting management to the methods described as long as estimates of the loss and remaining net book value are both reasonable.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
<p>21 - DOE</p>	<p>a. At least one comment indicated that two of the seven indicators will lead to false impairment determinations, including:</p> <ul style="list-style-type: none"> • <u>Changes in the manner or duration of use</u> - Specialized G-PP&E used on an as-needed basis or required for work performed on behalf of other entities may follow inconsistent utilization patterns. • <u>G-PP&E scheduled or awaiting disposal</u>- In cases where this indicator does not overlap any of the aforementioned six in paragraph 12, the G-PP&E has most likely reached the end of its mission. Retaining this indicator would mean that all assets would appear impaired prior to disposition. This seems contrary to the stated scope and applicability of the is proposed standard as paragraphs 7 and 11 both refer to G-PP&E "remaining in use." 	<p>a. <u>Changes in the manner or duration of use</u> - The ED has defined an impairment to be associated with events or changes in circumstances that are not considered normal and ordinary. That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the G-PP&E or, (b) if expected, sufficiently predictable to be considered in estimating the useful life. As such, these events/circumstances would not be factors that lend themselves to depreciation accounting which requires systematic and rational allocation of costs. However, in cases where an entity decides that an impairment loss is immaterial, it should consider the need for adjustments to the GPP&E’s depreciation methods, useful life or salvage value estimates.</p> <p><u>G-PP&E scheduled or awaiting disposal</u> - SFFAS 6 does not specifically address partial impairments (i.e., impaired assets remaining in-use). The Task Force in conjunction with members of the AAPC addressed partial impairments and concluded that SFFAS 6, paragraph 39 dealt with an asset’s <u>total and permanent</u> removal from service. As a result, idled or unserviceable assets not disposed of, nor retired, or removed from service for excessively long</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<p>b. Entities evaluating assets for impairments will incur additional costs. There are the administrative costs of training workers to assess whether an impairment exists under the new standard as well as documenting methodologies used for determination. Independent audit firms will review if an organization is complying with impairment accounting standards. This means additional work (responding to auditors' requests) for a business enterprise during an audit engagement. Once the new statement has been promulgated, auditing firms will have a review section in their work plan. Business enterprises will have to document and respond to satisfy the auditors' due diligence review.</p> <p>c. The Department disagrees that the benefits of implementing this Statement outweigh the costs. The proposed standard would add administrative burden in several areas:</p> <ul style="list-style-type: none"> • Increased level of effort in making adjustments to G-PP &E records in the Department's accounting system. 	<p>periods should be considered for potential impairment.</p> <p>b. An overwhelming majority of respondents disagree and have noted that benefits outweigh costs by a ratio of 2:1.</p> <p>c. An overwhelming majority of respondents disagree and have noted that benefits outweigh costs by a ratio of 2:1.</p>

Table 6.0 – Analysis of Respondent Concerns

Respondent Number (see Table 7.0)	RESPONDENT EXCERPTED COMMENT(S)	STAFF ANALYSIS & RECOMMENDATION
	<ul style="list-style-type: none"> • Increased level of effort in reconciling the accounting system with the Department's property management system. • Increased level of effort and cost for financial statement audits and Departmental management of those audits. 	

Table 7.0 – Respondents

Table 7.0 - Respondents

	Name	Organization	Category
1	Tammy L. Smutny	Department of Housing and Urban Development, Financial Policies & Procedures Division, Office of the Chief Financial Officer	Federal Preparer
2	Marc Rappaport	National Oceanic and Atmospheric Administration, Real Property Management Division	Federal, Other
3	Carla Krabbe	Social Security Administration, Deputy CFO	Federal Preparer
4	Anita Jones	Environmental Protection Agency, Financial Planning and Policy	Federal Preparer
5	Robert Kienitz	Department of Defense, Office of the Inspector General Audit Policy and Oversight	Federal, Auditor
6	Gordon T. Alston	US Department of Commerce, Office of the Chief Financial Officer	Federal Preparer
7	Ron Di Lustro	National Aeronautics and Space Administration, Facilities Engineering Division	Federal - other

Table 7.0 – Respondents

Name		Organization	Category
8	Nadine Tremper	National Aeronautics and Space Administration, Office of the Deputy CFO	Federal Preparer
9	Douglas A. Glenn	Department of the Interior, DCFO, Office of Financial Management	Federal Preparer
10	Andrew C. Lewis	Greater Washington Society of CPAs and GWSCPA Educational Foundation	Non-Federal - Other
11	Christopher H. Flaggs	Department of State, ODCFO	Federal Preparer
12	Melanie R. Cenci	Department of Agriculture, Office of the CFO	Federal Preparer
13	Alexis M. Stowe	General Services Administration, Office of the CFO	Federal Preparer
14	Mark Easton	Department of Defense – Office of the Comptroller	Federal Preparer
15	Elliot P. Lewis	Department of Labor, Office of Inspector General	Federal Auditor
16	William (Bill) Joe	Office of Personnel Management, Office of the Chief Financial Officer, Financial Services	Federal Preparer

Table 7.0 – Respondents

	Name	Organization	Category
17	William Fleming	Securities and Exchange Commission	Federal Preparer
18	Eric S. Berman	Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB)	Non-Federal - Other
19	Cynthia D. Simpson	Department of Labor, Office of Chief Financial Officer	Federal Preparer
20	Amanda Nelson	KPMG, LLP	Non-Federal - Auditor
21	April Stephenson	Department of Energy, Office of Financial Risk, Policy and Controls	Federal Preparer
22	Edward Murray	Veteran's Administration/Financial Policy	Federal Preparer
23	Carole Y. Banks	Department of the Treasury, Financial Reports and Policy	Federal Preparer



June 8, 2012

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: Transmittal of Comment Letters - *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.¹ – **Tab A, Attachment 1**

PRE-MEETING OBJECTIVE

Staff requests that members review the attached letters in preparation for the upcoming Board meeting on June 27th.

BRIEFING MATERIAL

Staff Summary: This memo transmits twenty-three comment letters in the order the responses were received and processed. Next week, members will receive staff's *Analysis of Comment Letters* that will include summaries of the responses to each of the questions.

If you require additional information please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.6841 or by e-mail at: savinid@fasab.gov

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.



Federal Accounting Standards Advisory Board

**Accounting for Impairment of General Property, Plant, and
Equipment Remaining in Use**

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by May 28, 2012

February 28, 2012

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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February 28, 2012

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by May 28, 2012.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

The Board wishes to acknowledge and thank the Financial Accounting Foundation for giving us permission to use text from Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Specifically, GASB 42 paragraphs 8–21, 33, 44–46, and Illustrations 1, 4, 5, and 9, have been adapted for use in this document entitled, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.”

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

This exposure draft proposes accounting and financial reporting standards for impairment of general property, plant, and equipment (G-PP&E)¹ remaining in use, except for internal use software. G-PP&E is considered impaired when there is a *significant and permanent* decline, whether gradual or sudden, in the service utility of G-PP&E. Recognition of impairment losses would involve a two-step process that entails (a) identifying potential impairments and (b) testing for impairment. The losses should be reasonably estimated by determining the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

This Statement would improve financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the operating

performance objective is identified as being most important for G-PP&E impairment accounting and reporting.

Operating Performance Objective

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

Source: SFFAC 1

¹ Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment* establishes three categories of PP&E: (1) general PP&E are PP&E used to provide general government services or goods; (2) heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and (3) stewardship land (i.e., land other than that included in general PP&E). This proposal does not address impairment of internal use software which is discussed in SFFAS 10, *Accounting for Internal Use Software*.

Table of Contents

Table of Contents

Executive Summary	4
What is the Board proposing?	4
How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?	4
Questions for Respondents.....	6
Purpose.....	9
Materiality.....	9
Effective Date.....	9
Proposed Standards	10
Scope and Applicability.....	10
Definition of Impairment.....	10
Identification and Recognition of Impairment – A Two-step Process	11
Measurement	14
Recognizing and Reporting Impairment Losses	16
Diminished Service Capacity Without Recognized Impairment Loss	17
G-PP&E That Is No Longer Being Used	17
Reversing Previously Reported Impairments.....	17
Recoveries	17
Consolidated Financial Report of the U.S. Government.....	18
Effective Date	18
Appendix A: Basis for Conclusions	19
Appendix B: Flowcharts, Decision Table and Illustrations	28
Appendix C: Abbreviations.....	65
Appendix D: Glossary	66

Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
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All responses are requested by May 28, 2012.

Q1. The Board proposes to establish a requirement to recognize impairment losses when there is a *significant and permanent* decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.

Q2. The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.

Q3. The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.

Q4. The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.

Q5. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature² to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.**
- b. **Are there G-PP&E categories, classes, or base units³ to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.**
- c. **Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.**

² “Other accounting literature”, such as standards developed by the Financial Accounting Standards Board or the Governmental Accounting Standards Board, may be considered if the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice. Consideration of other accounting literature is explained in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

³ Per SFFAS 6, *Accounting for Property, Plant, and Equipment*, the term “base unit” refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. For example, units as large as entire facilities or as small as computers could be categorized. In determining the level at which categorization takes place, an entity should consider the cost of maintaining different accounting methods for property and the usefulness of the information, the diversity in the PP&E to be categorized (e.g., useful lives, value, alternative uses), the programs being served by the PP&E, and future disposition of the PP&E (e.g., transferred to other entities or scrapped).

Introduction

Purpose

1. Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, contains principles-based guidance concerning **general property, plant, and equipment (G-PP&E)**⁴ that is removed from service due to total impairment of G-PP&E or other reasons. SFFAS 6 requires that G-PP&E be removed from G-PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service it no longer provides service in the operations of the entity.
2. SFFAS 10, *Accounting for Internal Use Software*, provides guidance for the impairment of **internal use software**.⁵ This proposal would not alter existing requirements regarding internal use software.
3. This proposed Statement would provide accounting requirements for all **partial impairments** of G-PP&E remaining in use.

Materiality

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

5. The proposed standards would be effective for reporting periods beginning after September 30, 2014. Earlier implementation is encouraged.

⁴ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

⁵ SFFAS 10, at paragraphs 28 through 30, provides additional procedures for recognizing and measuring impairment related to internal use software. The provisions in SFFAS 10 and SFFAS 6 are the same regarding situations where the software or G-PP&E is impaired and will be removed from service in its entirety. Both standards provide that the loss is measured as the difference between the book value and the net realizable value, if any. However, SFFAS 10 also provides for instances where (1) operational software is only partly impaired and (2) developmental software becomes impaired.

Proposed Standards

Scope and Applicability

6. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles, as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
7. This Statement applies to G-PP&E except internal use software.⁶ This Statement establishes guidance on accounting for the impairment of G-PP&E remaining in use. The provisions of this Statement are to be applied when indicators of impairment, as specified in this Statement, are identified by the entity. The entity is not required to conduct an annual or other periodic survey solely for the purpose of applying these standards. Existing processes may result in routine assessments regarding the continued operational and functional capacity of G-PP&E, entity mission requirements, impacts of significant events or changes in circumstances, and deferred maintenance and repairs. The results of such processes may serve as the basis for applying these standards.

Definition of Impairment

8. **Impairment** is a significant⁷ and permanent decline, whether gradual or sudden, in the **service utility** of G-PP&E. Entities generally hold G-PP&E because of the services they provide; consequently, impairments affect the service utility of the G-PP&E. The events or changes in circumstances that lead to impairments are not considered normal and ordinary.⁸ That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the G-PP&E or,

⁶ G-PP&E includes, among other types of PP&E, multi-use heritage assets, capitalized improvements to stewardship land, and internal use software.

⁷ The determination of whether or not an item is significant is a matter of professional judgment. Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.

⁸ Normal and ordinary are defined as events or circumstances that fall within the expected useful life of the PP&E such as standard maintenance and repair requirements.

(b) if expected, sufficiently predictable to be considered in estimating the useful life.

9. The service utility of G-PP&E is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the **level of utilization**, which is the portion of the usable capacity currently being used. The current usable capacity of G-PP&E may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws, or regulations or other changes in environmental or economic factors, or change in the manner or duration of use. Usable capacity may be different from maximum capacity in circumstances in which surplus capacity is needed for safety, economic, operational readiness or other reasons. G-PP&E that experience decreases in utilization and the simultaneous existence of or increases in surplus capacity not associated with a decline in service utility are not considered impaired.

Identification and Recognition of Impairment – A Two-step Process

10. Generally, G-PP&E remaining in use is impaired if the decline, whether gradual or sudden, in the service utility of the G-PP&E is significant and deemed permanent.
11. The determination of whether G-PP&E remaining in use is impaired, as defined in paragraph 8 above, includes (a) identifying potential impairment indicators and (b) testing for impairment. G-PP&E would be identified as potentially impaired as a result of the occurrence of significant events or changes in circumstances, or routine asset management processes.

Step 1 – Identify Indicators of Impairment

12. Some common indicators of impairment include those listed below:
 - a. evidence of physical damage,
 - b. enactment or approval of laws or regulations which limit or restrict G-PP&E usage,
 - c. changes in environmental or economic factors,

- d. technological changes or evidence of obsolescence,⁹
- e. changes in the manner or duration of use of G-PP&E,
- f. construction stoppage or contract termination, and
- g. G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods.¹⁰

G-PP&E Identified From Significant Events or Changes in Circumstances

13. Events or changes in circumstances affecting G-PP&E that may indicate impairment are sometimes significant. Significant events or changes in circumstances are conspicuous or known to the entity's management or oversight entities. This Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E. Events or circumstances that may indicate impairment are generally expected to have prompted consideration¹¹ by oversight entities, management, or others (e.g., the media).

G-PP&E Identified From Asset Management Reviews (e.g., portfolio surveys)

14. Existing asset management processes may include portfolio surveys that consider matters such as the continued operational and functional capacity of G-PP&E, entity mission requirements, or deferred maintenance and

⁹ Technological changes or evidence of obsolescence should be considered along with other factors when assessing impairment. For example, if obsolete PP&E continues to be used, the usable capacity expected at acquisition may not be diminished. Further, when obsolescence is expected, PP&E that is subject to obsolescence can be addressed through depreciation, particularly by using accelerated methods that yield a lower capital cost per year as the asset's utility diminishes when compared to that of later versions of the same asset.

¹⁰ Refer to Technical Release #14, *Implementation Guidance on the Accounting for the Disposal of General Property Plant, & Equipment*, for guidance related to when an asset is other than permanently removed from service.

¹¹ Consideration might include but is not limited to management discussions, internal managerial analyses or reviews, conferences or consultations with experts, media or public relations interviews, or external industry scrutiny.

repairs assessments. Potentially impaired G-PP&E may be identified from such surveys and further evaluated through the two-step process.

Reduced demand should not be considered a discrete or sole indicator of impairment

15. Reduced demand for the services of G-PP&E should not be considered a discrete or sole indicator of impairment. Instead, there should also be evidence of an underlying potential impairment resulting in the reduced demand. In these circumstances, the causes behind such changes in demand should be evaluated in light of the indicators listed in paragraph 12 and G-PP&E should be tested for impairment.

Step 2 - Impairment Test

16. G-PP&E identified through the processes described in paragraphs 10 through 15 should be tested for impairment by determining whether the following two factors are present:
 - a. **The magnitude of the decline in service utility (as defined in par. 9) is significant.** The costs associated with previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility. Such costs should include operational and maintenance costs. Judgment is required to determine whether the decline is significant. Such judgments may be based on: (1) the relative costs of providing the service before and after the decline, (2) the percentage decline in service utility, or (3) other considerations.
 - b. **The decline in service utility is expected to be permanent.** The decline is considered permanent when management has no reasonable expectation that the lost service utility will be replaced or restored. That is, management expects that the G-PP&E will remain in service so that its remaining service utility will be utilized. In contrast, reasonable expectation may exist when management has (1) specific plans to replace or restore the lost service utility, (2) committed or obligated funding for remediation efforts, or (3) a history of remediating lost service utility in similar cases or for similar G-PP&E.

Measurement

17. Impairment losses on G-PP&E that will continue to be used by the entity¹² should be estimated using a measurement method that reasonably¹³ reflects the diminished service utility of the G-PP&E. The goal of the measurement approaches discussed below is to reasonably estimate the portion of the net book value associated with the diminished service utility of the G-PP&E. A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E. Within an entity, one method may not be appropriate for measuring all impairments. Also, a reasonable methodology may nonetheless result in no impairment loss to be recognized. Widely recognized methods for measuring impairment include:
- a. **Replacement approach.** Impairment of G-PP&E with physical damage generally may be measured using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the G-PP&E at today's standards¹⁴ to identify the portion of the historical cost of the G-PP&E that should be written off. For federal real property purposes, this cost can be derived from the plant replacement value (PRV). This estimate can be converted to historical cost by restating (i.e., deflating) the estimated cost to replace the diminished service utility using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of the estimated cost to replace the diminished service utility over total estimated cost to replace the G-PP&E, to the net book value of the G-PP&E.
 - b. **Restoration approach.** Impairment of improvements made to stewardship land and multi-use heritage assets with physical damage may generally be measured by using a restoration approach. This approach

¹² See SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraphs 38 and 39 for guidance regarding PP&E that will not continue to be used by the entity.

¹³ Given a choice among comparable methods, entities should adopt the most efficient and practical method available under the circumstances.

¹⁴ For example, "at today's standards" would generally mean the use of current market prices for materials, labor, manufactured items and equipment using current building, manufacturing, or fabrication techniques in compliance with current statutory, regulatory, or industry standards.

uses the estimated cost to restore the diminished service utility of the G-PP&E to identify the portion of the historical cost of the G-PP&E that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the G-PP&E.

- c. **Service units approach.** Impairment of G-PP&E that are affected by enactment or approval of laws or regulations or other changes in environmental/economic factors or are subject to technological changes or obsolescence generally may be measured using a service units approach. This approach compares the service units provided by the G-PP&E before and after the impairment event or change in circumstance to isolate the historical cost of the service utility of the G-PP&E that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the G-PP&E—either maximum estimated service units or total estimated service units throughout the life of the G-PP&E—before and after the event or change in circumstance.
- d. **Deflated depreciated current cost approach.** Impairment of G-PP&E that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost. This approach quantifies the cost of the service currently being provided by the G-PP&E and converts that cost to historical cost. A current cost for a G-PP&E to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the G-PP&E is not new, and then is subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the G-PP&E exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).
- e. **Cash flow approach.** Impairment of cash or revenue generating G-PP&E, such as those used for business or proprietary-type activities, may be assessed using a cash flow approach. Under this approach, an impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net

realizable value¹⁵ or value-in-use estimate.¹⁶ The net book value of the G-PP&E is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the G-PP&E. That assessment should be based on the net book value of the G-PP&E at the date it is tested for recoverability, whether in use or under development. If the net book value is not recoverable, the impairment loss is the amount by which the net book value of the G-PP&E exceeds the higher of its net realizable value or value-in-use estimate. No impairment loss exists if the net book value is less than the higher of the G-PP&E's net realizable value or value-in-use estimate.

- f. **Construction stoppage / contract termination.** G-PP&E impaired from either construction stoppages or contract terminations which, are expected to provide service, should be reported at their recoverable amount; the lower of (1) the G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate. Impaired G-PP&E, which are not expected to provide service, should be accounted for and reported in accordance with SFFAS 6.

Recognizing and Reporting Impairment Losses

18. The loss from impairment should be recognized and reported in the statement of net cost and may be included in program cost(s) or cost(s) not assigned to programs consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. The impairment loss should be recognized and reported regardless of whether the G-PP&E remaining in use is being depreciated individually or as part of a composite group. The impairment loss may be reported as a separate line item or line items on the statement of net cost. Deciding to display a separate line item or items on

¹⁵ Net realizable value is the estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated costs of completion, holding and disposal.

¹⁶ Statement of Federal Financial Accounting Concepts (SFFAC) 7, *Measurement of the Elements of Accrual-Basis Financial Statements* at paragraph 50 defines value-in-use as "...the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life." Paragraph 51 further states that, "Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective estimate of the amount of an asset exchanged between willing parties that also is applicable to similar exchanges between other parties. Value in use is an entity's subjective assessment of the value to the entity of an asset that it owns. Thus, value in use is useful in assessing the financial position and operating results of that entity, but because the amount is entity specific, it may not be comparable when making assessments of other entities." (underscoring added for emphasis)

the statement of net cost requires judgment. The preparer should consider quantitative and qualitative criteria. Acceptable criteria include but are not limited to quantitative factors such as the percentage of the reporting entity's cost that resulted from the impairment and the size of the impairment loss relative to the G-PP&E; and qualitative factors including whether the loss would be of interest to decision makers and other users.

19. A general description of the impaired G-PP&E remaining in use, the nature (e.g., damage or obsolescence) and amount of the impairment, and the financial statement classification of the impairment loss should be disclosed in the notes to the financial statements.

Diminished Service Capacity Without Recognized Impairment Loss

20. Events, changes in circumstances, or asset management reviews might indicate that the future service utility of G-PP&E remaining in use has been adversely affected. However, if future service utility has been adversely affected but the impairment test determines that a loss need not be recognized, a change to the estimates used in depreciation calculations such as estimated useful life and salvage value should be considered.

G-PP&E That Is No Longer Being Used

21. G-PP&E that is no longer being used by the entity should be accounted for in accordance with SFFAS 6, paragraphs 38 and 39.

Reversing Previously Reported Impairments

22. Subject to the entity's capitalization policies, if an entity later remediates the previously impaired G-PP&E remaining in use, the costs incurred to replace or restore the lost service utility should be accounted for in accordance with applicable standards. For example, costs to prepare the site and install replacement facilities would be recognized in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*.

Recoveries

23. The impairment loss should be reported net of any associated recovery when the recovery and loss occur in the same year. Recoveries reported in subsequent years should be reported as revenue or other financing source as appropriate. Recoveries should be recognized only when realized or realizable. For example, if a manufacturer or contract operator has admitted or acknowledged warranty or contract liability, respectively, a recovery would be realizable. If the manufacturer or contract operator has denied liability, the recovery generally would not be realizable. If not otherwise

apparent in the financial statements, the amount and financial statement classification of recoveries should be disclosed in the notes.

Consolidated Financial Report of the U.S. Government

24. The U.S. government-wide financial statements need not disclose the measurement methods used in recognizing impairment losses. If impairment of G-PP&E remaining in use is recognized, the following information should be disclosed:
- a. a general description of what constitutes G-PP&E impairment,
 - b. the consolidated G-PP&E impairment losses recognized by component entities, and
 - c. a reference(s) to component entity report(s) for additional information.

