United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

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

Dear Ms. Payne:

The U.S. Department of the Interior appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Exposure Draft, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use.*

Attached is the Department of the Interior's response to the questions included in the exposure draft as well as comments related to the provided illustrations.

If you have any questions or concerns please contact Parker Hill at (202) 513-0850 or via e-mail at Parker_Hill@ios.doi.gov.

Sincerely,

D. A. Glenn

Douglas A. Glenn
Deputy Chief Financial Officer and Director
Office of Financial Management

Attachment

Department of the Interior
Office of Financial Management
Response to FASAB Exposure Draft
Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

Question #1 – 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.

Response #1 – 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.

Question #2 – 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.

Response #2 – 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.

Question #3 – Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.

Response #3- 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. 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.

Question #4 – Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of G-PP&E? Do you agree or disagree with the use of measurement methods identified? Please provide the rationale for your answer.

Response #4 – 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.

Question # 5 a – Are there any 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.

Response # 5 a – The Department of Interior recognizes that entities with the largest number of G-PP&E will be more heavily impacted and incur greater costs than agencies with fewer assets. 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 other 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.

Question #5 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.

Response # 5 b – The Department of the Interior 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)."

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

Question # 5 c – Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.

Response # 5 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 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/new.items/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.

The following comments pertain to the Illustrations and are offered so that certain illustrations can be clarified.

Illustration 1a – Page 32
If management hasn't identified or set-aside funding especially in light of budget constraints, management may be unable to determine its specific plans to replace the lost service utility; however, the intention is to replace the service utility of the building. Is the conclusion the same, i.e., no impairment loss is recognized?

Illustration 1b – Page 33 – No comment

Illustration 1c – Pages 34 - 36
The building's estimated useful life of 60 years seems too long. Consider using either 30 or 40 years. For a sample of Agency estimated useful lives, see a 2002 report issued by GAO: *GAO-03-42 Capitalization Threshold and Other Policies for Property, Plant, and Equipment* that can be found at www.gao.gov/assets/240/236070.pdf. Also might consider contacting GSA for average estimated useful lives.

The calculations in this example may prove problematic when Net Book Value is unknown on an asset-by-asset basis. The implementation of SFFAS No. 6, Paragraph 42 allowed an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building by building estimate). Therefore, net book value may not be available for many assets. Furthermore, the timing of the depreciation entries varies between asset acquisition and subsequent capital improvements. The example does not indicate the year of the improvements. The reader is unable to replicate the improvement calculations without this information.

How is the potential estimated impairment loss of $320,877 allocated between the building acquisition and improvements? Most accounting systems will show separate line items for each depreciation stream. If the estimated useful life remains at 60 years, depreciation expense will be reduced each year. Accounting systems may require new functionality to allow for partial impairments and the corresponding monthly entries vs. annual calculations in the example. Recommend that monthly amounts be used in the example to make it mirror what really occurs in the accounting cycle.

Because management has determined that no repairs or upgrades will be made, the additional incremental costs of estimate preparation and labor costs of facilities managers, engineers, and accountants would be incremental to the current process. It is difficult to justify incurring the incremental costs in this instance.

Illustration 1d – Pages 37 - 38
For consistency, recommend the calculation of the Net Book Value be shown in this example to mirror that in Illustration 1c. How is the potential estimated impairment loss of $606,000 allocated between the building acquisition and improvements? Most accounting systems will show separate line items for each depreciation stream. If the estimated useful life remains at 60 years, depreciation expense will be reduced each year. Accounting systems may require new functionality to allow for partial impairments and the corresponding monthly entries vs. annual calculations in the example. Recommend that monthly amounts be used in the example to make it mirror what really occurs in the accounting cycles.

From the point when management decides to not replace the service utility of these two floors, any costs to calculate and report impairment are incremental to the entity, e.g., labor costs of facilities management and the comptroller's office in determining that construction cost estimates are not likely to result in a materially different potential estimated impairment loss amount (a judgment that could be challenged by the auditors), documenting the selection of the service units approach, etc.