Effective Date

25. The requirements of this Statement are effective for reporting periods beginning after September 30, 2014. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Project History

- A1. In Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, issued in May 2003, the Board identified impairment as one of three areas (the other two being depreciation and deferred maintenance) that it desired to consider integrating into a comprehensive project. Complete impairment was addressed in SFFAS 6, *Accounting for Property, Plant, and Equipment*, through the requirements that general PP&E “...be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess.” However, SFFAS 6 does not address partial impairment, even though the effects of partial impairment may be material in some cases. The Board decided to address asset impairment at the time it addressed deferred maintenance. Subsequent to the issuance of Statement of Federal Financial Accounting Standards 40: *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment* in May 2011, the Board initiated work on addressing potential enhancements to existing FASAB guidance regarding impairment.
- A2. In evaluating an approach applicable to federal G-PP&E, the Board considered the approaches used in the following documents:
- Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

- Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*¹⁷
- International Public Sector Accounting Standard (IPSAS) No. 21, *Impairment of Non-Cash Generating Assets*
- IPSAS No. 26, *Impairment of Cash-Generating Assets*

A working group was organized to assist the Board in analyzing the impairment standards promulgated by the FASB, GASB, and the International Public Sector Accounting Standards Board (IPSASB). The working group's analysis was initially screened by the Deferred Maintenance and Asset Impairment (DM-AI) Task Force and subsequently tested with a broader community beyond the task force to get other points of view. The consensus recommendation was to use the GASB 42 approach as a baseline for the development of a federal asset impairment standard.

Significant and Permanent Decline in Service Utility

A3. This proposed Statement requires recognizing a potential impairment loss only when there is a significant and permanent decline (gradual or sudden) in the G-PP&E's service utility. In reaching this decision, the Board considered and weighed (a) the need for relevant, reliable, and consistent financial reporting and (b) entity burden.

a. For financial reporting to be:

(i) relevant - a logical relationship must exist between the information provided and the purpose for which it is needed. G-PP&E impairment information is relevant because it is capable of making a difference in a user's assessment of how well the entity is meeting its federal asset stewardship responsibilities.

(ii) reliable - information needs to be comprehensive and nothing material should be omitted nor should anything be included that would likely cause the information to be misleading. The reporting of G-PP&E impairments

¹⁷ © Financial Accounting Foundation, Governmental Accounting Standards Board, 401 Merrit 7, Norwalk, CT. All Rights Reserved. GASB 42, November 2003.

significantly adds to the informational value and reliability of asset amounts presented in the entity's balance sheet and statement of net cost.

(iii) consistent over time - an accounting principle or reporting method should be used for all similar transactions and events unless there is good cause to change. Establishing G-PP&E impairment standards significantly adds to consistent financial reporting.

b. The Board is aware of the increased demands that entities confront due to initiatives that attempt to better align and integrate entity mission, budget, and performance objectives. As such, the Board desires to issue a G-PP&E impairment standard that entities can effectively adopt without undue administrative burden while still satisfying the objectives of federal financial reporting.

Recognizing Impairments

- A4. As discussed in paragraphs 13 and 14, impairments can be identified and brought to management's attention in a variety of ways. Although a presumption exists that there are existing processes and internal controls in place to ensure such identification and communication, this standard does not require entities to alter existing assessment methods solely for the purpose of applying these standards.
- A5. The Board notes that not all significant events and/or changes in circumstances discussed by oversight bodies, management, or the media would necessarily be considered material to an entity's financial statements. Consequently, an entity must exercise judgment in this regard considering whether omitting or misstating information about the significant event and/or changes in circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or the misstatement. However, in cases where an entity decides that a significant event or change in circumstance is immaterial, it should consider the need for adjustments to the G-PP&E's depreciation methods, useful life or salvage value estimates.

The Board also notes that common indicators of impairment can be discovered during different types of asset management reviews that include the following types of G-PP&E assessments:

- a. Condition assessments revealing evidence of physical damage, deterioration, and/or distresses such as for a building (1) damaged by fire

or flood, (2) not adequately maintained or repaired, (3) associated with significant amounts of deferred maintenance and repairs and/or (4) exhibiting signs of advanced degradation that might adversely impact expected duration of use, each requiring remedial or replacement/restoration efforts to restore service utility.

b. Functionality assessments revealing evidence of reduced capacity, inadequate configuration, change in entity mission, change in the manner or expected use, and enactment or approval of laws, regulations, codes or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet).

c. Obsolescence assessments revealing evidence of technological development or obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely or never used because newly acquired equipment provides better service.

Common Indicators of Potential Impairment

- A6. The Board considered the general approaches used by other standards-setters regarding the issues of impairment identification and testing. The DM-AI Task Force identified the GASB approach as being the most germane for federal application and recommended adopting its use with appropriate modifications. As a result, this proposed Statement consists of a two-step process of (a) identifying potentially impaired G-PP&E through indicators of impairment and (b) testing to determine whether a potential impairment exists by comparing the net book value of the G-PP&E to a valuation reflecting the current state of the G-PP&E.
- A7. Recognizing the administrative burden and costs involved in applying a test of potential impairment, the Board desires to make clear that the indicators identified at paragraph 12 in and of themselves are not conclusive evidence that a measurable or reportable impairment exists. Entities should carefully consider the surrounding circumstances to determine if a test of potential impairment may be unnecessary given the circumstances.
- A8. In order to limit the universe of G-PP&E tested for potential impairment because of cost-benefit considerations, the Board proposes two modifiers to the indicators: (a) the magnitude of the gradual or sudden decline in service utility is significant and (b) the decline in service utility is permanent. The first modifier

would limit testing for potential impairment to only G-PP&E that have experienced a significant decline, gradual or sudden, of the asset's service utility. The second modifier would limit testing to only those G-PP&E where the decline in lost service utility is expected to be permanent. The decline is considered permanent when management has no reasonable expectation that the lost service utility will be replaced or restored and that the G-PP&E's remaining service utility can continue providing value.

- A9. Only when both of these two modifiers are present, is G-PP&E to be considered impaired. When either of these conditions is not present, the decline in the service utility of the G-PP&E may be recognized through other methods such as changing useful life or salvage value estimates.

Determining if Magnitude of Decline in Service Utility is Significant

- A10. Because measurement of a potential impairment is not required unless a significant decline in service utility occurs, management should assess the magnitude of the service decline. In cases where there is physical damage to G-PP&E, the significance can often be objectively assessed because the costs of remediation (i.e., replacement or restoration) may be relatively easy to determine, at least within a range of estimates. In circumstances other than those involving physical damage, significance may be discerned by less objective assessments such as whether management acts to address the situation. Management decisions may be indicative of a potential decline in service utility. For example, a specific action taken by management after a service decline may confirm that expenses exceed future benefit. Likewise, a decision by management to not address a service decline may be an indication the decline is not significant and a test of impairment is not required.

Selecting a Measurement Approach

- A11. Professional judgment should be used when selecting a method to measure the decline in service utility of G-PP&E. Generally, potential impairments:
- a. reflecting degradation or physical damage may be measured using a replacement cost approach or, for multi-use heritage assets, a restoration cost approach.
 - b. reflecting a change resulting from enactment or approval of laws or regulations or other changes in environmental/economic factors or from

technological development or obsolescence generally may be measured using a service units approach.

c. reflecting a change in manner or duration of use or change in mission generally may be measured using deflated depreciated current cost approach.

d. for cash or revenue generating assets may be measured using the cash flow approach.

e. arising from construction stoppages or contract terminations which are expected to provide service, should be reported at their recoverable amount; the lower of (1) the G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate.

- A12. The Board emphasizes that in estimating the diminished service utility of the G-PP&E, the measurement approach chosen should yield a reasonable estimate reflecting the diminished service capacity of the G-PP&E. Before using a specific method a determination should be made that it will result in (1) a reasonable estimate of diminished service capacity for the specific asset and (2) a reasonable net book value associated with the remaining service utility of the G-PP&E. There should not be a presumption of reasonableness attached to the use of any of these methods if the resultant calculations reflect an unreasonable estimate of the remaining service utility of the G-PP&E. For example, if using the replacement approach, cost estimates to remediate the damage to an asset is equal to or greater than the asset's total replacement cost, the resultant calculation would lead to a full write-down of the carrying value. However, if the asset is to remain in use, the full write-down would be inappropriate because some service potential remains. In such a case, management should look to another method such as the deflated depreciation current cost approach to estimate the historical cost of the asset's residual service capacity that will continue to be used. Additionally, within an entity, one method may not be appropriate for measuring asset impairments across all categories or classes of assets. The Board notes that a reasonable methodology may not result in the recognition of an impairment loss.

Among Comparable Methods – Choose the Most Efficient

- A13. The Board recognizes that there may be cases where more than one comparable method could be used to measure the decline in an assets' service utility. In such cases, the entity should use whichever method most

reasonably reflects the diminished service utility. In cases where the methods under consideration are expected to yield similar results, management should adopt the most efficient method available given the circumstances.

Reduced Demand

- A14. The Board notes that reduced demand for the services of G-PP&E should not be considered as a discrete or sole indicator of potential impairment. That is, reduced demand absent evidence of an underlying potential impairment resulting in that reduced demand is not an indicator of impairment. For example, decreased demand for the processing services of a mainframe computer because former users of the mainframe have transitioned to PC and server-based systems should be considered a change in demand not requiring impairment testing. However, if associated with an indicator of potential impairment such as evidence of obsolescence, then the mainframe should be tested for potential impairment.
- A15. In addition, a decrease in demand solely resulting from the conclusion of a special project requiring large amounts of processing time on a mainframe computer that runs other applications should not be considered for impairment testing.
- A16. A decrease in occupancy is another example of a change in demand. If a decrease in the occupancy of hospital beds prompts management to close a hospital, a change in manner or duration of use has also resulted and a test for impairment should be performed. However, a test for impairment is not required if the decrease in hospital beds results solely because the hospital is changing from an overcrowded condition to one in which occupancy rates are now below the maximum allowed. However, care should be taken to ensure that there is not a potential indicator of impairment that could require testing.

Estimating Potential Impairment Losses

- A17. Measuring the cost of the lost service utility generally requires the use of estimates or approximations. According to Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, to be recognized an item must be measurable, meaning that a monetary amount can be determined with reasonable certainty or is reasonably estimable (underscoring added for emphasis). For this reason, the Board notes that it (1) does not seek exact precision in determining the lost service utility of the asset and (2)

does not intend to direct or prescribe the use of any particular method listed in paragraph 17.

- A18. However, the Board notes that care should be taken when estimating potential impairment losses. For example, if a multi-use heritage asset requires testing for potential impairment, the restoration cost and not the replacement approach should be used. Although these approaches may appear to be identical, they are not. The replacement approach estimates the cost to replace the lost service utility of the G-PP&E at today's standards whereas the restoration cost approach does not. In either case, the required estimates used for the calculation inputs are different and can significantly affect the potential impairment loss measurement. Differences will arise because the replacement approach uses estimates reflecting today's current labor and material options and costs, modern standards, and installation methods whereas the restoration cost approach uses estimates that generally require using historically accurate (e.g., aesthetic or historic) materials and construction methods approved by an historic architect or historic preservationist to preserve the historic nature and value of the multi-use heritage asset.
- A19. Entities should also ensure that impairment loss calculations exclude improvements or betterments. For example, assume that a portion of an old warehouse currently not being used suffers roof damage due to heavy snowfall. The entity decides not to repair the roof and to contain the damage by securing the adjoining area ensuring that there are no safety hazards. In this case, estimates for the construction of a new warehouse, including its roof should not include amounts for new types of roof ventilation systems, solar panel features, or green energy improvements, etc. Including such improvements or betterments might significantly affect the potential impairment loss measurement.

G-PP&E Impairment Loss Reversals

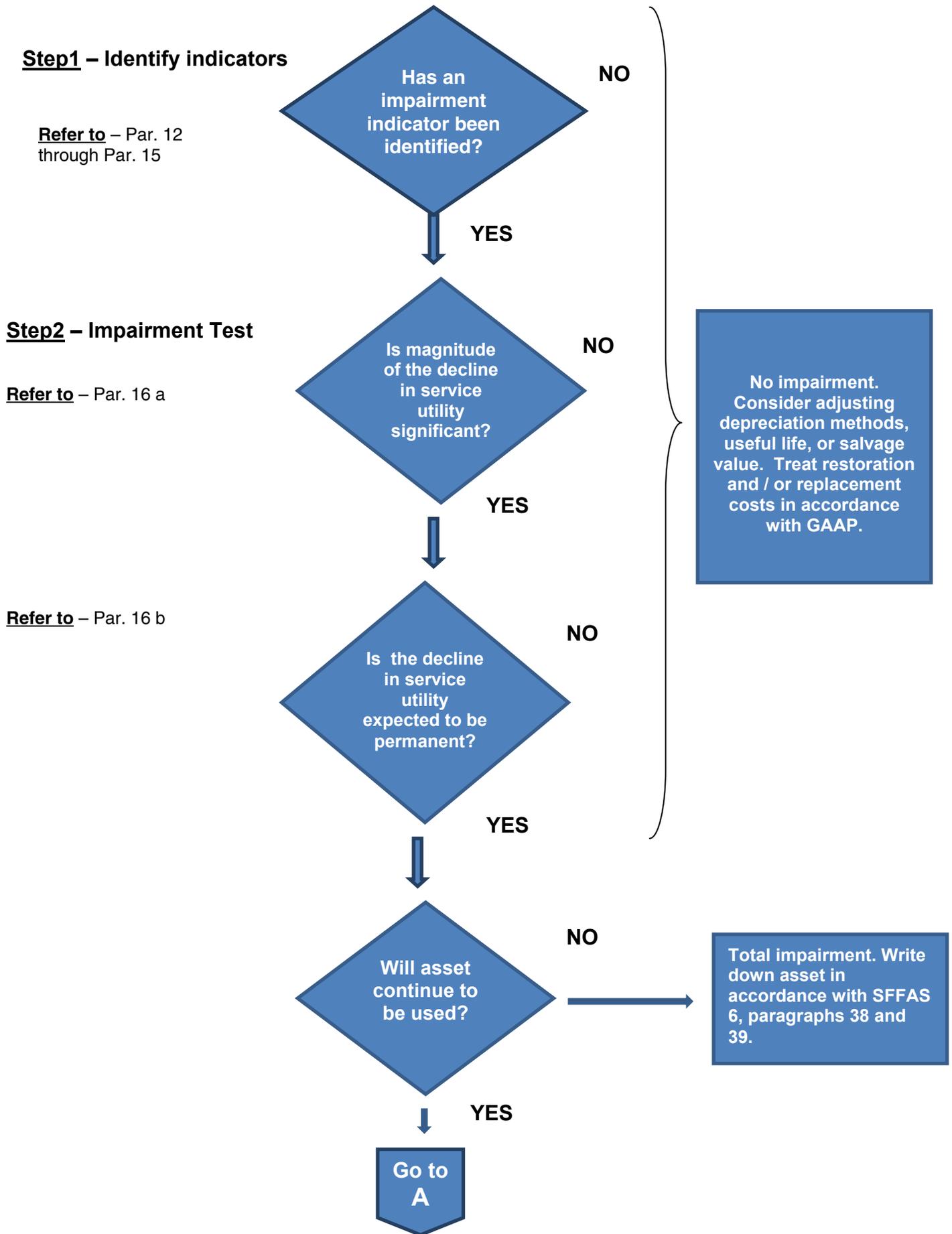
- A20. In reaching the decision not to allow for reversals of G-PP&E impairment losses, the Board concluded that because reversal events are expected to be rare occurrences, there is no compelling need for complexity or increased burden as benefits do not appear to justify costs. Further, the Board concluded it is not a reversal of a previously reported impairment loss, but rather a change in facts resulting in an addition to the cost basis. Specifically, should events later change and an asset's lost service utility is replaced or restored, the resultant incurred costs to place the replaced or restored lost

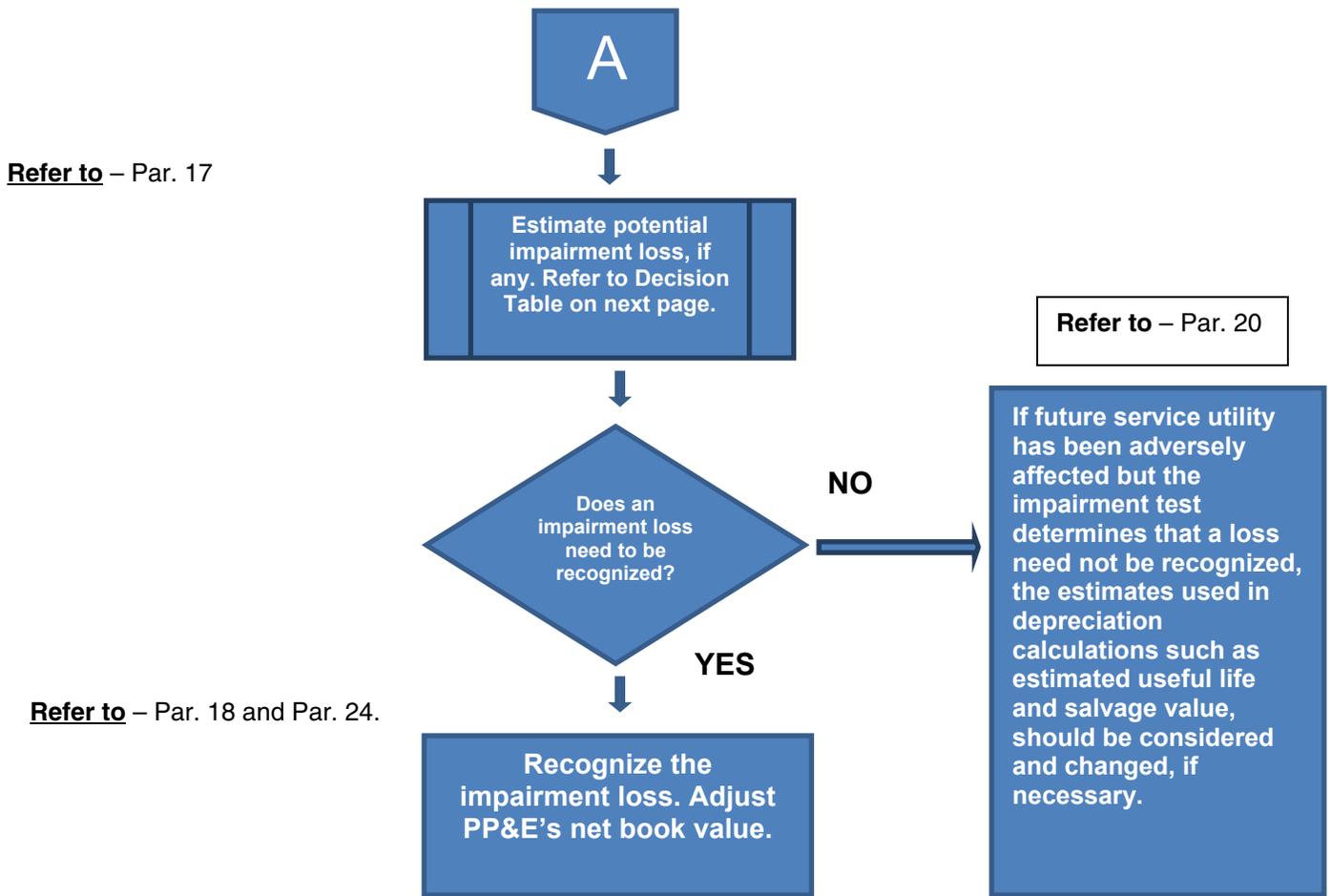
service utility into service becomes part of the G-PP&E's new cost basis. It is the Board's opinion that such a practice is consistent with the operating performance objective of federal financial reporting; users will be able to evaluate the service efforts, costs, and accomplishments of the reporting entity based on the revised cost basis.

Perceived costs versus benefits

A21. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. The Board has clarified the Statement so that users understand that they are not required to search out impairments or to apply the Statement to immaterial items. Entities should consider G-PP&E impairments in the context of their existing practices and apply this Statement only when there is an indicator of significant impairment present. Although GASB, IPSASB, and FASB pronouncements are available to provide federal preparers with guidance relative to impairments, issuance of a Statement by FASAB will eliminate the need, time, and effort to search principles from another standard-setter or consider analogous entity transactions. Other perceived benefits include: reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for capital investment decisions, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities.

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General PP&E Impairment Decision Table

Selecting a Measurement Method

31

Select a method that reasonably represents diminished service utility by considering potential indicators and type of PP&E.

If more than one method is reasonable, select the most efficient and practicable method.

Measurement Methods ¹⁸	Potential Indicators	Type of PP&E *	Reference	Illustrations that may be appropriate
Replacement Approach	<ul style="list-style-type: none"> Physical Damage 	All G-PP&E	Par. 17 a	1c
Restoration Approach	<ul style="list-style-type: none"> Physical Damage 	Multi-use Heritage PP&E	Par. 17 b	2b
Service Units Approach	<ul style="list-style-type: none"> Enactment or approval of laws/regulations Changes in environmental or economic factors Technological changes or obsolescence 	All G-PP&E	Par. 17 c	1d, 3a, 3b
Deflated Depreciated Current Cost Approach	<ul style="list-style-type: none"> Change in manner or duration of use. 	All G-PP&E	Par. 17 d	4a
Cash Flow Approach	<ul style="list-style-type: none"> Any of the indicators as listed at Paragraph 12 (a through g) 	All G-PP&E	Par. 17 e	7a, 7b, 7c, 7d
Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach	<ul style="list-style-type: none"> Construction stoppage / Contract terminations 	All G-PP&E	Par. 17 f	5, 6a, 6b

* = excluding internal use software

¹⁸ Other industry-accepted methods may be appropriate.

ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

Illustration 1a

Temporary Declines in Service Utility: *Physical Damage to an Office Building with Mold Contamination*¹⁹

Assumptions

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. Facilities management personnel advised that the building be closed due to health and safety concerns. Shortly afterwards, the office building was vacated and closed. The mold remediation involves removing and rebuilding the interior walls and improving site drainage at a total cost of \$4 million.

Management develops specific plans to begin remediation efforts as soon as possible and replace the lost service utility. In addition, funding has been identified and set-aside.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., closure of the building) is a significant decline in service utility. However, because management has specific plans to replace the lost service utility of the building and has identified and set-aside funding, there is reasonable expectation that the damage is temporary and no potential estimated impairment loss is recognized.

¹⁹ FASAB Illustrations 1a through 1d have been adapted from GASB 42, Illustration 1, *Physical Damage – School with Mold Contamination*.

Illustration 1b**Complete Removal from Service: *Physical Damage to an Office Building with Mold Contamination*****Assumptions**

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. Facilities management personnel advised that the building be closed due to health and safety concerns. Shortly afterwards, the office building was vacated and closed.

Due to the extent of the damage, management does not believe that remediation efforts will begin and that the lost service utility of the building is not temporary. As a result, management has decided to remove this building from service and prepare it for disposal.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., closure of the building) is a significant decline in service utility. Because management does not believe that remediation efforts will begin, the lost service utility of the building is permanent. However, because the entire office building will be taken out of service and prepared for disposal purposes, no potential estimated impairment loss is recognized. Instead, the provisions of SFFAS 6, *Accounting for Property, Plant, and Equipment* paragraphs 38 and 39 are applicable.

Illustration 1c**Replacement Approach - Permanent Declines in Service Utility: *Physical Damage to an Office Building due to an Earthquake*****Assumptions**

In 2012, entity officials became aware of extensive masonry wall and building foundation damage at one of its office buildings as a result of a recent earthquake. The damage to the masonry walls was spread throughout the five-story building and the building foundation was damaged at non-critical vertical-load points. Facilities management personnel and engineers advised that despite a decline in service utility, the damaged building would still be capable of meeting reasonable, but reduced performance objectives in its damaged state, making major repairs and costly upgrading unnecessary. Limited and minor repairs, both cosmetic and structural, could be made to improve visual appearance and component damage at nominal cost. Facilities managers and engineers have estimated that the major repairs and upgrades (involving removal and rebuilding of the interior walls and improving site drainage) would cost \$2 million.

After a detailed review, management decides to accept the reduced performance objectives of the building and not make the major repairs and costly upgrades.

The office building was constructed in 1982 at a cost of \$1.3 million, including \$100,000 for acquisition of the building site. The building had an expected useful life of sixty years. During its life, the entity made improvements to the building totaling \$1.235 million.

Evaluation of potential estimated impairment loss

The masonry wall and building foundation damage is evidence of physical damage – an impairment indicator. Also, the magnitude of the decline in the lost service utility is significant because its remediation would involve major repairs and costly upgrades. Because management decides to accept the reduced performance objectives of the building and not make the major repairs and costly upgrades, the lost service utility of the building is permanent. Because the loss of service utility is permanent, any potential estimated impairment loss, may need to be recognized.

Measurement of potential estimated impairment loss

Facilities managers and engineers estimated that the major repairs and upgrades would have cost if incurred, \$2 million. In accordance with the entity's capitalization policies, 10 percent of the remediation cost would be allocable to site clean-up and treated as a period expense, and 90 percent would be allocable to remediating the masonry wall and building foundation damage. As recorded in the entity's asset management system, the estimated plant replacement value (PRV) of the office building is \$8.5 million.

Calculate Net Book Value:

	Historical Cost	Accumulated Depreciation, 2012	Net Book Value, 2012
Land	<u>\$100,000</u>		<u>\$100,000</u>
Building acquisition, 1982	\$1,200,000	\$600,000	\$600,000
Improvements	1,235,000	320,000	915,000
Total - Building & Improvements	<u>\$2,435,000</u>	<u>\$920,000</u>	<u>\$1,515,000</u>

Calculate estimated cost to replace lost service utility:

Total remediation cost	\$2,000,000
Percentage wall & foundation cost	<u>90%</u>
Wall & Foundation Remediation cost	<u>\$1,800,000</u>

Calculate percentage of lost service utility in current dollars:

Wall & Foundation Remediation (estimate of lost service utility in current dollars)	\$1,800,000
Plant Replacement Value (estimate to replace building in current dollars)	<u>8,500,000</u>
Wall & Foundation Remediation cost percentage	21.18%

Calculate potential estimated impairment loss:

Net book value (historical cost) \$1,515,000

Multiplied by: Wall & Foundation Remediation cost percentage	<u>21.18%</u>
Potential estimated impairment loss	<u>\$320,877</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$320,877.

Illustration 1d**Choice Among Methods - Permanent Declines in Lost Service Utility: *Physical Damage to an Office Building with Mold Contamination*****Assumptions**

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. The mold contamination in the walls of the building was limited to the top two floors of the five-story building and could be safely contained and encapsulated. Facilities management personnel advised that the first three floors of the building could continue to be safely used.

Management does not believe that the loss of service utility will impede their operations and consequently, do not plan to remediate the mold contamination. Management has decided to discontinue the use of the top two floors and commence containment and encapsulation efforts. The remainder of the building will be kept in service.

The office building was constructed in 1982 at a cost of \$1.3 million, including \$100,000 for acquisition of the building site. The building had an expected useful life of sixty years. During its life, the entity made improvements to the building totaling \$1.235 million.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., contamination of two of the five floors of the building) is a significant decline in service utility. Because management does not plan to replace the lost service utility of these floors, the lost service utility of the building is permanent. Because the loss of service utility is permanent, any potential estimated impairment loss, may need to be recognized.

Measurement of potential estimated impairment loss

Facilities management personnel in consultation with the Comptroller's office advise management to use the service units approach instead of the replacement cost approach because using construction cost estimates are not likely to result in a materially different potential estimated impairment loss amount. Management agrees to select the service units approach because it reasonably represents diminished service utility and given the circumstances, it is the most efficient and practicable method to use.

Calculate percentage of lost service utility in terms of units:

Lost service utility in terms of floor units	2 floors
Total service utility prior to damage in terms of floor units	<u>5 floors</u>
Percentage of lost service utility in terms of units	40.00%

Calculate potential estimated impairment loss:

Net Book Value (historical cost)	\$1,515,000
Multiplied by: percentage of lost service utility - units	<u>40.00%</u>
Potential estimated impairment loss	<u>\$606,000</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$606,000.

Illustration 2a**Normal and Ordinary Lost Service Utility: *Physical Damage to a Multi-use Heritage Asset*²⁰****Assumptions**

Recent media reports have noted that acid precipitation (often called acid rain) is of increasing concern in the metropolitan area and, in particular to many of the area's historic and national landmarks including multi-use heritage assets. The entity's conservation scientists confirm the media reports and note that although normally rain is slightly acid, current rainfall has an average pH of more than 10 times normal levels.

Limestone and marble, the stones that form many of the buildings and monuments in the metropolitan area are especially vulnerable to acid precipitation because they are predominantly made of the mineral calcite (calcium carbonate), which dissolves (i.e., erosion) easily in acid. Capitalized alterations made over the years to accommodate the heavy traffic brought about by administrative and visitor use of one the more prominent multi-use heritage assets has drawn management's attention. The entity's Inspector General (IG) has begun a review and in an interim draft report has noted the following,

“The marble balustrade on the south side, main entrance of the administrative building shows damage from acid rain posing a serious threat to the hundreds of visitors and employees who walk by this concourse daily. Management must take immediate corrective action in order to avoid potential bodily harm and liability.”

Management in consultation with the conservation scientists and facilities managers determines that (1) erosion (deterioration caused by exposure to the environment) is a natural part of the normal geologic cycle and was reasonably expected to occur, and (2) temporary braces and steel under-girding currently in-place are sufficient for the current year. Management plans to restore the balustrade during the next fiscal year.

Evaluation of potential estimated impairment loss

The erosion is evidence of gradual physical damage – an impairment indicator. Also, the prominence of the event (i.e., coverage by the media and the IG's recommendation) would be evaluated as a potential impairment indicator of significant loss in service utility. However, no potential estimated impairment loss is recognized because (1) the decline in lost service utility is “normal and ordinary” as it arises from a cyclical act of nature and (2) restoration efforts to cure the damage are planned to begin next fiscal year. Management should consider evaluating its depreciation policies and methods to reflect the adverse effect of the acid rain on buildings and monuments made of limestone and marble.

²⁰ FASAB Illustration 2a adapted from: Department of the Interior, *Acid Rain in Washington*, <http://pubs.usgs.gov/gip/stones/acid-rain.html>.

Illustration 2b**Restoration Approach - Permanent Declines in Service Utility: *Physical Damage to a Multi-use Heritage Asset*****Assumptions**

A fire recently destroyed a 3-story wing addition of an historic building. The building addition housed senior administrative offices. The administrative offices comprised approximately 25% of the building's total 80,000 square feet and 100.0% of the 3-story wing.

The Secretary's proposal to the Board of Regents (Regents) requested a minimum of \$4.5 million to restore the 3-story administrative wing. The Regents questioned the reasonableness of the cost estimate noting that typical office building construction in the metropolitan area costs about \$160.00 per square foot (psf). The Secretary advised that the \$160.00 psf estimate was not appropriate to use because it represented a "replacement" estimate using today's current labor, materials, standards and methods and not a "restoration" estimate that required using historically accurate materials and methods, as well as historic preservation and conservation methods as appropriate to preserve the historic nature and value of the multi-use heritage asset.

As an example, the Secretary noted the limited supply of the red Seneca sandstone used to construct the building in the 19th century and the added wing in the 20th century. The local quarry could only supply sufficient quantities to restore one level. As a result, complete restoration could not begin until a second quarry could be located to supply the additional quantities. Furthermore, experienced masons would have to be used for the restoration effort.

As a result of this information, the Board of Regents modified the Secretary's request to restore one level of the wing noting that although subsequent levels could be restored in the future, no such plans should be undertaken nor should any monies be committed. Displaced staff was moved to nearby vacant office space.

Evaluation of potential estimated impairment loss

The destruction of the 3-story wing is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., loss of senior administrative office space) would be evaluated as a significant decline in service utility. Because the Board of Regents provided for partial restoration (one level) of the multi-use heritage asset, the lost service utility of the other two levels of the administrative wing is deemed permanent. As a result, because the lost service utility from these two levels is not reasonably expected to be restored, the potential estimated impairment loss is considered permanent and any resultant potential estimated impairment loss may need to be recognized.

Measurement of potential estimated impairment loss

Facilities managers and reconstruction specialists have estimated that (1) the total remediation of the 3-story wing would cost \$4.5 million and (2) restoring the first level would cost \$2.0 million. The net book value of the administrative portion of the building prior to the fire damage was \$1.75 million. In accordance with the Restoration Approach, the following estimates and calculations were presented to management:

Calculate estimated cost to restore lost service utility:

Total restoration cost (all 3 levels)	\$4,500,000
Less: portion to be restored (first level)	2,000,000
Cost to restore lost service utility (2nd and 3rd levels)	<u>\$2,500,000</u>

Calculate percentage of restored lost service utility in current dollars:

Cost to restore lost service utility of the 2nd and 3rd levels of the wing (estimate of lost service utility in current dollars)	\$2,500,000
Total restoration cost (all 3 levels)	4,500,000
Restoration cost percentage	55.5%

Calculate potential estimated impairment loss:

Net Book Value (historical cost of wing)	\$1,750,000
Multiplied by: Restoration cost percentage	<u>55.5%</u>
Potential estimated impairment loss	<u>\$971,250</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$971,250.

Illustration 3a**Service Units Approach - Recoverable Service Utility: Technological Development or Evidence of Obsolescence -*Underutilized Magnetic Resonance Imaging Machine***²¹**Assumptions**

In 2010, a hospital purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million. The hospital estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. After installation, the utilization of the system was approximately at the levels estimated.

In 2013, an affiliated entity transferred an “open” MRI system to the hospital. The transferred MRI system began to be used more frequently than the original “closed” MRI system because the “open” MRI was more comfortable for patients and provided a superior image. Instead of providing ten images a day, the original MRI system was being used only on an overflow basis and averaged six images per day; a decrease to 60 percent of prior levels. Furthermore, the expenses associated with the continued operation and maintenance (O&M) of the “closed” MRI system continue to be incurred and management is evaluating the asset’s continued service use and whether or not to book an impairment loss.

Upon inspection of the “closed” MRI system and closer examination of the related O&M costs, hospital administrators have determined that it is cost beneficial to keep the system operational and that there is no impairment loss. They estimate that the system can be expected to last at least 3 years longer than originally estimated and achieve its expected service output. Furthermore, hospital administrators contend that a significant portion of the costs are (1) considered “sunk” due to the fixed-price nature of the long-term maintenance contracts and (2) fixed inasmuch as they will be incurred regardless of the closed MRI system’s operating levels.

Evaluation of potential estimated impairment loss

Management initially identified that the change in technology was an indicator of potential impairment because it had resulted in a permanent reduction in the usage of the “closed” MRI system. Also, they believed that the magnitude test (i.e., decline in service utility relative to operating costs) had also been met due to the fact that the cost of operating the “closed” MRI system has remained the same while the service provided has decreased to 60 percent of prior levels. However, management has concluded that there is no potential estimated impairment loss because the asset can achieve its

²¹ Illustrations 3a and 3b adapted from: GASB 42, Illustration 4, *Technological Development or Evidence of Obsolescence -Underutilized Magnetic Resonance Imaging Machine*.

expected service output by being kept in service 3 years longer than originally planned. Using the service units approach, management determines the followings:

Measurement of potential estimated impairment loss

Calculate Net Book Value:

a	Acquisition cost, 2010	\$2,250,000
	Accumulated depreciation, 2013 (3 / 7 years)	<u>964,286</u>
b	Net Book Value, 2013	<u>\$1,285,714</u>

Calculate Acquisition cost per service unit:

a	Acquisition cost, 2010	\$2,250,000
	Originally expected service units (7 years × 52 weeks c per year × 5 days per week × 10 uses per day)	<u>18,200</u>
d	Acquisition cost per service unit (a divided by c) (rounded)	\$124.00

Calculate Remaining Number of Service Units & Related Costs to be recovered:

d	Acquisition cost per service unit (a divided by c)	\$124.00
	Remaining number of service units = (4 years plus 3 extended years × 52 weeks per year × 5 days per week e × 6 uses per day)	<u>10,920</u>
f	Remaining service costs to be recovered (d multiplied by e)	<u>\$1,354,080</u>

Calculate Potential Estimated Impairment Loss:

Net Book Value, 2013 (b)	<u>\$1,285,714</u>
Remaining service costs to be recovered (f)	<u>\$1,354,080</u>
Potential estimated impairment loss (b minus f)	<u>N/A</u>

Reporting Considerations

Although there is no potential estimated impairment loss to consider or recognize because the remaining service costs to be recovered is greater than the PP&E's net book value, management should consider re-evaluating its depreciation policies and methods to reflect the additional 3 years of extended service.

Illustration 3b**Service Units Approach - Non-recoverable Service Utility: Technological Development or Evidence of Obsolescence -*Underutilized Magnetic Resonance Imaging Machine*****Assumptions**

In 2010, a hospital purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million. The hospital estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. After installation, the utilization of the system was approximately at the levels estimated.

In 2013, an affiliated entity transferred an “open” MRI system to the hospital. The transferred MRI system began to be used more frequently than the original “closed” MRI system because the “open” MRI was more comfortable for patients and provided a superior image. Instead of providing ten images a day, the original MRI system was being used only on an overflow basis and averaged one image per day; decrease to 10 percent of prior levels. Furthermore, the expenses associated with the continued operation and maintenance of the “closed” MRI system continue to be incurred and has drawn management’s attention to evaluate the asset’s continued service use.

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in technology, which has resulted in a permanent reduction in the usage of the “closed” MRI system. The magnitude test (i.e., decline in service utility relative to operating costs) has also been met due to the fact that the cost of operating the “closed” MRI system has remained the same while the service provided has decreased to 10 percent of prior levels. Potential estimated impairment loss using the service units approach would be determined as follows:

Measurement of potential estimated impairment loss**Calculate Net Book Value:**

a Acquisition cost, 2010	\$2,250,000
Accumulated depreciation, 2013 (3 / 7 years)	<u>964,286</u>
b Net Book Value, 2013	<u>\$1,285,714</u>

Calculate Acquisition cost per service unit:

a	Acquisition cost, 2010	\$2,250,000
	Originally expected service units (7 years × 52 weeks c per year × 5 days per week × 10 uses per day)	<u>18,200</u>
d	Acquisition cost per service unit (a divided by c)	\$124.00 (rounded)

Calculate Remaining Number of Service Units & Related Costs to be recovered:

d	Acquisition cost per service unit (a divided by c)	\$124.00
	Remaining service number of units = (4 years × 52 weeks e per year × 5 days per week × 1 use per day)	<u>1,040</u>
f	Remaining service costs to be recovered (d multiplied by e)	<u>\$128,960</u>

Calculate Potential Estimated Impairment Loss:

	Net Book Value, 2013 (b)	<u>\$1,285,714</u>
	Remaining service costs to be recovered (f)	<u>\$128,960</u>
	Potential Estimated Impairment loss (b minus f)	<u>\$1,156,754</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$1,156,754.

Illustration 4a**Deflated Depreciated Current Cost Approach: Change in Manner or Duration of Use – Training Facility Used for Storage²²****Assumptions**

In 2013, management decided to close a training facility because enrollments declined due to outsourcing initiatives brought about as a result of Office of Management and Budget (OMB) Circular No. A-76, “*Performance of Commercial Activities*.” The closed training facility has been converted to use as a storage warehouse.

This training facility was constructed in 2001 at a cost of \$10 million. The estimated useful life of the facility is fifty years. Entity management has (1) no evidence that enrollments will increase in the future such that the building would be reopened for use as a training facility and (2) concerns with the significantly high operating costs – maintenance and repair, depreciation, insurance, utilities, security, etc.

Because no physical damage occurred that would require detailed cost repair estimates, management decides to use the deflated-depreciated current cost approach to measure the potential estimated impairment loss. Facilities managers have been able to readily identify current plant replacement value for a comparable warehouse of the same size as \$4.2 million and commercial construction indices of 100 and 150 for years 2001 and 2013, respectively.

Evaluation of potential estimated impairment loss

Impairment is indicated because the manner of use of the training facility has changed from training students to storage. The situation passes the magnitude test (i.e., decline in service utility relative to operating costs) because the ongoing costs of the training facility would likely be considered high in relation to the benefit it is providing - storage.

²² Illustration 4a adapted from: GASB 42, Illustration 5, *Change in Manner or Duration of Use – School Used for Storage*.

Measurement of potential estimated impairment loss**Calculate Net Book Value:**

Potential estimated impairment loss using the deflated depreciated current cost approach would be determined as follows:

Historical cost, 2001	\$10,000,000
Accumulated depreciation (12 / 50 years)	<u>2,400,000</u>
a Net Book Value, 2013	<u>\$7,600,000</u>

Calculate Depreciated current cost (current dollars):

Replacement cost of warehouse, 2013	\$4,200,000
Accumulated depreciation (12 / 50 years)	<u>1,008,000</u>
b Depreciated current cost	<u>\$3,192,000</u>

Calculate Deflation factor:

c Commercial construction index, 2001	100
d Commercial construction index, 2013	<u>150</u>
e Deflation factor (c divided by d)	<u>0.67</u>

Apply deflation factor to depreciated current cost:

b Depreciated current cost	\$3,192,000
e Deflation factor (c divided by d)	<u>0.67</u>
f Deflated depreciated current cost (b × e)	<u>\$2,138,640</u>

Calculate Potential estimated impairment loss:

a Net Book Value, 2013	\$7,600,000
f Deflated depreciated current cost (b × e)	<u>2,138,640</u>
Potential estimated impairment loss (a - f)	<u>\$5,461,360</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the facility is \$5,461,360.

Illustration 5***Construction Stoppage—Special Purpose Test Equipment***²³**Assumptions**

In 2012, in response to a Congressional order canceling a major program, management stopped all construction activities related to the fabrication of program-related special purpose test equipment. The entity conducts numerous design and build projects for military and scientific purposes all of which have potential commercial application. The entity's program manager advised management that the special purpose test equipment was substantially complete at the time of stoppage and could be considered available for commercial use. The entity had accumulated costs totaling \$10 million and was approximately 75 percent complete with the project.

Upon further inquiry, management determined that despite initial interest from two commercial firms, early in 2012, one of them filed for bankruptcy and the other withdrew its interest citing that the costs-to-complete are too high. There is no evidence to demonstrate that the construction stoppage is temporary or that other potential commercial interests can be found. Also, the program manager advises that there is no potential government use for this asset and that it should be disposed.

Evaluation of potential estimated impairment loss

The indicator of impairment is the construction stoppage. It appears to meet the test of impairment in that management would not have initiated the project if it had expected either program cancellation or lack of any potential commercial use. The situation passes the magnitude test because the costs-to-date (75% or \$10 million) are significant in both percentage and monetary terms. However, there is no potential estimated impairment loss to report in accordance with this standard because the asset is totally impaired as it has no commercial or government use and cannot provide service. As such, the requirements in SFFAS 6 at paragraph 38 should be followed. Specifically, in the period of disposal accumulated costs should be removed from the asset accounts and any difference between the book value of the equipment and amounts realized shall be recognized as a gain or a loss.

²³ Illustration 5 adapted from: GASB 42, Illustration 9, *Construction Stoppage—Airport Pavements*.

Illustration 6a**Contract Termination - *Transferable Equipment Technology*****Assumptions**

In 2012, the entity's chief contracting officer pursuant to the Federal Acquisition Regulations terminated a contract. The entity experienced substantial cost increases, schedule delays, and performance shortfalls. The terminated contract was to build the entity's next-generation surveillance equipment capable of covertly operating in adverse weather conditions. Despite several cure notices, the entity terminated the contract for default. The contractor has stated that it will not protest the termination. At the time of termination, the entity incurred over \$150 million in contract costs.

In the meantime, the program manager determined that the operating environment had changed and that remaining funds would be better spent on other priorities and was able to transfer the system technology to other entity projects. The manner and use of the systems are not expected to change.

Evaluation of potential estimated impairment loss

The indicator of impairment is the contract termination. It appears to meet the test of potential impairment because the event is significant and the termination decision will not be protested; i.e., permanent. However, because the entity was able to transfer the system technology to other entity projects, no potential estimated impairment loss exists.