Illustration 2a – Page 39
Consider defining "multi-use heritage assets" either earlier in the Standard or adding other language in this illustration to clarify that the scenario excludes the historic and national landmarks (should likely refer to them as heritage assets to be consistent with SFFAS No. 29). Does management inform the IG that the temporary braces and steel under-girding currently in-

place are sufficient for the current year? Recommending that management review its depreciation policies and methods to reflect the adverse effect of the acid rain on the buildings and monuments (heritage asset) is very subjective. Even the USGS article referenced in the footnote states that, "In order to protect our historically and culturally significant buildings, we need to understand how the various processes of weathering and deterioration can affect the stones from which they were built. It doesn't seem as if sufficient facts are available to adjust the depreciation schedule; however, it is stated that policies and methods should reflect the adverse effect. If the monuments are heritage assets, no depreciation occurs anyway and the reference to the monuments should be removed in the recommendation.

Illustration 2b

This illustration doesn't appear to show the historic building's predominant use is for general government operations (only 25% of the total 80,000 sq. ft. is for administrative offices); therefore, it doesn't appear to meet the test for a multi-use heritage asset in the opening paragraphs. Text in the third paragraph indicates that the wing was added in the 20th century. Is the net book value related to the wing only? Is this the administrative wing used in general government operations on which this example is based? If so, for how many years was the wing in operation? Only the net book value is given; not the number of years. It would be impossible to state the monthly depreciation amount without this information. Is the "Board of Regents (Regents)" a federal entity?

If fire destroyed the 3-story wing, why not write off the $1,750,000 net book value of the destroyed asset and show the $2,000,000 as the new value? Don't you really have an improved asset now valued at $2,000,000 vs. the $778,750 – the difference between the net book value minus the impaired value?

Illustration 3a

Is the 2013 date used because FASAB anticipates issuing this in 2013? Do entities track usage and define usage assumptions when MRI machines are placed in service? In reality, it seems that if the usage is so low, why would management keep the machine in service for an additional three years? It appears that there an assumption that the acquisition cost would be covered by the service costs. It seems that once management decided to keep the asset in service that the analysis for impairment could stop; however, the Standard appears to require that the impact on depreciation and estimated useful life also be reviewed – more administrative costs.

Illustration 3b

While understanding that this example is for illustrative purposes, if there's only one use per day on a overflow basis, shouldn't management really evaluate if one use per day is sufficient to keep the asset?

Illustration 4a

Estimated useful life of training facility may be overstated. Most buildings average about 40 years. Please provide the source of the commercial construction indices. What if the new use has a different estimated useful life from the original use? How does this change the calculations? Also, are conversion costs from a training facility to a warehouse factored into the calculations? If the warehouse would result in a net gain in lieu of an impairment loss, what happens then? What value is recognized?

Illustration 5

This appears to be an asset under construction scenario. While management advised that the special purpose test equipment was substantially complete at the time of stoppage, did management take possession of the equipment and record it as equipment or is the amount of $10 million sitting in work in process? Perhaps the scenario could be made clearer.

Illustration 6a

No comments

Illustration 7a

"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." This example assumes that the net book values are available readily at this lowest level. This may not reflect reality.

Illustration 7b

It is difficult to understand why technologically obsolete equipment would have its estimated useful life extended for another three years.

Illustration 7c

Is it feasible to track "portions" of how a facility is used and apply the impairment test? If the property's net realizable value (NRV) was calculated prior to the partnership coming under scrutiny and before the expression of outrage, it is unlikely that the $30 million reflects an accurate NRV at the time the calculations were performed. Is anything recovered from the contractor for environmental cleanup?

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Illustration 7d
In light of the environmental cleanup that is alluded to in Illustration 7c and the extreme reduction of NRV from $24 million to $2 million (assume excludes the value of the land in both instances), is the salvage value really $5 million, which is $3 million higher than the $2 million NRV.