Illustration 6b**Contract Termination - *Partially-Transferable Equipment Technology*****Assumptions**

Same as Illustration 6a except that the program manager was unable to transfer the entire system technology to other entity projects. After an inspection and engineering review, it was determined that 70.0% of hardware and software could be transferred to existing projects. There is no potential use or application for the remaining 30.0% of equipment technology.

Evaluation of potential estimated impairment loss

The indicator of impairment is the contract termination. It appears to meet the test of potential impairment because the termination decision is a significant event and is considered permanent because the decision will not be protested. As a result of the entity being unable to transfer the entire system technology to other entity projects, an impairment exists.

Measurement of potential estimated impairment loss

Because 30.0% of the system technology cannot be transferred to other entity projects, a potential estimated impairment loss of \$45 million exists (30.0% X \$150 million).

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$45 million.

Illustration 7a**Cash flow approach – Grouped Assets****Assumptions**

An entity manages and operates a shared-services center on a post-wide basis that provides administrative and information technology support. The entity groups the individual services separately into two distinct categories rather than on an individual basis. The net book values are \$12 million and \$11 million for the administrative and information technology groups, respectively.

In December 20X1, the entity's management decided to implement a public-private strategic initiative that could eventually over several years transition these shared-services operations to private ownership. Both national and local private interests have asked their respective political representatives to accelerate the entity's implementation time-table and influence a favorable outcome. Management was directed to (1) immediately estimate the amount that could be recovered from selling the operations and (2) identify to the lowest level identifiable, operating information to include cash flows for each category. An appraisal was conducted to ascertain the amount that could be recovered from selling each of the groups. The appraisal report noted (1) that net realizable value (NRV) amounts were greater than value-in-use estimates and (2) the NRV amounts of \$13 million and \$8 million for the Administrative and IT groups, respectively. The Chief Financial Officer identified the following cash flow information: (a) cash from continuing operations of \$12 million and \$9 million for the Administrative and IT groups, respectively and (b) cash flows from disposal activities of \$2 million and \$1 million for the Administrative and IT groups, respectively.

As a result of complying with this directive and evaluating the resultant financial information and appraisal analysis, management became concerned that its assets might be impaired and adversely impact its public-private strategic initiative.

Evaluation of potential estimated impairment loss

If an impairment indicator exists an impairment analysis should be performed. In this case, the entity's public-private initiative includes a significant change in the manner or extent in which the assets will be used. This represents an impairment indicator that would trigger an impairment analysis.

Management is concerned that the presence of an impairment indicator might affect its plan regarding the future use of the shared-services if the analysis indicates that the net book value of the assets are not recoverable. To apply the cash flow approach, the entity will need to estimate the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The future cash flows are the expected cash inflows to be generated by the asset net of any expected future cash outflows that are needed to produce the inflows.

Measurement of potential estimated impairment loss

This approach requires that an entity recognize a potential estimated impairment loss if (1) the undiscounted cash flows are less than the net book value of the assets (the net book value is not recoverable) and (2) the net book value exceeds the higher of the assets net realizable value²⁴ or value-in-use estimate.²⁵ A potential estimated impairment loss would be measured as the amount by which the net book value of the grouped assets exceed the higher of their net realizable value or value-in-use estimate(s).

When identifying cash flows, assets should be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Calculate Net book value:

Net book value:	<u>Asset Group:</u> <u>Administrative</u>	<u>Asset Group:</u> <u>Information</u> <u>Technology</u>
Assets' net book values at 12/31/X1 (a)	<u>\$12,000,000</u> (a)	<u>\$11,000,000</u> (a)

²⁴ Net realizable value is the estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated costs of completion, holding and disposal. Source: FASAB Glossary, Appendix E.

²⁵ Statement of Federal Financial Accounting Concepts (SFFAC 7), *Measurement of the Elements of Accrual-Basis Financial Statements* at paragraph 50 defines value-in-use as "...the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life." Paragraph 51 further states that, "Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective estimate of the amount of an asset exchanged between willing parties that also is applicable to similar exchanges between other parties. Value in use is an entity's subjective assessment of the value to the entity of an asset that it owns. Thus, value in use is useful in assessing the financial position and operating results of that entity, but because the amount is entity specific, it may not be comparable when making assessments of other entities." (underscoring added for emphasis)

Calculate undiscounted cash flows:

Undiscounted cash flows:	<u>Asset Group: Administrative</u>	<u>Asset Group: Information Technology</u>
Undiscounted cash flows from future operations	\$12,000,000	\$9,000,000
Undiscounted cash flows from future disposal of assets	2,000,000	1,000,000
Total - undiscounted cash flows (b)	\$14,000,000 (b)	\$10,000,000 (b)

Calculate Recoverability:

Recoverability: (b minus a)	<u>Asset Group: Administrative</u>	<u>Asset Group: Information Technology</u>
Total - undiscounted cash flows (b)	\$14,000,000	\$10,000,000
Assets' net book values at 12/31/X1 (a)	<u>12,000,000</u>	<u>11,000,000</u>
Recoverability (b minus a)	\$2,000,000	\$(1,000,000)
Is Net book value Recoverable?	Yes	No
Is asset subject to potential impairment?	No	Yes

Calculate potential estimated impairment loss:

A potential estimated impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value or value-in-use estimate. Because the Administrative group has undiscounted cash flows greater than related net book values, recoverability is met and there is no potential impairment. However, because the Information Technology group has undiscounted cash flows lower than related net book values, recoverability is not met and the potential for impairment exists. A \$3 million potential estimated impairment loss exists because the \$11 million net book value of the Information Technology group's G-PP&E exceeds the higher of its net realizable value or value-in-use estimate (in this case we are given that the \$8 million NRV amount is higher than the value-in-use estimate).

Potential estimated impairment loss:	<u>Asset Group: Administrative</u>	<u>Asset Group: Information Technology</u>
Net Realizable Value of assets at 12/31/X1	N/A	\$ 8,000,000
Less: Assets' net book values at 12/31/X1	N/A	<u>\$11,000,000</u>
Excess of net book value over Net Realizable Value	N/A	\$3,000,000
Potential estimated impairment loss	N/A	<u>\$3,000,000</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the IT asset group is \$3.0 million.

Illustration 7b**Cash flow approach – Equipment: Technological Development or Evidence of Obsolescence - *Underutilized Magnetic Resonance Imaging Machine*²⁶****Assumptions**

In 2009, a hospital operating in a major metropolitan area purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million to be used exclusively for non-service connected procedures. The hospital, which charges fees for non-service connected care estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. The average user fee for MRI services is \$20.00 per use. After installation, the utilization of the system was approximately at the levels estimated.

In 2012, the manufacturer introduced an “open” MRI system that was advertised as being more comfortable for patients and provided a superior image. Furthermore, the expenses associated with the continued operation and maintenance of the “closed” MRI system continue to be incurred and has drawn management’s attention to evaluate the asset’s continued service use. Because similar used MRI machines in the open market can be purchased from authorized dealers for \$750,000 (their mark-up percentages are unknown), management is considering the possibility of selling the old machine and using its proceeds to help purchase the “open” MRI system.

Hospital administrators and technicians believe that the “closed” system can continue being used for at least 3 years beyond the originally estimated service life. Also, they believe that the “open” system provides for only marginal benefits that do not exceed their cost. However, management decides to sell the “closed” system and use the proceeds for much needed research equipment. They believe that the \$750,000 open market price is a reasonable estimate for the asset’s net realizable value.

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in technology. The magnitude test has also been met due to the fact that the cost of operating the “closed” MRI system has drawn management’s attention to evaluate the asset’s continued service use. Potential estimated impairment loss using the cash flow approach would be determined as follows:

²⁶ Illustration 7b adapted from: GASB 42, Illustration 4, *Technological Development or Evidence of Obsolescence -Underutilized Magnetic Resonance Imaging Machine*.

Measurement of potential estimated impairment loss**Calculate Net Book Value:**

a Acquisition cost, 2009	\$2,250,000
Accumulated depreciation, 2012 (3 / 7 years)	<u>964,286</u>
b Net Book Value, 2012	<u>\$1,285,714</u>

Calculate undiscounted cash flows:

c Average service fee per use	\$20.00
Remaining service units (4 years plus 3 extra years × 52 d weeks per year × 5 days per week × 10 use per day)	<u>18,200</u>
e Undiscounted cash flows (c multiplied by d)	<u>\$364,000</u>

Calculate Recoverability: (b minus a)

	<u>MRI</u>
Total - undiscounted cash flows (e)	\$364,000
Assets' net book values at 9/30/12 (b)	<u>\$1,285,714</u>
Recoverability (e minus b)	\$(921,714)
Is Net book value Recoverable?	No
Is asset subject to potential impairment?	Yes

Calculate Potential Estimated Impairment Loss:

A potential estimated impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value or value-in-use estimate. Because management believes that the open market price of \$750,000 is a reasonable estimate of the asset's net realizable value, it is compared to the asset's value-in-use estimate to determine which amount is higher. However, because the \$364,000 undiscounted cash flows amount (prior to calculating the net present value to determine a value-in-use estimate) is lower than net realizable value amount of \$750,000, there is no need to present value the cash flows to calculate a value-in-use estimate.

Because management has decided to sell the "closed" system, the net realizable value estimate is used as the "recoverable basis". Had the net realizable value estimate been unavailable to management, a value-in-use estimate (net present value of the future cash flows) could have been used as the "recoverable basis".

	<u>MRI</u>
Net Realizable value of asset	\$750,000
Less: Assets' net book value	<u>\$1,285,714</u>
Excess of net book value over fair value	\$ (535,714)
Potential estimated impairment loss	\$ (535,714)

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$535,714.

Illustration 7c**Cash flow approach – Facility: Changes in manner or duration of use - Government owned-contractor operated (GOCO) manufacturing facility²⁷****Assumptions**

An entity operates a Government owned-contractor operated (GOCO) manufacturing facility in an economically depressed area fabricating various commodities with commercial applicability. The facility's current net book value is \$22,500,000 with an estimated salvage value of \$5,000,000 and has a 25 year remaining useful life. Under the terms of the contract, the government provides the contractor with exclusive use of the facility in exchange for negotiated lease payments in the amount of \$150,000 per year. The contractor is responsible for all maintenance and operating costs.

Recently this unique partnership has come under federal and state scrutiny as many legislators and environmentalists have expressed concerns that the contractor whose operations have caused contamination found in and around the facility is not being held financially responsible for the cleanup costs.

Outrage which has surfaced during congressional hearings on environmental cleanups has become the focus of print and cable-news outlets.

Further complicating management's "crisis response" is that (1) the contract effectively prohibits modifying the facility to achieve greater environmental compliance without legislative relief and (2) the contracting officer has initiated debarment procedures that effectively would shut down the facility in 90-days for an indeterminable amount of time.

Facilities managers and engineers believe that a prospective buyer can be found but that it will take significant time to pass all necessary sale requirements. Until then, they advise that the facility can be quickly reconfigured and partitioned into commercially viable long-term storage space. The required modifications would cost \$500,000 and lease agreements are estimated to generate approximately \$35,000 in annual revenues. A fairly recent analysis completed 9 months ago reveals that the property's net realizable value (NRV) was at that time, \$30,000,000; 20% of which is attributable to land.

Management has approved the reconfiguration and partition plan and believes that it will take a minimum of 5 years before all approvals are in place and disposal efforts can begin and an additional 2 years to ultimately dispose of the property. Because management is concerned with the proper financial reporting of this event, it has asked its comptroller for advice.

²⁷ Illustration 7c adapted from: Military law Review, Volume 131 Winter 1991 - Government Owned – Contractor Operated Munitions Facilities: *Are they appropriate in the age of strict environmental compliance and liability?* Major Mark J. Connor.

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in manner of use. The magnitude test has also been met due to (1) federal and state scrutiny, (2) media coverage, and (3) the fact that the cost of operating the facility has drawn management’s attention to evaluate the asset’s continued service use and seek the comptroller’s advice. Because the entity is seeking appropriate approvals to commence disposal efforts and does not know when such permission will be granted, management intends to convert a portion of the facility for public storage; a change in the manner of use.

Measurement of potential estimated impairment loss

Calculate Net book value:

Calculate Net book value:	<u>Facility</u>
Assets’ net book value at 12/31/X1 (a) (excluding land)	<u>\$22,500,000</u> (a)

Calculate undiscounted cash flows:

Calculate undiscounted cash flows:	<u>Facility</u>
Required modifications (outflow)	(\$500,000)
Undiscounted cash in-flows from future rental lease payments (7 x \$35K)	\$245,000
Undiscounted cash in-flows from disposal of assets (1.0 -0.2 X \$30Mil)	24,000,000
Total - undiscounted cash flows (b)	<u>\$23,745,000</u> (b)

Calculate Recoverability: (b minus a)

Calculate Recoverability: (b minus a)	
	<u>Facility</u>
Total - undiscounted cash flows (b)	\$23,745,000
Assets' net book values at 12/31/X1 (a)	<u>22,500,000</u>
Recoverability (b minus a)	\$1,245,000
Is Net book value Recoverable?	Yes
Is asset subject to potential impairment?	No

Reporting Considerations

There is no potential estimated impairment loss to consider or recognize because the undiscounted cash flows to be recovered are greater than the G-PP&E's net book value.

Illustration 7d

Calculating value-in-use using (discounted) cash flows – Facility: Changes in manner or duration of use - *Government owned-contractor operated (GOCO) manufacturing facility*²⁸

Assumptions

Same facts as Illustration 7c above except that (1) management has decided to reconfigure the facility and lease available storage space for the remaining life of the facility, and (2) the net realizable value estimate is \$2 million. Furthermore, because management does not believe that a prospective buyer can be found it decides not to seek disposal authority. The entity's comptroller advises management that to assess whether or not a potential impairment exists a value-in-use estimate would be appropriate to use because it is higher than the net realizable value estimate. A risk-free discount rate of 3.00% is used.

Evaluation of potential estimated impairment loss

In this case the entity should (1) use the undiscounted cash flows to calculate recoverability and (2) present value (i.e., discount) the undiscounted cash flows to calculate the value-in-use estimate. In so doing, a potential estimated impairment loss is realized. Calculations follow:

Calculate cash flows:

Calculate undiscounted cash flows:	<u>Undiscounted</u>	<u>PV Factor</u>	<u>Discounted</u>
Required modifications (outflow)	(\$500,000)	1.00	(\$500,000)
Undiscounted cash in-flows from future rental lease payments (25 x \$35K)	\$875,000	17.41315	\$609,460
Undiscounted cash in-flows from disposal of assets)	\$5,000,000	0.47761	\$2,388,050
Total - cash flows (b)	\$5,375,000		\$2,497,510

²⁸ Adapted from: Military law Review, Volume 131 Winter 1991 - Government Owned – Contractor Operated Munitions Facilities: Are they appropriate in the age of strict environmental compliance and liability? Major Mark J. Connor

Calculate Recoverability: (b minus a)

Recoverability: (b minus a)	<u>Facility</u>
Total - undiscounted cash flows (b)	\$5,375,000
Assets' net book values at 12/31/X1 (a)	<u>22,500,000</u>
Recoverability (b minus a)	(\$17,125,000)
Is Net book value Recoverable?	No
Is asset subject to potential impairment?	Yes

Calculate potential estimated impairment loss:

Potential impairment:	<u>Facility</u>
Value in Use - Discounted cash flows	\$2,497,510
Less: Assets' net book value at 12/31/X1	<u>\$22,500,000</u>
Excess of net book value over recoverable value (in use)	\$20,002,490
Potential estimated impairment loss	\$20,002,490

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the facility is \$20,002,490.

Appendix C: Abbreviations

CFR	Consolidate financial report of the U.S. government
DM-AI	Deferred Maintenance and Asset Impairment (task force)
DM&R	Deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
G-PP&E	General property, plant, and equipment
IG	Inspector General
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standards
IT	Information technology
M&R	Maintenance and repair
OMB	Office of Management and Budget
PP&E	Property, plant and equipment
RSI	Required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix D: Glossary

General property, plant, and equipment (G-PP&E) - PP&E used to provide government services or goods. The cost of general PP&E is capitalized, i.e. recorded as assets on the balance sheet. For detailed characteristics of and accounting for general PP&E, see SFFAS No. 6, pars 23 through 34.

Impairment - a significant²⁹ and permanent, gradual or sudden, decline in the service utility of G-PP&E.

Internal use software - software that is purchased from commercial vendors “off-the-shelf,” internally developed, or contractor-developed solely to meet the entity’s internal or operational needs (SFFAS 10, par. 8).

Level of utilization - the portion of the usable capacity currently being used.

Partial impairment - less than full or total impairment.

Service utility - the usable capacity that at acquisition was expected to be used to provide service.

Total (full) impairment - G-PP&E is no longer capable of providing service in the operations of the entity prior to the end of its estimated useful life.

²⁹ The determination of whether or not an item is significant is a matter of professional judgment. Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.

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Federal Accounting Standards Advisory Board

**Accounting for Impairment of General Property, Plant, and
Equipment Remaining in Use and Construction Work in Process**

Statement of Federal Financial Accounting Standards ##

Month, Day, 2012

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Table of Contents

Summary 4

 Purpose..... 5

 Materiality 5

 Effective Date 6

Standards 7

 Scope and Applicability 7

 Definition of Impairment..... 7

 Identification and Recognition of Impairment – A Two-step Process..... 8

Measurement 11

Recognizing and Reporting Impairment Losses 14

Diminished Service Capacity Without Recognized Impairment Loss 14

G-PP&E That Is No Longer Being Used 15

Reversing Previously Reported Impairments..... 15

Recoveries..... 15

Consolidated Financial Report of the U.S. Government..... 15

Effective Date 16

Appendix A: Basis for Conclusions 17

Appendix B: Flowcharts, Decision Table and Illustrations 31

Appendix C: Abbreviations..... 70

Appendix D: Glossary..... 71

Summary

This Statement establishes accounting and financial reporting standards for impairment of general property, plant, and equipment (G-PP&E) remaining in use and construction work in process expected to provide service in the future, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E.

Recognition of impairment losses would involve a two-step process that entails (a) identifying potential impairments and (b) testing for impairment. The losses should be reasonably estimated by determining the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility.

This Statement improves financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. This Statement also enhances comparability of financial statements between entities by requiring all entities to account for impairments in a similar manner.

Introduction**Purpose**

1. Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, contains principles-based guidance concerning **general property, plant, and equipment (G-PP&E)**¹ that is removed from service due to total impairment of G-PP&E or other reasons. SFFAS 6 requires that G-PP&E be removed from G-PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service it no longer provides service in the operations of the entity.²
2. SFFAS 10, *Accounting for Internal Use Software*, provides guidance for the impairment of **internal use software**.³ This proposal would not alter existing requirements regarding internal use software.
3. This Statement would provide accounting requirements for all **partial impairments** of G-PP&E remaining in use and construction work in process expected to provide service in the future.

Materiality

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Comment [DNS1]: Respondent #20 - there is an inconsistency between the ED and SFFAS No. 6's definition of G-PP&E. Paragraph 34 of SFFAS No. 6 states "In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E". We recommend that these inconsistencies in the scope of the ED be clarified.

¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

² Refer to Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General Property Plant, & Equipment*, for guidance related to when an asset is other than permanently removed from service.

³ SFFAS 10, at paragraphs 28 through 30, provides additional procedures for recognizing and measuring impairment related to internal use software. The provisions in SFFAS 10 and SFFAS 6 are the same regarding situations where the software or G-PP&E is impaired and will be removed from service in its entirety. Both standards provide that the loss is measured as the difference between the book value and the net realizable value, if any. However, SFFAS 10 also provides for instances where (1) operational software is only partly impaired and (2) developmental software becomes impaired.

Effective Date

5. The standards are effective for reporting periods beginning after September 30, 2014. Earlier implementation is encouraged.

Standards

Scope and Applicability

6. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles, as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
7. This Statement applies to G-PP&E except internal use software **and construction work in process**.⁴ This Statement establishes guidance on accounting for the impairment of G-PP&E remaining in use. The provisions of this Statement are to be applied when indicators of impairment, as specified in this Statement, are identified by the entity. The entity is not required to conduct an annual or other periodic survey solely for the purpose of applying these standards. Existing processes may result in routine assessments regarding the continued operational and functional capacity of G-PP&E, entity mission requirements, impacts of significant events or changes in circumstances, and deferred maintenance and repairs. The results of such processes may serve as the basis for applying these standards.

Comment [DNS2]: Respondent #9 suggested that we clarify the assets subject to this impairment standard.

Staff suggests clarifying that G-PP&E excludes HA and SL.

Definition of Impairment

8. **Impairment** is a **sudden**, significant⁵ and permanent decline, ~~whether gradual or sudden,~~ in the **service utility** of G-PP&E, ~~or expected service utility for construction work in process.~~ Entities generally hold G-PP&E because of the services they provide **or will provide in the future**; consequently, impairments affect the service utility of the G-PP&E **and construction work in process**. The events or changes in circumstances that

Comment [DNS3]: Respondent #10 states that the footnote does not sufficiently define "significant".

Staff advises using the same wording we have in paragraph 16a.

Comment [DNS4]: Respondents #10 and #15 question whether impairments can in fact be "gradual". Both suggest removing this term. One suggests providing examples if retained. The problem is that we state that impairments are "not considered normal and ordinary" and by its nature G-PP&E is expected to gradually decline over time.

Staff advises that we can simplify the definition and increase clarity by removing the term "gradual". In this way we define impairments as being sudden, significant, and permanent and not as a result of normal and ordinary business conditions.

⁴ G-PP&E includes, among other types of PP&E, multi-use heritage assets, capitalized improvements to stewardship land, and internal use software. Heritage assets such as historic and national landmarks and Stewardship Land are excluded from the definition of G-PP&E. Reporting for these assets should be done in accordance with SFFAS 29, *Heritage Assets and Stewardship Land*.

⁵ The determination of whether or not an item is significant is a matter of professional judgment. Such judgments may be based on: (1) the relative costs of providing the service before and after the decline, (2) the percentage decline in service utility, or (3) other considerations. Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.

lead to impairments are not considered normal and ordinary.⁶ That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the G-PP&E or, (b) if expected, sufficiently predictable to be considered in estimating the useful life.

9. The service utility of G-PP&E is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the **level of utilization**, which is the portion of the usable capacity currently being used. The current usable capacity of G-PP&E may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws, or regulations or other changes in environmental or economic factors, or change in the manner or duration of use. Usable capacity may be different from maximum capacity⁷ in circumstances in which surplus capacity (the excess capacity over the usable capacity) is needed for safety, economic, operational readiness or other reasons. G-PP&E that experience decreases in utilization and the simultaneous existence of or increases in surplus capacity not associated with a decline in service utility are not considered impaired.

Comment [DNS5]: Respondent #20.

Identification and Recognition of Impairment – A Two-step Process

10. Generally, G-PP&E remaining in use is impaired if the decline, whether gradual or sudden, in the service utility of the G-PP&E is significant and deemed permanent.
11. The determination of whether G-PP&E remaining in use is impaired, as defined in paragraph 8 above, includes (a) identifying potential impairment indicators and (b) testing for impairment. G-PP&E would be identified as potentially impaired as a result of the occurrence of significant events or changes in circumstances, or routine asset management processes.

Step 1 – Identify Indicators of **Potential** Impairment

12. The indicators identified below are not conclusive evidence that a measurable or reportable impairment exists. Entities should carefully

Comment [DNS6]: Respondent #5 concurred with the staff recommendation. Also, some respondents expressed concern over the indicators. Concerns ranged from the indicators being viewed as conclusive evidence of impairment necessitating an impairment loss test to the indicators being too vague and in need of expansion to address magnitude, permanence, and materiality.

Staff advises that we mark these as indicators of **potential impairment**.

Comment [DNS7]: Respondent #4. Pursuant to a subsequent discussion concerning the 12g indicator, staff advises that language in BFC A7 be brought forward to make it clear that indicators are conclusive evidence of impairment.

⁶ Normal and ordinary are defined as events or circumstances that fall within the expected useful life of the PP&E such as standard maintenance and repair requirements.

⁷ Maximum capacity is the usable capacity plus any surplus capacity.

consider the surrounding circumstances to determine if a test of potential impairment may be unnecessary given the circumstances. Some common indicators of potential impairment include those listed below:

- a. evidence of physical damage,
- b. enactment or approval of laws or regulations which limit or restrict G-PP&E usage,
- c. changes in environmental or economic factors,
- d. technological changes or evidence of obsolescence,⁸
- e. changes in the manner or duration of use of G-PP&E,
- f. construction stoppage or contract termination, and
- g. G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods.⁹

G-PP&E Identified From Significant Events or Changes in Circumstances

13. Events or changes in circumstances affecting G-PP&E that may indicate impairment are sometimes significant. Significant events or changes in circumstances are conspicuous or known to the entity's management or oversight entities. This Statement does not require that entities conduct an annual or other periodic survey solely perform procedures solely to identify potential impairment of G-PP&E. Events or circumstances that may indicate impairment are generally expected to have prompted consideration¹⁰ by oversight entities, management, or others (e.g., the media).

⁸ Technological changes or evidence of obsolescence should be considered along with other factors when assessing impairment. For example, if obsolete PP&E continues to be used, the usable capacity/service utility expected at acquisition may not be diminished. Further, when obsolescence is expected, PP&E that is subject to obsolescence can be addressed through depreciation, particularly by using accelerated methods that yield a lower capital cost per year as the asset's utility diminishes when compared to that of later versions of the same asset.

⁹ Refer to Technical Release #14, *Implementation Guidance on the Accounting for the Disposal of General Property Plant, & Equipment*, for guidance related to when an asset is other than permanently removed from service.

¹⁰ Consideration might include but is not limited to management discussions, internal managerial analyses or reviews, conferences or consultations with experts, media or public relations interviews, or external industry scrutiny.

Comment [DNS8]: In general, respondents #4, #11, #15, #20 and #21 expressed concern that this indicator could conflict with SFFAS 6, para. 39. Staff advises that we rephrase paragraph 12g so that it clarifies its focus on "excessively long periods" and not SFFAS 6 paragraph 39 language. The proposed change would be as follows:

g. G-PP&E idled or unserviceable for excessively long periods.

Comment [DNS9]: Respondents #10 and #15 are concerned that entities will misinterpret the intent of this language by believing that they are not required to any perform procedures to identify and report impairments.

Staff suggests the change as it in fact embodies the Board's intent – the Board has presumed that entities, as part of their internal controls, have systems in place that would identify and communicate impairments.

G-PP&E Identified From Asset Management Reviews (e.g., portfolio surveys)

14. Existing asset management processes may include portfolio surveys that consider matters such as the continued operational and functional capacity of G-PP&E, entity mission requirements, or deferred maintenance and repairs assessments. Potentially impaired G-PP&E may be identified from such surveys and further evaluated through the two-step process.

Reduced demand should not be considered a discrete or sole indicator of impairment

15. As explained in paragraph 9 above, reduced demand for the services of G-PP&E should not be considered a discrete or sole indicator of impairment. Instead, there should also be evidence of an underlying potential impairment resulting in the reduced demand. In these circumstances, the causes behind such changes in demand should be evaluated in light of the indicators listed in paragraph 12 and G-PP&E should be tested for impairment.

Step 2 - Impairment Test

16. G-PP&E identified through the processes described in paragraphs 10 through 15 should be tested for impairment by determining whether the following two factors are present:
- The magnitude of the decline in service utility (as defined in par. 9) is significant.** The costs associated with the original or other previously established service utility are significantly greater than the costs that would otherwise be associated with the remaining new expected service utility. Such costs should include operational and maintenance costs. Judgment is required to determine whether the decline is significant. Such judgments may be based on: (1) the relative costs of providing the service before and after the decline, (2) the percentage decline in service utility, or (3) other considerations.
 - The decline in service utility is expected to be permanent.** The decline is considered permanent when management has no reasonable expectation that the lost service utility will be replaced or restored. That is, management expects that the G-PP&E will remain in service so that its remaining service utility will be utilized. In contrast, reasonable expectation may exist when management has (1) specific plans to replace or restore the lost service utility of this G-PP&E, (2) committed

Comment [DNS10]: Respondent #13 – Subsequent discussions with this DCFO have yielded this suggested wording which might be worth considering subject to some polishing:

“The costs associated with the original or other previously established service utility are significantly greater than the costs that would otherwise be associated with a revised estimate of expected service utility, after the decline is realized.”

Does the Board like this any better than the existing language?

Staff Recommendation – Terms such as “estimate” and “realize” could cause confusion that we are (1) requiring management to make estimates and (2) what does realizing a decline mean and how will it be interpreted? I’d avoid these terms. However, respondent #13 has a good alternative to work with if we’d like and I propose the following:

The costs associated with the original or other previously established service utility are significantly greater than the costs that would otherwise be associated with the remaining expected service utility.”

Comment [DNS11]: Respondent #20

or obligated funding for remediation efforts, or (3) a history of remediating lost service utility in similar cases or for similar G-PP&E.

17. For construction work in process, the testing of impairment discussed in paragraph 16 above should be performed over the expected future service utility rather than current service utility.

Comment [DNS12]: Respondent #20 - there is an inconsistency between the ED and SFFAS No. 6's definition of G-PP&E. Paragraph 34 of SFFAS No. 6 states "In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E". We recommend that these inconsistencies in the scope of the ED be clarified.

Measurement

17-18. Impairment losses on G-PP&E that will continue to be used by the entity¹¹ should be estimated using a measurement method that reasonably¹² reflects the diminished service utility of the G-PP&E. The goal of the measurement approaches methods discussed below is to reasonably estimate the portion of the net book value associated with the diminished service utility of the G-PP&E. A specific method, including one of the methods listed below, would not be considered appropriate if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E. Within an entity, one method may not be appropriate for measuring all impairments. Also, a reasonable methodology may nonetheless result in no impairment loss to be recognized. While using any method, if an impairment loss results in an amount greater than an asset's net book value the loss should be limited to the asset's net book value. Widely recognized methods for measuring impairment include:

Comment [DNS13]: Respondent #20 - We recommend the following change to the second sentence of paragraph 17 to be consistent with the remainder of the paragraph.

Comment [DNS14]: Respondents #9 and #17 noted that in some cases an impairment loss might be greater than an asset's NBV and that our statement was silent in this regard.

Staff suggests including language that limits an impairment loss to the asset's NBV.

- a. **Replacement approach.** Impairment of G-PP&E with physical damage generally may be measured using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the G-PP&E at

¹¹ See SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraphs 38 and 39 for guidance regarding PP&E that will not continue to be used by the entity.

¹² Given a choice among comparable methods, entities should adopt the most efficient and practical method available under the circumstances.

today's standards¹³ to identify the portion of the historical cost of the G-PP&E that should be written off. For federal real property purposes, this cost can be derived from the plant replacement value (PRV). This estimate can be converted to historical cost by restating (i.e., deflating) the estimated cost to replace the diminished service utility using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of the estimated cost to replace the diminished service utility over total estimated cost to replace the G-PP&E, to the net book value of the G-PP&E.

- b. **Restoration approach.** Impairment of improvements made to stewardship land and multi-use heritage assets with physical damage may generally be measured by using a restoration approach. This approach uses the estimated cost to restore the diminished service utility of the G-PP&E to identify the portion of the historical cost of the G-PP&E that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the G-PP&E.
- c. **Service units approach.** Impairment of G-PP&E that are affected by enactment or approval of laws or regulations or other changes in environmental/economic factors or are subject to technological changes or obsolescence generally may be measured using a service units approach. This approach compares the service units provided by the G-PP&E before and after the impairment event or change in circumstance to isolate the historical cost of the service utility of the G-PP&E that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the G-PP&E—either maximum estimated service units or total estimated service units throughout the life of the G-PP&E—before and after the event or change in circumstance.
- d. **Deflated depreciated current cost approach.** Impairment of G-PP&E that are subject to a change in manner or duration of use generally may

¹³ For example, "at today's standards" would generally mean the use of current market prices for materials, labor, manufactured items and equipment using current building, manufacturing, or fabrication techniques in compliance with current statutory, regulatory, or industry standards.

be measured using a deflated depreciated current cost. This approach quantifies the cost of the service currently being provided by the G-PP&E and converts that cost to historical cost. A current cost for a G-PP&E to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the G-PP&E is not new, and then is subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the G-PP&E exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).

- e. **Cash flow approach.** Impairment of cash or revenue generating G-PP&E, such as those used for business or proprietary-type activities, may be assessed using a cash flow approach. Under this approach, an impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value¹⁴ or value-in-use estimate.¹⁵ The net book value of the G-PP&E is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the G-PP&E. That assessment should be based on the net book value of the G-PP&E at the date it is tested for recoverability, whether in use or under development. If the net book value is not recoverable, the impairment loss is the amount by which the net book value of the G-PP&E exceeds the higher of its net realizable value or value-in-use estimate. No impairment loss exists if the net book value is less than the higher of the G-PP&E's net realizable value or value-in-use estimate.
- f. **Construction stoppage / contract termination.** G-PP&E impaired from either construction stoppages or contract terminations which, are expected

¹⁴ Net realizable value is the estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated costs of completion, holding and disposal.

¹⁵ Statement of Federal Financial Accounting Concepts (SFFAC) 7, *Measurement of the Elements of Accrual-Basis Financial Statements* at paragraph 50 defines value-in-use as "...the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life." Paragraph 51 further states that, "Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective estimate of the amount of an asset exchanged between willing parties that also is applicable to similar exchanges between other parties. Value in use is an entity's subjective assessment of the value to the entity of an asset that it owns. Thus, value in use is useful in assessing the financial position and operating results of that entity, but because the amount is entity specific, it may not be comparable when making assessments of other entities." (underscoring added for emphasis)

to provide service, should be reported at their recoverable amount; the lower of (1) the G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate. Impaired G-PP&E, which are not expected to provide service, should be accounted for and reported in accordance with SFFAS 6.

Recognizing and Reporting Impairment Losses

~~18-19.~~ The loss from impairment should be recognized and reported in the statement of net cost when management concludes that the impairment is (1) a significant decline in service utility and (2) expected to be permanent. Such loss and may be included in program cost(s) or cost(s) not assigned to programs consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. However, in cases where an entity decides that an impairment loss is immaterial, it should consider the need for adjustments to the GPP&E's depreciation methods, useful life or salvage value estimates.

~~19-20.~~ The impairment loss should be recognized and reported regardless of whether the G-PP&E remaining in use is being depreciated individually or as part of a composite group. The impairment loss may be reported as a separate line item or line items on the statement of net cost. Deciding to display a separate line item or items on the statement of net cost requires judgment. The preparer should consider quantitative and qualitative criteria. Acceptable criteria include but are not limited to quantitative factors such as the percentage of the reporting entity's cost that resulted from the impairment and the size of the impairment loss relative to the G-PP&E; and qualitative factors including whether the loss would be of interest to decision makers and other users.

~~20-21.~~ A general description of the impaired G-PP&E remaining in use, the nature (e.g., damage or obsolescence) and amount of the impairment, measurement methods used in recognizing the impairment amount, and the financial statement classification of the impairment loss should be disclosed in the notes to the financial statements. Such disclosures should be made in the year the impairment is recognized and for the years presented in comparative financial statements.

Diminished Service ~~Capacity~~ Utility Without Recognized Impairment Loss

~~24-22.~~ Events, changes in circumstances, or asset management reviews might indicate that the future service utility of G-PP&E remaining in use has been adversely affected. However, if future service utility has been adversely affected but the impairment test determines that a loss need not be recognized, a change to the estimates used in depreciation calculations such as estimated useful life and salvage value should be considered.

Comment [DNS15]: Respondent #11 - the language in the standard should be strengthened to make it clear when "impairment losses" are actually realized.

Staff advises that we clearly indicate in this paragraph that impairments are reported when management makes its determination regarding significance and permanence.

Comment [DNS16]: Respondent #19 - The Board describes these alternatives in paragraph A.5 on page 21 of the Basis for Conclusions and we believe that these alternatives should appear in the accounting standard as well as the Basis for Conclusions. If these alternatives are considered, then we believe that the recognition of an impairment loss would tend to be infrequent.

Staff suggests adopting the last sentence of BFC paragraph A5.

Comment [DNS17]: Respondent #10 and #20.

Staff suggests edit to be consistent with paragraph 24.

Comment [DNS18]: Respondent #10.

Staff suggests we limit disclosure to the year we recognize and any comparative years.

Comment [DNS19]: Respondent #20

G-PP&E That ~~is~~ No Longer Being Used Provides Service

~~22-23.~~ G-PP&E that ~~is~~ no longer provides service or in the case of construction work in process where there is no expectation to future service being used by the entity should be accounted for in accordance with SFFAS 6, paragraphs 38 and 39 and Technical Release #14, Implementation Guidance on the Accounting for the Disposal of General Property Plant, & Equipment.

Reversing Remediating Previously Reported Impairments

~~23-24.~~ Subject to the entity's capitalization policies, if an entity later remediates the previously impaired G-PP&E remaining in use, the costs incurred to replace or restore the lost service utility should be accounted for in accordance with applicable standards. For example, costs to prepare the site and install replacement facilities would be recognized in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*.

Comment [DNS20]: Respondent #13 - Paragraphs 23 and A20 need clarification. These paragraphs are confusing and almost seem contradictory.

Staff suggests re-titling both paragraphs.

Recoveries

~~24-25.~~ The impairment loss should be reported net of any associated recovery when the recovery and loss occur in the same year. Recoveries reported in subsequent years should be reported as revenue or other financing source as appropriate. ~~Recoveries should be recognized only when realized or realizable.~~ If not otherwise apparent in the financial statements, the amount and financial statement classification of recoveries should be disclosed in the notes. The accounting for recoveries should be in accordance with SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

Comment [DNS21]: Respondent #20.

Consolidated Financial Report of the U.S. Government

~~25-26.~~ The U.S. government-wide financial statements need not disclose the measurement methods used in recognizing impairment losses. If impairment of G-PP&E remaining in use is recognized, the following information should be disclosed:

- a. a general description of what constitutes G-PP&E impairment,
- b. the consolidated G-PP&E impairment losses recognized by component entities, and
- c. a reference(s) to component entity report(s) for additional information.

Effective Date

~~26-27.~~ The requirements of this Statement are effective for reporting periods beginning after September 30, 2014. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Project History

- A1. In Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, issued in May 2003, the Board identified impairment as one of three areas (the other two being depreciation and deferred maintenance) that it desired to consider integrating into a comprehensive project. Complete impairment was addressed in SFFAS 6, *Accounting for Property, Plant, and Equipment*, through the requirements that general PP&E “...be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess.” However, SFFAS 6 does not address partial impairment, even though the effects of partial impairment may be material in some cases. The Board decided to address asset impairment at the time it addressed deferred maintenance. Subsequent to the issuance of Statement of Federal Financial Accounting Standards 40: *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment* in May 2011, the Board initiated work on addressing potential enhancements to existing FASAB guidance regarding impairment.
- A2. In evaluating an approach applicable to federal G-PP&E, the Board considered the approaches used in the following documents:

- Financial Accounting Standards Board (FASB) Statement, ~~FAS No. 144~~, *Accounting for the Impairment or Disposal of Long-Lived Assets* ([Superseded by FASB Codification 9/15/2009](#))

- Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*¹⁶
- International Public Sector Accounting Standard (IPSAS) No. 21, *Impairment of Non-Cash Generating Assets*
- IPSAS No. 26, *Impairment of Cash-Generating Assets*

A working group was organized to assist the Board in analyzing the impairment standards promulgated by the FASB, GASB, and the International Public Sector Accounting Standards Board (IPSASB). The working group's analysis was initially screened by the Deferred Maintenance and Asset Impairment (DM-AI) Task Force and subsequently tested with a broader community beyond the task force to get other points of view. The consensus recommendation was to use the GASB 42 approach as a baseline for the development of a federal asset impairment standard.

Significant and Permanent Decline in Service Utility

A3. This Statement requires recognizing a potential impairment loss only when there is a significant and permanent decline (gradual or sudden) in the G-PP&E's service utility. In reaching this decision, the Board considered and weighed (a) the need for relevant, reliable, and consistent financial reporting and (b) entity burden.

a. For financial reporting to be:

(i) relevant - a logical relationship must exist between the information provided and the purpose for which it is needed. G-PP&E impairment information is relevant because it is capable of making a difference in a user's assessment of how well the entity is meeting its federal asset stewardship responsibilities.

(ii) reliable - information needs to be comprehensive and nothing material should be omitted nor should anything be included that would likely cause the information to be misleading. The reporting of G-PP&E impairments

¹⁶ © Financial Accounting Foundation, Governmental Accounting Standards Board, 401 Merrit 7, Norwalk, CT. All Rights Reserved. GASB 42, November 2003.

significantly adds to the informational value and reliability of asset amounts presented in the entity's balance sheet and statement of net cost.

(iii) consistent over time - an accounting principle or reporting method should be used for all similar transactions and events unless there is good cause to change. Establishing G-PP&E impairment standards significantly adds to consistent financial reporting.

b. The Board is aware of the increased demands that entities confront due to initiatives that attempt to better align and integrate entity mission, budget, and performance objectives. As such, the Board desires to issue a G-PP&E impairment standard that entities can effectively adopt without undue administrative burden while still satisfying the objectives of federal financial reporting.

Recognizing Impairments

- A4. As discussed in paragraphs 13 and 14, impairments can be identified and brought to management's attention in a variety of ways. Although a presumption exists that there are existing processes and internal controls in place to ensure such identification and communication, this standard does not require ~~that entities conduct an annual or other periodic survey solely for the purpose entities to alter existing assessment methods solely for the purpose~~ of applying these standards.
- A5. The Board notes that not all significant events and/or changes in circumstances discussed by oversight bodies, management, or the media would necessarily be considered material to an entity's financial statements. Consequently, an entity must exercise judgment in this regard considering whether omitting or misstating information about the significant event and/or changes in circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or the misstatement. However, in cases where an entity decides that a significant event or change in circumstance is immaterial, it should consider the need for adjustments to the G-PP&E's depreciation methods, useful life or salvage value estimates.

The Board also notes that common indicators of impairment can be discovered during different types of asset management reviews that include the following types of G-PP&E assessments:

Comment [DNS22]: Respondents #10 and #15 are concerned that entities will misinterpret the intent of this language by believing that they are not required to any perform procedures to identify and report impairments.

Staff suggests the change as it in fact embodies the Board's intent – the Board has presumed that entities, as part of their internal controls, have systems in place that would identify and communicate impairments.

a. Condition assessments revealing evidence of physical damage, deterioration, and/or distresses such as for a building (1) damaged by fire or flood, (2) not adequately maintained or repaired, (3) associated with significant amounts of deferred maintenance and repairs and/or (4) exhibiting signs of advanced degradation that might adversely impact expected duration of use, each requiring remedial or replacement/restoration efforts to restore service utility.

b. Functionality assessments revealing evidence of reduced capacity, inadequate configuration, change in entity mission, change in the manner or expected use, and enactment or approval of laws, regulations, codes or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet).

c. Obsolescence assessments revealing evidence of technological development or obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely or never used because newly acquired equipment provides better service.

Common Indicators of Potential Impairment

- A6. The Board considered the general approaches used by other standards-setters regarding the issues of impairment identification and testing. The DM-AI Task Force identified the GASB approach as being the most germane for federal application and recommended adopting its use with appropriate modifications. As a result, this Statement consists of a two-step process of (a) identifying potentially impaired G-PP&E through indicators of impairment and (b) testing to determine whether a potential impairment exists by comparing the net book value of the G-PP&E to a valuation reflecting the current state of the G-PP&E.
- A7. Recognizing the administrative burden and costs involved in applying a test of potential impairment, the Board desires to make clear that the indicators identified at paragraph 12 in and of themselves are not conclusive evidence that a measurable or reportable impairment exists. Entities should carefully consider the surrounding circumstances to determine if a test of potential impairment may be unnecessary given the circumstances.
- A8. In order to limit the universe of G-PP&E tested for potential impairment because of cost-benefit considerations, the Board proposes two modifiers to the indicators: (a) the magnitude of the gradual or sudden decline in service utility is

significant and (b) the decline in service utility is permanent. The first modifier would limit testing for potential impairment to only G-PP&E that have experienced a significant decline, gradual or sudden, of the asset's service utility. The second modifier would limit testing to only those G-PP&E where the decline in lost service utility is expected to be permanent. The decline is considered permanent when management has no reasonable expectation that the lost service utility will be replaced or restored and that the G-PP&E's remaining service utility can continue providing value.

- A9. Only when both of these two modifiers are present, is G-PP&E to be considered impaired. When either of these conditions is not present, the decline in the service utility of the G-PP&E may be recognized through other methods such as changing useful life or salvage value estimates.

Determining if Magnitude of Decline in Service Utility is Significant

- A10. Because measurement of a potential impairment is not required unless a significant decline in service utility occurs, management should assess the magnitude of the service decline. In cases where there is physical damage to G-PP&E, the significance can often be objectively assessed because the costs of remediation (i.e., replacement or restoration) may be relatively easy to determine, at least within a range of estimates. In circumstances other than those involving physical damage, significance may be discerned by less objective assessments such as:

(1) Whether management acts to address the situation. Management decisions may be indicative of a potential decline in service utility. For example, a specific action taken by management after a service decline may confirm that expenses exceed future benefit. Likewise, a decision by management to not address a service decline may be an indication the decline is not significant and a test of impairment is not required.

(2) Costs associated with the previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility. For example, when comparing the benefits and related costs after the impairment with those existing prior to the impairment, management may confirm that costs exceed future benefit. As a result, the decline is significant and a test of impairment is required.

Selecting a Measurement Approach

- A11. Professional judgment should be used when selecting a method to measure the decline in service utility of G-PP&E. Generally, potential impairments:
- a. reflecting degradation or physical damage may be measured using a replacement cost approach or, for multi-use heritage assets, a restoration cost approach.
 - b. reflecting a change resulting from enactment or approval of laws or regulations or other changes in environmental/economic factors or from technological development or obsolescence generally may be measured using a service units approach.
 - c. reflecting a change in manner or duration of use or change in mission generally may be measured using deflated depreciated current cost approach.
 - d. for cash or revenue generating assets may be measured using the cash flow approach.
 - e. arising from construction stoppages or contract terminations which are expected to provide service, should be reported at their recoverable amount; the lower of (1) the G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate.
- A12. The Board emphasizes that in estimating the diminished service utility of the G-PP&E, the measurement approach chosen should yield a reasonable estimate reflecting the diminished service capacity of the G-PP&E. Before using a specific method a determination should be made that it will result in (1) a reasonable estimate of diminished service capacity for the specific asset and (2) a reasonable net book value associated with the remaining service utility of the G-PP&E. There should not be a presumption of reasonableness attached to the use of any of these methods if the resultant calculations reflect an unreasonable estimate of the remaining service utility of the G-PP&E. For example, if using the replacement approach, cost estimates to remediate the damage to an asset is equal to or greater than the asset's total replacement cost, the resultant calculation would lead to a full write-down of the carrying value. However, if the asset is to remain in use, the full write-down would be inappropriate because some service potential remains. In such a case, management should look to another method such as the deflated depreciation current cost approach to estimate the historical cost of the asset's residual service capacity that will continue to be used. Additionally, within an entity, one

method may not be appropriate for measuring asset impairments across all categories or classes of assets. The Board notes that a reasonable methodology may not result in the recognition of an impairment loss.

Among Comparable Methods – Choose the Most Efficient

- A13. The Board recognizes that there may be cases where more than one comparable method could be used to measure the decline in an assets' service utility. In such cases, the entity should use whichever method most reasonably reflects the diminished service utility. In cases where the methods under consideration are expected to yield similar results, management should adopt the most efficient method available given the circumstances.

Reduced Demand

- A14. The Board notes that reduced demand for the services of G-PP&E should not be considered as a discrete or sole indicator of potential impairment. That is, reduced demand absent evidence of an underlying potential impairment resulting in that reduced demand is not an indicator of impairment. For example, decreased demand for the processing services of a mainframe computer because former users of the mainframe have transitioned to PC and server-based systems should be considered a change in demand not requiring impairment testing. However, if associated with an indicator of potential impairment such as evidence of obsolescence, then the mainframe should be tested for potential impairment.
- A15. In addition, a decrease in demand solely resulting from the conclusion of a special project requiring large amounts of processing time on a mainframe computer that runs other applications should not be considered for impairment testing.
- A16. A decrease in occupancy is another example of a change in demand. If a decrease in the occupancy of hospital beds prompts management to close a hospital, a change in manner or duration of use has also resulted and a test for impairment should be performed. However, a test for impairment is not required if the decrease in hospital beds results solely because the hospital is changing from an overcrowded condition to one in which occupancy rates are now below the maximum allowed. However, care should be taken to ensure that there is not a potential indicator of impairment that could require testing.

Estimating Potential Impairment Losses

- A17. Measuring the cost of the lost service utility generally requires the use of estimates or approximations. According to Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, to be recognized an item must be measurable, meaning that a monetary amount can be determined with reasonable certainty or is reasonably estimable (underscoring added for emphasis). For this reason, the Board notes that it (1) does not seek exact precision in determining the lost service utility of the asset and (2) does not intend to direct or prescribe the use of any particular method listed in paragraph 17.
- A18. However, the Board notes that care should be taken when estimating potential impairment losses. For example, if a multi-use heritage asset requires testing for potential impairment, the restoration cost and not the replacement approach should be used. Although these approaches may appear to be identical, they are not. The replacement approach estimates the cost to replace the lost service utility of the G-PP&E at today's standards whereas the restoration cost approach does not. In either case, the required estimates used for the calculation inputs are different and can significantly affect the potential impairment loss measurement. Differences will arise because the replacement approach uses estimates reflecting today's current labor and material options and costs, modern standards, and installation methods whereas the restoration cost approach uses estimates that generally require using historically accurate (e.g., aesthetic or historic) materials and construction methods approved by an historic architect or historic preservationist to preserve the historic nature and value of the multi-use heritage asset.
- A19. Entities should also ensure that impairment loss calculations exclude improvements or betterments. For example, assume that a portion of an old warehouse currently not being used suffers roof damage due to heavy snowfall. The entity decides not to repair the roof and to contain the damage by securing the adjoining area ensuring that there are no safety hazards. In this case, estimates for the construction of a new warehouse, including its roof should not include amounts for new types of roof ventilation systems, solar panel features, or green energy improvements, etc. Including such improvements or betterments might significantly affect the potential impairment loss measurement.

G-PP&E Impairment Loss Reversals Not Allowed

A20. In reaching the decision not to allow for reversals of G-PP&E impairment losses, the Board concluded that because reversal events are expected to be rare occurrences, there is no compelling need for complexity or increased burden as benefits do not appear to justify costs. Further, the Board concluded it is not a reversal of a previously reported impairment loss, but rather a change in facts resulting in an addition to the cost basis. Specifically, should events later change and an asset's lost service utility is replaced or restored, the resultant incurred costs to place the replaced or restored lost service utility into service becomes part of the G-PP&E's new cost basis. It is the Board's opinion that such a practice is consistent with the operating performance objective of federal financial reporting; users will be able to evaluate the service efforts, costs, and accomplishments of the reporting entity based on the revised cost basis.

Comment [DNS23]: Respondent #13 - Paragraphs 23 and A20 need clarification. These paragraphs are confusing and almost seem contradictory.

Staff suggests re-titling both paragraphs.

Recoveries

- A21. Recoveries, may or may not be recognized depending upon the circumstances and can also be accounted for as either exchange or non-exchange transactions. In accordance with SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting:
- a. Exchange revenues should be recognized when goods or services are provided to the public or another Government entity at a price. An example would be commercial insurance purchased in connection with G-PP&E belonging to a public-private arrangement.
 - b. Non-exchange revenues should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. For example, if a manufacturer or contract operator has admitted or acknowledged warranty or contract liability, a non-exchange recovery could be recognized. However, if the manufacturer or contract operator has denied liability, the non-exchange recovery generally would not be recognized unless the entity could impose monetary requirements such as fines or civil monetary penalties. It is important to note that non-exchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue.

Distinguishing between Depreciation and Impairment

A22. Depreciation systematically and rationally allocates the historical cost of the G-PP&E's service utility to the benefitting periods. This systematic and rational allocation process assigns costs to periods based on asset management plans and formulas. An allocation process is used because (1) the G-PP&E benefits more than one period and (2) generally, there is no practical or efficient way to directly assign or associate cause (i.e., entity activity or event) and effect (i.e., service utility consumption). That is, allocating depreciation is applied because specific causation cannot be ascertained.

A23. On the other hand, impairment occurs when there is a sudden, significant and permanent decline in the service utility of G-PP&E remaining in use. Essentially, the systematic and rational allocation process noted in paragraph A22 above is changed. Moreover, primarily due to the sudden and significant nature of the event or changed circumstances, an entity can directly assign or associate cause and effect. As a result, the lost or diminished service utility (arising from the impairment) can be directly assigned in a practical and efficient manner.

A22-A24. To the extent that an entity's depreciation policies and practices reflect a pattern of service utility consumption that reasonably accounts for discrete events or changed circumstances, impairment losses may not apply. For example, if an entity operates in multiple climates within a country or maintains a global presence, its regular and on-going depreciation may account for lost or diminished service utility resulting from damages arising from climate or other environmental conditions. This could be evidenced by an entity's use of useful life estimates derived from current and historical fixed asset records or maintenance and repair accounts. In such cases the entity might shorten the useful life estimate or reduce its salvage value estimate. If so, depreciation would inherently consider the conditions giving rise to the impairment thus avoiding the need to recognize an impairment loss.

Perceived costs versus benefits

A23-A25. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. The Board has clarified the Statement so that users understand that they are not required to search out impairments or to apply the Statement to immaterial items. Entities should consider G-PP&E impairments in the context of their existing practices and

Comment [DNS24]: Respondents #10 and #21.

Respondent #10 –requests additional information on how the Board distinguishes between depreciation and impairment.

Respondent #21 – asks that we avoid mistaking routine or anticipated declines for impairment.

apply this Statement only when there is an indicator of significant impairment present. Although GASB, IPSASB, and FASB pronouncements are available to provide federal preparers with guidance relative to impairments, issuance of a Statement by FASAB will eliminate the need, time, and effort to search principles from another standard-setter or consider analogous entity transactions. Other perceived benefits include: reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for capital investment decisions, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities.

Summary of Outreach Efforts

| ~~A24-A26~~. XX responses were received. Table 1.0 summarizes responses by respondent type.

| ~~A25-A27~~. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The following paragraphs discuss significant issues identified by respondents followed by Board decisions.

Respondents' Comments on the Exposure Draft**Identifying Indicators of Potential Impairment**

A28. Some respondents expressed concern over the indicators. Concerns ranged from the indicators being viewed as conclusive evidence of impairment necessitating an impairment loss test to the indicators being too vague and in need of expansion to address magnitude, permanence, and materiality. As stated at Par. A7 above, the Board desires to make clear that the indicators identified at paragraph 12 in and of themselves are not conclusive evidence that a measurable or reportable impairment exists. Entities should carefully consider the surrounding circumstances to determine if a test of potential impairment may be unnecessary given the circumstances. Furthermore, as stated at paragraphs A6 through A9 entitled Common Indicators of Potential Impairment, the paragraph 12 indicators are not meant to be definitive in nature nor a fully inclusive list. Therefore, management must still exercise discretion and judgment when assessing potential impairment losses.

A29. One respondent noted that federal organizations report a number of data elements per Federal Real Property Council requirements that Board should consider as excellent indicators of potential impairment. The indicators referred to are contained in the General Service Administration's 2011 Guidance for Real Property Inventory Reporting. Examples of these indicators include: real property predominant use, operational status, space utilization, and condition index. Although these indicators can in fact be used to identify potential impairments, they are real-property specific and much more discrete than the paragraph 12 indicators. Where appropriate, these real property indicators can be considered ancillaries to the paragraph 12 indicators.

A30. Regarding paragraph 12 c - Changes in environmental or economic factors, one respondent asked if changes in environmental or economic factors included real estate market changes and if so, would the value of buildings need to be adjusted. The proposed standard is not intended to be a surrogate for fair value accounting. Changes to the value of buildings depending on the real estate market alone would not necessitate an impairment test. The important distinction between an asset's value and its service utility must always be kept in mind. Regardless of an asset's value, the proposed standard addresses the decline in service utility and the extent that this decline may be both significant and permanent.

A31. Regarding paragraph 12 g, - G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods, several respondents had concerns with this indicator. Two respondents noted that property that is unserviceable or idled and awaiting removal from the accounting records should not fall under the impairment definition and should be handled in accordance with SFFAS 6. However, it should be noted that SFFAS 6 does not specifically address partial impairments (i.e., impaired assets remaining in-use). The Task Force in conjunction with the AAPC addressed partial impairments and concluded that SFFAS 6, paragraph 39, dealt with an asset's total and permanent removal from service. As a result, idled or unserviceable assets not disposed of, nor retired, or removed from service for excessively long periods should be considered for potential impairment.

Measurement

A28-A32. Some respondents expressed concern over the measurement methods. Concerns ranged from the methods not being appropriate for real property asset classes to the Statement having too many methods to choose from. As stated at paragraphs 17 and BFC A17, impairment losses should use a method that reasonably estimates the asset's diminished service utility. The Board has made clear that it does not seek exact precision nor is it prescribing any particular method. Preparers are not restricted to the methods shown at paragraph 17 and may use other methods that accomplish two (2) objectives: (1) reasonably estimate the diminished service utility and (2) reasonably estimate net book value associated with the remaining service utility.

NOTE TO BOARD – The Basis for Conclusions section is still a work-in-process and should not be considered complete. Content will be added in a revised draft pursuant to Board deliberations.

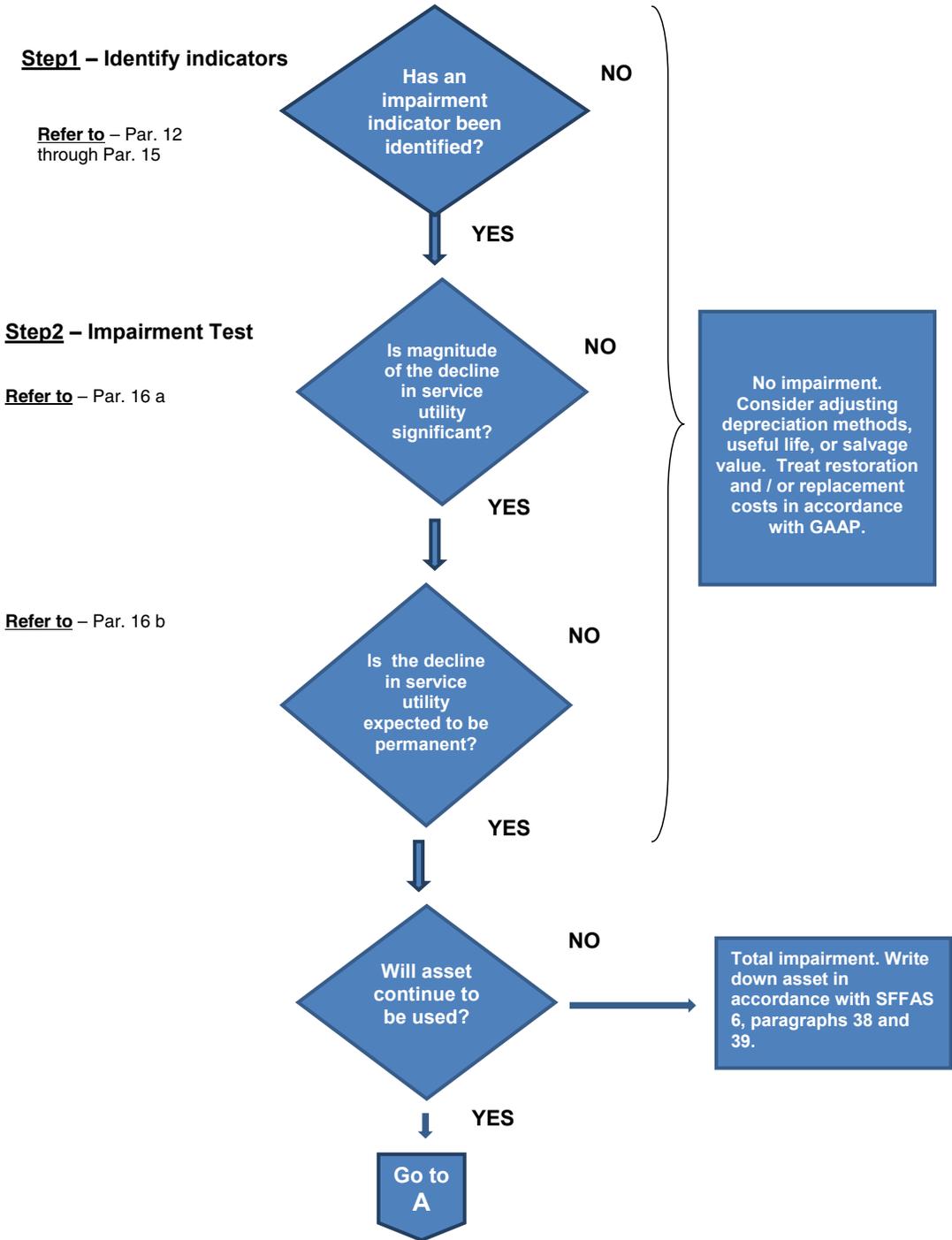
Board Approval

| ~~A29-A33.~~ This Statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

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General PP&E Impairment Decision Process

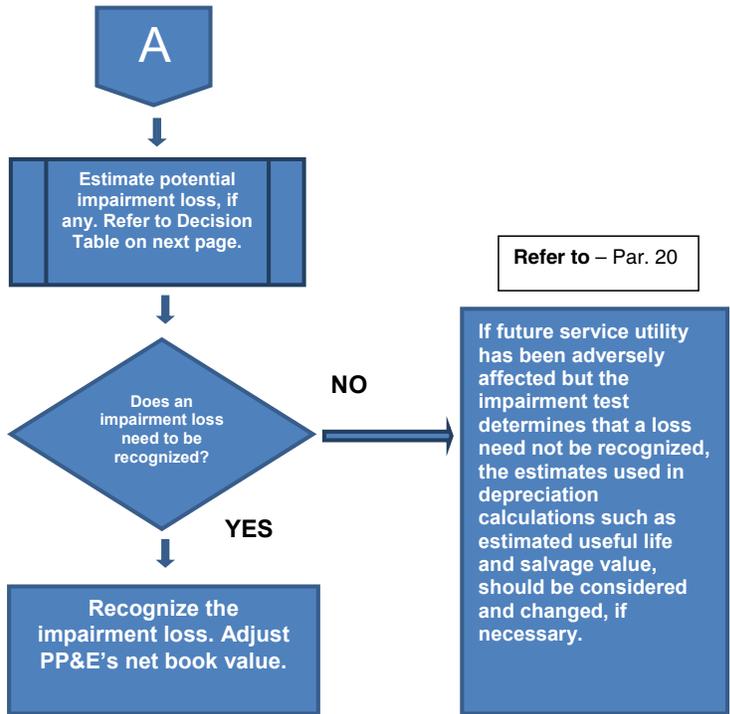
Determining Asset Impairment Recognition Requirements



General PP&E Impairment Decision Process

Determining Asset Impairment Recognition Requirements

Refer to – Par. 17



Refer to – Par. 18 and Par. 24.

Per B. Dacey 27 January email. Para. 20 says "should be considered" and the decision chart says "should be evaluated". Do these need to be more consistent?
Staff: Yes. See edit.

General PP&E Impairment Decision Table

Selecting a Measurement Method

34

Select a method that reasonably represents diminished service utility by considering potential indicators and type of PP&E.

If more than one method is reasonable, select the most efficient and practicable method.

Measurement Methods ¹⁷	Potential Indicators	Type of PP&E *	Reference	Illustrations that may be appropriate
Replacement Approach	<ul style="list-style-type: none"> • Physical Damage 	All G-PP&E	Par. 17 a	1c
Restoration Approach	<ul style="list-style-type: none"> • Physical Damage 	Multi-use Heritage PP&E	Par. 17 b	2b
Service Units Approach	<ul style="list-style-type: none"> • Physical Damage • Enactment or approval of laws/regulations • Changes in environmental or economic factors • Technological changes or obsolescence 	All G-PP&E	Par. 17 c	1d, 3a, 3b
Deflated Depreciated Current Cost Approach	<ul style="list-style-type: none"> • Change in manner or duration of use. 	All G-PP&E	Par. 17 d	4a
Cash Flow Approach	<ul style="list-style-type: none"> • Any of the indicators as listed at Paragraph 12 (a through g) 	All G-PP&E	Par. 17 e	7a, 7b, 7c, 7d
Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach	<ul style="list-style-type: none"> • Construction stoppage / Contract terminations 	All G-PP&E	Par. 17 f	5, 6a, 6b, 7b

* = excluding internal use software

¹⁷ Other industry-accepted methods may be appropriate.

ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

Illustration 1a**Temporary Declines in Service Utility: *Physical Damage to an Office Building with Mold Contamination***¹⁸**Assumptions**

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. Facilities management personnel advised that the building be closed due to health and safety concerns. Shortly afterwards, the office building was vacated and closed. The mold remediation involves removing and rebuilding the interior walls and improving site drainage at a total cost of \$4 million.

Management develops specific plans to begin remediation efforts as soon as possible and replace the lost service utility. In addition, funding has been identified and set-aside.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., closure of the building) is a significant decline in service utility. However, because management has specific plans to replace the lost service utility of the building and has identified and set-aside funding, there is reasonable expectation that the damage is temporary and no potential estimated impairment loss is recognized.

¹⁸ FASAB Illustrations 1a through 1d have been adapted from GASB 42, Illustration 1, *Physical Damage – School with Mold Contamination*.

Illustration 1b**Complete Removal from Service: *Physical Damage to an Office Building with Mold Contamination*****Assumptions**

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. Facilities management personnel advised that the building be closed due to health and safety concerns. Shortly afterwards, the office building was vacated and closed.

Due to the extent of the damage, management does not believe that remediation efforts will begin and that the lost service utility of the building is not temporary. As a result, management has decided to remove this building from service and prepare it for disposal.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., closure of the building) is a significant decline in service utility. Because management does not believe that remediation efforts will begin, the lost service utility of the building is permanent. However, because the entire office building will be taken out of service and prepared for disposal purposes, no potential estimated impairment loss is recognized. Instead, the provisions of SFFAS 6, *Accounting for Property, Plant, and Equipment* paragraphs 38 and 39 are applicable.

Illustration 1c**Replacement Approach - Permanent Declines in Service Utility: *Physical Damage to an Office Building due to an Earthquake*****Assumptions**

In 2012, entity officials became aware of extensive masonry wall and building foundation damage at one of its office buildings as a result of a recent earthquake. The damage to the masonry walls was spread throughout the five-story building and the building foundation was damaged at non-critical vertical-load points. Facilities management personnel and engineers advised that despite a decline in service utility, the damaged building would still be capable of meeting reasonable, but reduced performance objectives in its damaged state, making major repairs and costly upgrading unnecessary. Limited and minor repairs, both cosmetic and structural, could be made to improve visual appearance and component damage at nominal cost. Facilities managers and engineers have estimated that the major repairs and upgrades (involving removal and rebuilding of the interior walls and improving site drainage) would cost \$2 million.

After a detailed review, management decides to accept the reduced performance objectives of the building and not make the major repairs and costly upgrades.

The office building was constructed in 1982 at a cost of \$1.3 million, including \$100,000 for acquisition of the building site. The building had an expected useful life of sixty years. During its life, the entity made improvements to the building totaling \$1.235 million. Accumulated depreciation related to the building and to the improvements were \$600,000 and \$320,000, respectively.

Comment [DNS25]: Respondent #20.

Evaluation of potential estimated impairment loss

The masonry wall and building foundation damage is evidence of physical damage – an impairment indicator. Also, the magnitude of the decline in the lost service utility is significant because its remediation would involve major repairs and costly upgrades. Because management decides to accept the reduced performance objectives of the building and not make the major repairs and costly upgrades, the lost service utility of the building is permanent. Because the loss of service utility is permanent, any potential estimated impairment loss, may need to be recognized.

Measurement of potential estimated impairment loss

Facilities managers and engineers estimated that the major repairs and upgrades would have cost if incurred, \$2 million. In accordance with the entity's capitalization policies, 10 percent of the remediation cost would be allocable to site clean-up and treated as a period expense, and 90 percent would be allocable to remediating the masonry wall and

building foundation damage. As recorded in the entity's asset management system, the estimated plant replacement value (PRV) of the office building is \$8.5 million.

Calculate Net Book Value:

	Historical Cost	Accumulated Depreciation, 2012	Net Book Value, 2012
Land	<u>\$100,000</u>		<u>\$100,000</u>
Building acquisition, 1982	\$1,200,000	\$600,000	\$600,000
Improvements	1,235,000	320,000	915,000
Total - Building & Improvements	<u>\$2,435,000</u>	<u>\$920,000</u>	<u>\$1,515,000</u>

Calculate estimated cost to replace lost service utility:

Total remediation cost	\$2,000,000
Percentage wall & foundation cost	<u>90%</u>
Wall & Foundation Remediation cost	<u>\$1,800,000</u>

Calculate percentage of lost service utility in current dollars:

Wall & Foundation Remediation (estimate of lost service utility in current dollars)	\$1,800,000
Plant Replacement Value (estimate to replace building in current dollars)	<u>\$8,500,000</u>
Wall & Foundation Remediation cost percentage	21.18%

Calculate potential estimated impairment loss:

Net book value (historical cost) **\$1,515,000**

Multiplied by: Wall & Foundation Remediation cost percentage	<u>21.18%</u>
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Potential estimated impairment loss	<u>\$320,877</u>
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Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$320,877.

Illustration 1d**Choice Among Methods - Permanent Declines in Lost Service Utility: *Physical Damage to an Office Building with Mold Contamination*****Assumptions**

In 2012, entity officials became aware of extensive mold contamination at one of its office buildings. The mold contamination in the walls of the building was limited to the top two floors of the five-story building and could be safely contained and encapsulated. Facilities management personnel advised that the first three floors of the building could continue to be safely used.

Management does not believe that the loss of service utility will impede their operations and consequently, do not plan to remediate the mold contamination. Management has decided to discontinue the use of the top two floors and commence containment and encapsulation efforts. The remainder of the building will be kept in service.

The office building was constructed in 1982 at a cost of \$1.3 million, including \$100,000 for acquisition of the building site. The building had an expected useful life of sixty years. During its life, the entity made improvements to the building totaling \$1.235 million.

Evaluation of potential estimated impairment loss

The mold contamination is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., contamination of two of the five floors of the building) is a significant decline in service utility. Because management does not plan to replace the lost service utility of these floors, the lost service utility of the building is permanent. Because the loss of service utility is permanent, any potential estimated impairment loss, may need to be recognized.

Measurement of potential estimated impairment loss

Facilities management personnel in consultation with the Comptroller's office advise management to use the service units approach instead of the replacement cost approach because using construction cost estimates are not likely to result in a materially different potential estimated impairment loss amount. Management agrees to select the service units approach because it reasonably represents diminished service utility and given the circumstances, it is the most efficient and practicable method to use.

Calculate percentage of lost service utility in terms of units:

Lost service utility in terms of floor units	2 floors
Total service utility prior to damage in terms of floor units	<u>5 floors</u>
Percentage of lost service utility in terms of units	40.00%

Calculate potential estimated impairment loss:

Net Book Value (historical cost)	\$1,515,000
Multiplied by: percentage of lost service utility - units	<u>40.00%</u>
Potential estimated impairment loss	<u>\$606,000</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$606,000.

Illustration 2a**Normal and Ordinary Lost Service Utility: Physical Damage to a Multi-use Heritage Asset**^{19 20}**Assumptions**

Recent media reports have noted that acid precipitation (often called acid rain) is of increasing concern in the metropolitan area and, in particular to many of the area's historic and national landmarks including multi-use heritage assets. The entity's conservation scientists confirm the media reports and note that although normally rain is slightly acid, current rainfall has an average pH of more than 10 times normal levels.

Limestone and marble, the stones that form many of the buildings and monuments in the metropolitan area are especially vulnerable to acid precipitation because they are predominantly made of the mineral calcite (calcium carbonate), which dissolves (i.e., erosion) easily in acid. Capitalized alterations made over the years to accommodate the heavy traffic brought about by administrative and visitor use of one of the more prominent multi-use heritage assets has drawn management's attention. The entity's Inspector General (IG) has begun a review and in an interim draft report has noted the following,

"The marble balustrade on the south side, main entrance of the administrative building shows damage from acid rain posing a serious threat to the hundreds of visitors and employees who walk by this concourse daily. Management must take immediate corrective action in order to avoid potential bodily harm and liability."

Management in consultation with the conservation scientists and facilities managers determines that (1) erosion (deterioration caused by exposure to the environment) is a natural part of the normal geologic cycle and was reasonably expected to occur, and (2) temporary braces and steel under-girding currently in-place are sufficient for the current year. Management plans to restore the balustrade during the next fiscal year.

Evaluation of potential estimated impairment loss

The erosion is evidence of gradual physical damage – an impairment indicator. Also, the prominence of the event (i.e., coverage by the media and the IG's recommendation) would be evaluated as a potential impairment indicator of significant loss in service utility. However, no potential estimated impairment loss is recognized because (1) the decline in lost service utility is "normal and ordinary" as it arises from a cyclical act of nature and (2) restoration efforts to cure the damage are planned to begin next fiscal year. Management should consider evaluating its

¹⁹ FASAB Illustration 2a adapted from: Department of the Interior, *Acid Rain in Washington*, <http://pubs.usgs.gov/gip/stones/acid-rain.html>.

²⁰ Heritage Assets are property, plant, and equipment that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic (e.g., aesthetic) importance; or, significant architectural characteristics. Multi-use Heritage Assets are heritage assets whose predominant use is general government operations. FASAB Appendix E: Consolidated Glossary.

depreciation policies and methods to reflect the adverse effect of the acid rain on buildings and monuments made of limestone and marble.

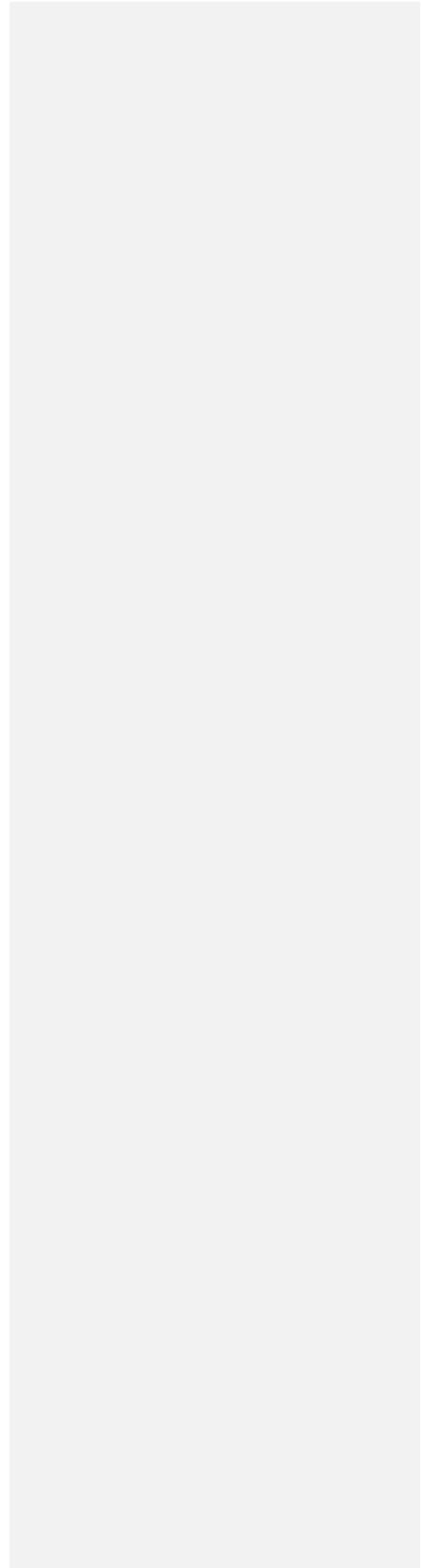


Illustration 2b**Restoration Approach - Permanent Declines in Service Utility: *Physical Damage to a Multi-use Heritage Asset*****Assumptions**

A fire recently destroyed most of a 3-story wing addition of an historic building. The building addition housed senior administrative offices. ~~The administrative offices comprised approximately 25% of the building's total 80,000 square feet and 100.0% of the 3-story wing. The foundation and portions of the first level were not seriously damaged and considered salvageable.~~

The Secretary's proposal to the Board of Regents (Regents) requested a minimum of \$4.5 million to restore the 3-story administrative wing. The Regents questioned the reasonableness of the cost estimate noting that typical office building construction in the metropolitan area costs about \$160.00 per square foot (psf). The Secretary advised that the \$160.00 psf estimate was not appropriate to use because it represented a "replacement" estimate using today's current labor, materials, standards and methods and not a "restoration" estimate that required using historically accurate materials and methods, as well as historic preservation and conservation methods as appropriate to preserve the historic nature and value of the multi-use heritage asset.

As an example, the Secretary noted the limited supply of the red Seneca sandstone used to construct the building in the 19th century and the added wing in the 20th century. The local quarry could only supply sufficient quantities to restore one level. As a result, complete restoration could not begin until a second quarry could be located to supply the additional quantities. Furthermore, experienced masons would have to be used for the restoration effort.

As a result of this information, the Board of Regents modified the Secretary's request to restore one level of the wing noting that although subsequent levels could should not be restored in the future and that, no such plans should be undertaken nor should any monies be committed. Displaced staff was moved to nearby vacant office space.

Evaluation of potential estimated impairment loss

The destruction toef the 3-story wing is evidence of physical damage – an impairment indicator. Also, the magnitude of the event (i.e., loss of senior administrative office space) would be evaluated as a significant decline in service utility. Because the Board of Regents provided for partial restoration (one level) of the multi-use heritage asset, the lost service utility of the other two levels of the administrative wing is deemed permanent. As a result, because the lost service utility from these two levels is not reasonably expected to be restored, the potential estimated impairment loss is considered permanent and any resultant potential estimated impairment loss may need to be recognized.

Comment [DNS26]: An analysis of comments from Respondents #2, #6 and #9 reveal that this sentence causes confusion and because it has no quantitative value to the illustration, Staff advises that we delete it.

Comment [DNS27]: Respondent #9's analysis suggested that we further refine this example so that the partial impairment loss would be reasonable given the amount of destruction to the 3-story wing. In other words, total destruction would lead to a complete removal of the asset's NBV and not require an impairment loss calculation

Comment [DNS28]: Respondent #20.

Measurement of potential estimated impairment loss

Facilities managers and reconstruction specialists have estimated that (1) the total remediation of the 3-story wing would cost \$4.5 million and (2) restoring the first level would cost \$2.0 million. The net book value of the administrative portion of the building prior to the fire damage was \$1.75 million. In accordance with the Restoration Approach, the following estimates and calculations were presented to management:

Calculate estimated cost to restore lost service utility:

Total restoration cost (all 3 levels)	\$4,500,000
Less: portion to be restored (first level)	\$2,000,000
Cost to restore lost service utility (2nd and 3rd levels)	<u>\$2,500,000</u>

Calculate percentage of restored lost service utility in current dollars:

Cost to restore lost service utility of the 2nd and 3rd levels of the wing (estimate of lost service utility in current dollars)	\$2,500,000
Total restoration cost (all 3 levels)	\$4,500,000
Restoration cost percentage	55.5%

Calculate potential estimated impairment loss:

Net Book Value (historical cost of wing)	\$1,750,000
Multiplied by: Restoration cost percentage	<u>55.5%</u>
Potential estimated impairment loss	<u>\$971,250</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the building is \$971,250.

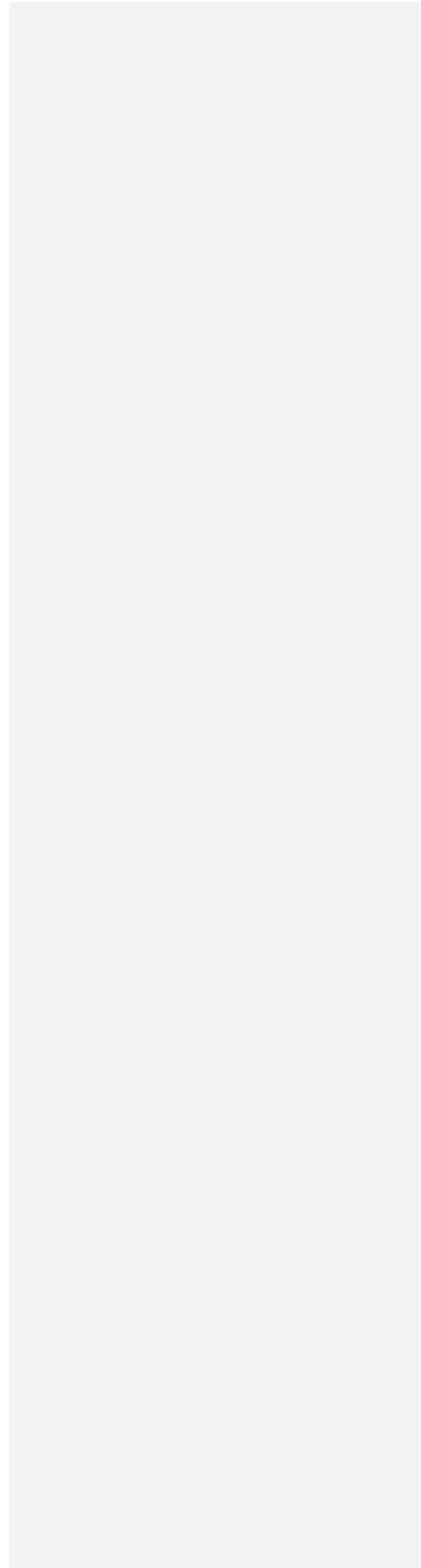


Illustration 3a**Service Units Approach - Recoverable Service Utility: Technological Development or Evidence of Obsolescence -Underutilized Magnetic Resonance Imaging Machine ²¹****Assumptions**

In 2010, a hospital purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million. The hospital estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. After installation, the utilization of the system was approximately at the levels estimated.

In 2013, an affiliated entity transferred an “open” MRI system to the hospital. The transferred MRI system began to be used more frequently than the original “closed” MRI system because the “open” MRI was more comfortable for patients and provided a superior image. Instead of providing ten images a day, the original MRI system was being used only on an overflow basis and averaged six images per day; a decrease to 60 percent of prior levels. Furthermore, the expenses associated with the continued operation and maintenance (O&M) of the “closed” MRI system continue to be incurred and management is evaluating the asset’s continued service use and whether or not to book an impairment loss.

Upon inspection of the “closed” MRI system and closer examination of the related O&M costs, hospital administrators have determined that it is cost beneficial to keep the system operational and that there is no impairment loss. They estimate that the system can be expected to last at least 3 years longer than originally estimated and achieve its expected service output. Furthermore, hospital administrators contend that a significant portion of the costs are (1) considered “sunk” due to the fixed-price nature of the long-term maintenance contracts and (2) fixed inasmuch as they will be incurred regardless of the closed MRI system’s operating levels.

Evaluation of potential estimated impairment loss

Management initially identified that the change in technology was an indicator of potential impairment because it had resulted in a permanent reduction in the usage of the “closed” MRI system. Also, they believed that the magnitude test (i.e., decline in service utility relative to operating costs) had also been met due to the fact that the cost of operating the “closed” MRI system has remained the same while the service provided has decreased to 60 percent of prior levels. However, management has concluded that there is no potential estimated impairment loss (i.e., the MRI system did not meet Step

Comment [DNS29]: Respondent #20.

²¹ Illustrations 3a and 3b adapted from: GASB 42, Illustration 4, *Technological Development or Evidence of Obsolescence -Underutilized Magnetic Resonance Imaging Machine*.

2 – Impairment test) because the asset can achieve its expected service output by being kept in service 3 years longer than originally planned. Using the service units approach, management determines the followings:

Measurement of potential estimated impairment loss

Calculate Net Book Value:

a	Acquisition cost, 2010	\$2,250,000
	Accumulated depreciation, 2013 (3 / 7 years)	<u>964,286</u>
b	Net Book Value, 2013	<u>\$1,285,714</u>

Calculate Acquisition cost per service unit:

a	Acquisition cost, 2010	\$2,250,000
	Originally expected service units (7 years × 52 weeks	
c	per year × 5 days per week × 10 uses per day)	<u>18,200</u>
d	Acquisition cost per service unit (a divided by c) (rounded)	\$124.00

Calculate Remaining Number of Service Units & Related Costs to be recovered:

d	Acquisition cost per service unit (a divided by c)	\$124.00
	Remaining number of service units = (4 years plus 3	
e	extended years × 52 weeks per year × 5 days per week × 6 uses per day)	<u>10,920</u>
f	Remaining service costs to be recovered (d multiplied by e)	<u>\$1,354,080</u>

Calculate Potential Estimated Impairment Loss:

Net Book Value, 2013 (b)	<u>\$1,285,714</u>
Remaining service costs to be recovered (f)	<u>\$1,354,080</u>
Potential estimated impairment loss (b minus f)	<u>N/A</u>

Reporting Considerations

Although there is no potential estimated impairment loss to consider or recognize because the remaining service costs to be recovered is greater than the PP&E's net book value, management should consider re-evaluating its depreciation policies and methods to reflect the additional 3 years of extended service.

Illustration 3b**Service Units Approach - Non-recoverable Service Utility: Technological Development or Evidence of Obsolescence -*Underutilized Magnetic Resonance Imaging Machine*****Assumptions**

In 2010, a hospital purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million. The hospital estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. After installation, the utilization of the system was approximately at the levels estimated.

In 2013, an affiliated entity transferred an “open” MRI system to the hospital. The transferred MRI system began to be used more frequently than the original “closed” MRI system because the “open” MRI was more comfortable for patients and provided a superior image. Instead of providing ten images a day, the original MRI system was being used only on an overflow basis and averaged one image per day; decrease to 10 percent of prior levels. Furthermore, the expenses associated with the continued operation and maintenance of the “closed” MRI system continue to be incurred and has drawn management’s attention to evaluate the asset’s continued service use.

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in technology, which has resulted in a permanent reduction in the usage of the “closed” MRI system. The magnitude test (i.e., decline in service utility relative to operating costs) has also been met due to the fact that the cost of operating the “closed” MRI system has remained the same while the service provided has decreased to 10 percent of prior levels. Potential estimated impairment loss using the service units approach would be determined as follows:

Measurement of potential estimated impairment loss**Calculate Net Book Value:**

a Acquisition cost, 2010	\$2,250,000
Accumulated depreciation, 2013 (3 / 7 years)	<u>964,286</u>
b Net Book Value, 2013	<u>\$1,285,714</u>

Calculate Acquisition cost per service unit:

a	Acquisition cost, 2010	\$2,250,000
	Originally expected service units (7 years × 52 weeks c per year × 5 days per week × 10 uses per day)	<u>18,200</u>
d	Acquisition cost per service unit (a divided by c)	\$124.00 (rounded)

Calculate Remaining Number of Service Units & Related Costs to be recovered:

d	Acquisition cost per service unit (a divided by c)	\$124.00
	Remaining service number of units = (4 years × 52 weeks e per year × 5 days per week × 1 use per day)	<u>1,040</u>
f	Remaining service costs to be recovered (d multiplied by e)	<u>\$128,960</u>

Calculate Potential Estimated Impairment Loss:

	Net Book Value, 2013 (b)	<u>\$1,285,714</u>
	Remaining service costs to be recovered (f)	<u>\$128,960</u>
	Potential Estimated Impairment loss (b minus f)	<u>\$1,156,754</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$1,156,754.

Illustration 4a**Deflated Depreciated Current Cost Approach: Change in Manner or Duration of Use – Training Facility Used for Storage²²****Assumptions**

In 2013, management decided to close a training facility because enrollments declined due to outsourcing initiatives brought about as a result of Office of Management and Budget (OMB) Circular No. A-76, “*Performance of Commercial Activities*.” The closed training facility has been converted to use as a storage warehouse.

This training facility was constructed in 2001 at a cost of \$10 million. The estimated useful life of the facility is fifty years. Entity management has (1) no evidence that enrollments will increase in the future such that the building would be reopened for use as a training facility and (2) concerns with the significantly high operating costs – maintenance and repair, depreciation, insurance, utilities, security, etc.

Because no physical damage occurred that would require detailed cost repair estimates, management decides to use the deflated-depreciated current cost approach to measure the potential estimated impairment loss. Facilities managers have been able to readily identify current plant replacement value for a comparable warehouse of the same size as \$4.2 million and commercial construction indices of 100 and 150 for years 2001 and 2013, respectively.

Evaluation of potential estimated impairment loss

Impairment is indicated because the manner of use of the training facility has changed from training students to storage. The situation passes the magnitude test (i.e., decline in service utility relative to operating costs) because the ongoing costs of the training facility would likely be considered high in relation to the benefit it is providing - storage.

²² Illustration 4a adapted from: GASB 42, Illustration 5, *Change in Manner or Duration of Use – School Used for Storage*.

Measurement of potential estimated impairment loss**Calculate Net Book Value:**

Potential estimated impairment loss using the deflated depreciated current cost approach would be determined as follows:

Historical cost, 2001	\$10,000,000
Accumulated depreciation (12 / 50 years)	<u>2,400,000</u>
a Net Book Value, 2013	<u>\$7,600,000</u>

Calculate Depreciated current cost (current dollars):

Replacement cost of warehouse, 2013	\$4,200,000
Accumulated depreciation (12 / 50 years)	<u>1,008,000</u>
b Depreciated current cost	<u>\$3,192,000</u>

Calculate Deflation factor:

c Commercial construction index, 2001	100
d Commercial construction index, 2013	<u>150</u>
e Deflation factor (c divided by d)	<u>0.67</u>

Apply deflation factor to depreciated current cost:

b Depreciated current cost	\$3,192,000
e Deflation factor (c divided by d)	<u>0.67</u>
f Deflated depreciated current cost (b × e)	<u>\$2,138,640</u>

Calculate Potential estimated impairment loss:

a Net Book Value, 2013	\$7,600,000
f Deflated depreciated current cost (b × e)	<u>2,138,640</u>
Potential estimated impairment loss (a - f)	<u>\$5,461,360</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the facility is \$5,461,360.

Illustration 5***Construction Stoppage—Special Purpose Test Equipment***²³**Assumptions**

In 2012, in response to a Congressional order canceling a major program, management stopped all construction activities related to the fabrication of program-related special purpose test equipment. The entity conducts numerous design and build projects for military and scientific purposes all of which have potential commercial application. The entity's program manager advised management that the special purpose test equipment was substantially complete at the time of stoppage and could be considered available for commercial use. The entity had accumulated costs totaling \$10 million and was approximately 75 percent complete with the project.

Upon further inquiry, management determined that despite initial interest from two commercial firms, early in 2012, one of them filed for bankruptcy and the other withdrew its interest citing that the costs-to-complete are too high. There is no evidence to demonstrate that the construction stoppage is temporary or that other potential commercial interests can be found. Also, the program manager advises that there is no potential government use for this asset and that it should be disposed.

Evaluation of potential estimated impairment loss

The indicator of impairment is the construction stoppage. It appears to meet the test of impairment in that management would not have initiated the project if it had expected either program cancellation or lack of any potential commercial use. The situation passes the magnitude test because the costs-to-date (75% or \$10 million) are significant in both percentage and monetary terms. However, there is no potential estimated impairment loss to report in accordance with this standard because the asset is totally impaired as it has no commercial or government use and cannot provide service. As such, the requirements in SFFAS 6 at paragraph 38²⁴ should be followed. Specifically, in the period of disposal accumulated costs should be removed from the asset accounts and any difference between the book value of the equipment and amounts realized shall be recognized as a gain or a loss.

²³ Illustration 5 adapted from: GASB 42, Illustration 9, *Construction Stoppage—Airport Pavements*.

²⁴ [Refer to Technical Release #14, Implementation Guidance on the Accounting for the Disposal of General Property Plant, & Equipment, for guidance related to when an asset is other than permanently removed from service.](#)

Illustration 6a**Contract Termination - *Transferable Equipment Technology*****Assumptions**

In 2012, the entity's chief contracting officer pursuant to the Federal Acquisition Regulations terminated a contract. The entity experienced substantial cost increases, schedule delays, and performance shortfalls. The terminated contract was to build the entity's next-generation surveillance equipment capable of covertly operating in adverse weather conditions. Despite several cure notices, the entity terminated the contract for default. The contractor has stated that it will not protest the termination. At the time of termination, the entity incurred over \$150 million in contract costs.

In the meantime, the program manager determined that the operating environment had changed and that remaining funds would be better spent on other priorities and was able to transfer the system technology to other entity projects. The manner and use of the systems are not expected to change.

Evaluation of potential estimated impairment loss

The indicator of impairment is the contract termination. It appears to meet the test of potential impairment because the event is significant and the termination decision will not be protested; i.e., permanent. However, because the entity was able to transfer the system technology to other entity projects, no potential estimated impairment loss exists.

Illustration 6b**Contract Termination - *Partially-Transferable Equipment Technology*****Assumptions**

Same as Illustration 6a except that the program manager was unable to transfer the entire system technology to other entity projects. After an inspection and engineering review, it was determined that 70.0% of hardware and software could be transferred to existing projects. There is no potential use or application for the remaining 30.0% of equipment technology.

Evaluation of potential estimated impairment loss

The indicator of impairment is the contract termination. It appears to meet the test of potential impairment because the termination decision is a significant event and is considered permanent because the decision will not be protested. As a result of the entity being unable to transfer the entire system technology to other entity projects, an impairment exists.

Measurement of potential estimated impairment loss

Because 30.0% of the system technology cannot be transferred to other entity projects, a potential estimated impairment loss of \$45 million exists (30.0% X \$150 million).

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$45 million.

Illustration 7a**Cash flow approach – Grouped Assets****Assumptions**

An entity manages and operates a shared-services center on a post-wide basis that provides administrative and information technology support. The entity groups the individual services separately into two distinct categories rather than on an individual basis. The net book values are \$12 million and \$11 million for the administrative and information technology groups, respectively.

In December 20X1, the entity's management decided to implement a public-private strategic initiative that could eventually over several years transition these shared-services operations to private ownership. Both national and local private interests have asked their respective political representatives to accelerate the entity's implementation time-table and influence a favorable outcome. Management was directed to (1) immediately estimate the amount that could be recovered from selling the operations and (2) identify to the lowest level identifiable, operating information to include cash flows for each category. An appraisal was conducted to ascertain the amount that could be recovered from selling each of the groups. The appraisal report noted (1) that net realizable value (NRV) amounts were greater than value-in-use estimates and (2) the NRV amounts of \$13 million and \$8 million for the Administrative and IT groups, respectively. The Chief Financial Officer identified the following cash flow information: (a) cash from continuing operations of \$12 million and \$9 million for the Administrative and IT groups, respectively and (b) cash flows from disposal activities of \$2 million and \$1 million for the Administrative and IT groups, respectively.

As a result of complying with this directive and evaluating the resultant financial information and appraisal analysis, management became concerned that its assets might be impaired and adversely impact its public-private strategic initiative.

Evaluation of potential estimated impairment loss

If an impairment indicator exists an impairment analysis should be ~~performed~~considered. In this case, the entity's public-private initiative includes a significant change in the manner or extent-duration in which the assets will be used. This represents an impairment indicator that would trigger an impairment analysis. Furthermore, management's concern that its assets might be impaired passes the magnitude test.

Comment [DNS30]: Respondent #20.

Management is concerned that the presence of an impairment indicator might affect its plan regarding the future use of the shared-services if the analysis indicates that the net book value of the assets are not recoverable. To apply the cash flow approach, the entity will need to estimate the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The future cash flows are the

expected cash inflows to be generated by the asset net of any expected future cash outflows that are needed to produce the inflows.

Measurement of potential estimated impairment loss

This approach requires that an entity recognize a potential estimated impairment loss if (1) the undiscounted cash flows are less than the net book value of the assets (the net book value is not recoverable) and (2) the net book value exceeds the higher of the assets net realizable value²⁵ or value-in-use estimate.²⁶ A potential estimated impairment loss would be measured as the amount by which the net book value of the grouped assets exceed the higher of their net realizable value or value-in-use estimate(s).

When identifying cash flows, assets should be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Calculate Net book value:

Net book value:	Asset Group: <u>Administrative</u>	Asset Group: <u>Information Technology</u>
Assets' net book values at 12/31/X1 (a)	<u>\$12,000,000</u> (a)	<u>\$11,000,000</u> (a)

²⁵ Net realizable value is the estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated costs of completion, holding and disposal. Source: FASAB Glossary, Appendix E.

²⁶ Statement of Federal Financial Accounting Concepts (SFFAC 7), *Measurement of the Elements of Accrual-Basis Financial Statements* at paragraph 50 defines value-in-use as "...the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life." Paragraph 51 further states that, "Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective estimate of the amount of an asset exchanged between willing parties that also is applicable to similar exchanges between other parties. Value in use is an entity's subjective assessment of the value to the entity of an asset that it owns. Thus, value in use is useful in assessing the financial position and operating results of that entity, but because the amount is entity specific, it may not be comparable when making assessments of other entities." (underscoring added for emphasis)

Calculate undiscounted cash flows:

Undiscounted cash flows:	<u>Asset Group: Administrative</u>	<u>Asset Group: Information Technology</u>
Undiscounted cash flows from future operations	\$12,000,000	\$9,000,000
Undiscounted cash flows from future disposal of assets	2,000,000	1,000,000
Total - undiscounted cash flows (b)	\$14,000,000 (b)	\$10,000,000 (b)

Calculate Recoverability:

Recoverability: (b minus a)	<u>Asset Group: Administrative</u>	<u>Asset Group: Information Technology</u>
Total - undiscounted cash flows (b)	\$14,000,000	\$10,000,000
Assets' net book values at 12/31/X1 (a)	<u>12,000,000</u>	<u>11,000,000</u>
Recoverability (b minus a)	\$2,000,000	\$(1,000,000)
Is Net book value Recoverable?	Yes	No
Is asset subject to potential impairment?	No	Yes

Calculate potential estimated impairment loss:

A potential estimated impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value or value-in-use estimate. Because the Administrative group has undiscounted cash flows greater than related net book values, recoverability is met and there is no potential impairment. However, because the Information Technology group has undiscounted cash flows lower than related net book values, recoverability is not met and the potential for impairment exists. A \$3 million potential estimated impairment loss exists because the \$11 million net book value of the Information Technology group's G-PP&E exceeds the higher of its net realizable value or value-in-use estimate (in this case we are given that the \$8 million NRV amount is higher than the value-in-use estimate).

Potential estimated impairment loss:	Asset Group: <u>Administrative</u>	Asset Group: <u>Information Technology</u>
Net Realizable Value of assets at 12/31/X1	N/A	\$ 8,000,000
Less: Assets' net book values at 12/31/X1	N/A	<u>\$11,000,000</u>
Excess of net book value over Net Realizable Value	N/A	\$3,000,000
Potential estimated impairment loss	N/A	<u>\$3,000,000</u>

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the IT asset group is \$3.0 million.

Illustration 7b**Cash flow approach – Equipment: Technological Development or Evidence of Obsolescence - *Underutilized Magnetic Resonance Imaging Machine*²⁷****Assumptions**

In 2009, a hospital operating in a major metropolitan area purchased a magnetic resonance imaging (MRI) system at a cost of \$2.25 million to be used exclusively for non-service connected procedures. The hospital, which charges fees for non-service connected care estimated that the system would have an estimated useful life of seven years and that on average the system would be used for ten tests per day for five days per week. The average user fee for MRI services is \$20.00 per use. After installation, the utilization of the system was approximately at the levels estimated.

In 2012, the manufacturer introduced an “open” MRI system that was advertised as being more comfortable for patients and provided a superior image. Furthermore, the expenses associated with the continued operation and maintenance of the “closed” MRI system continue to be incurred and has drawn management’s attention to evaluate the asset’s continued service use. Because similar used MRI machines in the open market can be purchased from authorized dealers for \$750,000 (their mark-up percentages are unknown), management is considering the possibility of selling the old machine and using its proceeds to help purchase the “open” MRI system.

Hospital administrators and technicians believe that the “closed” system can continue being used for at least 3 years beyond the originally estimated service life. Also, they believe that the “open” system provides for only marginal benefits that do not exceed their cost. ~~In light of this information, However, management decides not to sell the “closed” system and use the proceeds for much needed research equipment. They believe that the \$750,000 open market price is a reasonable estimate for the asset’s net realizable value.~~

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in technology. The magnitude test has also been met due to the fact that the cost of operating the “closed” MRI system has drawn management’s attention to evaluate the asset’s continued service use. Potential estimated impairment loss using the cash flow approach would be determined as follows:

²⁷ Illustration 7b adapted from: GASB 42, Illustration 4, *Technological Development or Evidence of Obsolescence - Underutilized Magnetic Resonance Imaging Machine*.

Measurement of potential estimated impairment loss

Calculate Net Book Value:

a Acquisition cost, 2009	\$2,250,000
Accumulated depreciation, 2012 (3 / 7 years)	<u>964,286</u>
b Net Book Value, 2012	<u>\$1,285,714</u>

Calculate undiscounted cash flows:

c Average service fee per use	\$20.00
Remaining service units (4 years plus 3 extra years × 52 weeks per year × 5 days per week × 10 use per day)	<u>18,200</u>
e Undiscounted cash flows (c multiplied by d)	<u>\$364,000</u>

Calculate Recoverability: (b minus a)

	<u>MRI</u>
Total - undiscounted cash flows (e)	\$364,000
Assets' net book values at 9/30/12 (b)	<u>\$1,285,714</u>
Recoverability (e minus b)	\$(921,714)
Is Net book value Recoverable?	No
Is asset subject to potential impairment?	Yes

Calculate Potential Estimated Impairment Loss:

A potential estimated impairment loss should be recognized only if the net book value of the G-PP&E (1) is not recoverable and (2) exceeds the higher of its net realizable value or value-in-use estimate. Because management believes that the open market price of \$750,000 is a reasonable estimate of the asset’s net realizable value, it is compared to the asset’s value-in-use estimate to determine which amount is higher. However, because the \$364,000 undiscounted cash flows amount (prior to calculating the net present value to determine a value-in-use estimate) is lower than net realizable value amount of \$750,000, there is no need to present value the cash flows to calculate a value-in-use estimate.

Because management believes that the open market price of \$750,000 is a reasonable estimate~~Because management has decided to sell the “closed” system, the net realizable value estimate~~it is used as the “recoverable basis”. Had the net realizable value estimate been unavailable to management, a value-in-use estimate (net present value of the future cash flows) could have been used as the “recoverable basis”.

	<u>MRI</u>
Net Realizable value of asset	\$750,000
Less: Assets’ net book value	<u>\$1,285,714</u>
Excess of net book value over fair value	\$ (535,714)
Potential estimated impairment loss	\$ (535,714)

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the equipment is \$535,714.

Illustration 7c**Cash flow approach – Facility: Changes in manner or duration of use - Government owned-contractor operated (GOCO) manufacturing facility²⁸****Assumptions**

An entity operates a Government owned-contractor operated (GOCO) manufacturing facility in an economically depressed area fabricating various commodities with commercial applicability. The facility's current net book value is \$22,500,000 with an estimated salvage value of \$5,000,000 and has a 25 year remaining useful life. Under the terms of the contract, the government provides the contractor with exclusive use of the facility in exchange for negotiated lease payments in the amount of \$150,000 per year. The contractor is responsible for all maintenance and operating costs.

Recently this unique partnership has come under federal and state scrutiny as many legislators and environmentalists have expressed concerns that the contractor whose operations have caused contamination found in and around the facility is not being held financially responsible for the cleanup costs.

Outrage which has surfaced during congressional hearings on environmental cleanups has become the focus of print and cable-news outlets.

Further complicating management's "crisis response" is that (1) the contract effectively prohibits modifying the facility to achieve greater environmental compliance without legislative relief and (2) the contracting officer has initiated debarment procedures that effectively would shut down the facility in 90-days for an indeterminable amount of time.

Facilities managers and engineers believe that a prospective buyer can be found but that it will take significant time to pass all necessary sale requirements. Until then, they advise that the facility can be quickly reconfigured and partitioned into commercially viable long-term storage space. The required modifications would cost \$500,000 and lease agreements are estimated to generate approximately \$35,000 in annual revenues. A fairly recent analysis completed 9 months ago reveals that the property's net realizable value (NRV) was at that time, \$30,000,000; 20% of which is attributable to land.

Management has approved the reconfiguration and partition plan and believes that it will take a minimum of 5 years before all approvals are in place and disposal efforts can begin and an additional 2 years to ultimately dispose of the property. Because management is concerned with the proper financial reporting of this event, it has asked its comptroller for advice.

²⁸ Illustration 7c adapted from: Military Law Review, Volume 131 Winter 1991 - Government Owned – Contractor Operated Munitions Facilities: *Are they appropriate in the age of strict environmental compliance and liability?* Major Mark J. Connor.

Evaluation of potential estimated impairment loss

The indicator of potential impairment is the change in manner of use. The magnitude test has also been met due to (1) federal and state scrutiny, (2) media coverage, and (3) the fact that the cost of operating the facility has drawn management’s attention to evaluate the asset’s continued service use and seek the comptroller’s advice. Because the entity is seeking appropriate approvals to commence disposal efforts and does not know when such permission will be granted, management intends to convert a portion of the facility for public storage; a change in the manner of use.

Measurement of potential estimated impairment loss

Calculate Net book value:

Calculate Net book value:	<u>Facility</u>
Assets’ net book value at 12/31/X1 (a) (excluding land)	<u>\$22,500,000</u> (a)

Calculate undiscounted cash flows:

Calculate undiscounted cash flows:	<u>Facility</u>
Required modifications (outflow)	(\$500,000)
Undiscounted cash in-flows from future rental lease payments (7 x \$35K)	\$245,000
Undiscounted cash in-flows from disposal of assets (1.0 -0.2 X \$30Mil)	24,000,000
Total - undiscounted cash flows (b)	\$23,745,000 (b)

Calculate Recoverability: (b minus a)

Calculate Recoverability: (b minus a)	<u>Facility</u>
Total - undiscounted cash flows (b)	\$23,745,000
Assets' net book values at 12/31/X1 (a)	<u>22,500,000</u>
Recoverability (b minus a)	\$1,245,000
Is Net book value Recoverable?	Yes
Is asset subject to potential impairment?	No

Reporting Considerations

There is no potential estimated impairment loss to consider or recognize because the undiscounted cash flows to be recovered are greater than the G-PP&E's net book value.

Illustration 7d

Calculating value-in-use using (discounted) cash flows – Facility: Changes in manner or duration of use - Government owned-contractor operated (GOCO) manufacturing facility²⁹

Assumptions

Same facts as Illustration 7c above except that (1) management has decided to reconfigure the facility and lease available storage space for the remaining life of the facility, ~~and~~ (2) the net realizable value estimate is \$2 million, ~~and~~ (3) the salvage value is \$500,000.

Furthermore, because management does not believe that a prospective buyer can be found it decides not to seek disposal authority. The entity’s comptroller advises management that to assess whether or not a potential impairment exists a value-in-use estimate would be appropriate to use because it is higher than the net realizable value estimate. A risk-free discount rate of 3.00% is used.

Comment [DNS31]: Respondent #9’s analysis suggested that we further refine this example so that the salvage value follows the revised facts.

Evaluation of potential estimated impairment loss

In this case the entity should (1) use the undiscounted cash flows to calculate recoverability and (2) present value (i.e., discount) the undiscounted cash flows to calculate the value-in-use estimate. In so doing, a potential estimated impairment loss is realized. Calculations follow:

Calculate cash flows:

	<u>Undiscounted</u>	<u>PV Factor</u>	<u>Discounted</u>
Required modifications (outflow)	(\$500,000)	1.00	(\$500,000)
Undiscounted cash in-flows from future rental lease payments (25 x \$35K)	\$875,000	17.41315	\$609,460
Undiscounted cash in-flows from disposal of assets	\$500,000	0.47761	\$238,805
Total - cash flows (b)	\$875,000		\$348,265

²⁹ Adapted from: Military Law Review, Volume 131 Winter 1991 - Government Owned – Contractor Operated Munitions Facilities: Are they appropriate in the age of strict environmental compliance and liability? Major Mark J. Connor

Calculate Recoverability: (b minus a)

Recoverability: (b minus a)	<u>Facility</u>
Total - undiscounted cash flows (b)	\$875,000
Assets' net book values at 12/31/X1 (a)	<u>22,500,000</u>
Recoverability (b minus a)	(\$21,625,000)
Is Net book value Recoverable?	No
Is asset subject to potential impairment?	Yes

Calculate potential estimated impairment loss:

Potential impairment:	<u>Facility</u>
Higher of NRV or Value-in-Use:	
NRV = \$2,000,000 (given)	
Value-in-Use = \$348,265 (discounted Cash Flows)	
Use the higher - Net Realizable Value	\$2,000,000
Less: Assets' net book value at 12/31/X1	<u>\$22,500,000</u>
Excess of net book value over recoverable value (in use)	\$20,500,000
Potential estimated impairment loss	\$20,500,000

Reporting Considerations

The potential estimated impairment loss and corresponding reduction of the book value of the facility is \$20,500,000.

Appendix C: Abbreviations

CFR	Consolidated financial report of the U.S. government
DM-AI	Deferred Maintenance and Asset Impairment (task force)
DM&R	Deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
G-PP&E	General property, plant, and equipment
IG	Inspector General
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standards
IT	Information technology
M&R	Maintenance and repair
OMB	Office of Management and Budget
PP&E	Property, plant and equipment
RSI	Required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix D: Glossary

General property, plant, and equipment (G-PP&E) - PP&E (including land and land rights that are acquired for or in connection with items of general PP&E) used to provide government services or goods. The cost of general PP&E is capitalized, i.e. recorded as assets on the balance sheet. For detailed characteristics of and accounting for general PP&E, see SFFAS No. 6, pars 23 through 34.

Impairment - a significant³⁰ and permanent, gradual or sudden, decline in the service utility of G-PP&E.

Internal use software - software that is purchased from commercial vendors “off-the-shelf,” internally developed, or contractor-developed solely to meet the entity’s internal or operational needs (SFFAS 10, par. 8).

Level of utilization - the portion of the usable capacity currently being used.

Partial impairment - less than full or total impairment.

Service utility - the usable capacity that at acquisition was expected to be used to provide service.

Total (full) impairment - G-PP&E is no longer capable of providing service in the operations of the entity prior to the end of its estimated useful life.

Comment [DNS32]: Respondent #2 raised concerns that the ED did not have an illustration concerning land.

Staff advises that we clarify in the Glossary that G-PP&E clearly includes land and land rights. Language has been taken from the FASAB Appendix E glossary

³⁰ The determination of whether or not an item is significant is a matter of professional judgment. Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.

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