Comments on FASAB Exposure Draft*: Implementation Guidance on the Accounting for the Disposal of G-PP&E (dated December 10, 2010)*

Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD agrees with the criteria for differentiating between temporary and permanent removal from service. With the definition for "removal from service" clarified and the identification of the business rules used as criteria, the implementation guide meets its intent of providing guidance on specific applications and addressing implementation issues. Among other things, the process provides a basis for reacting to changes in the Department of Defense operations tempo and related management of sustainment costs based on the impact of global issues (e.g. overseas contingency operations, unrest in nations we are allies or not allies with, etc.)

Staff Recommendation:
Thank you.

#2 Mark Jenson, NASA - OIG

We do not consider paragraphs 6 and 7, in and of themselves, to be sufficient to clearly explain the differentiation between temporary and permanent removal from service. However, we believe that there are sufficient and clear criteria for differentiating between the two when the additional information in paragraphs 8 and 9 is taken into consideration.

Staff Recommendation:
Thank you. Revisions have been made to paragraphs 7 -9.

#3 Alexis Stowe, GSA - OCFO

BCA: Agree. Criteria is adequate.

PFF: The dual criteria outlined in paragraphs 6 & 7 is adequate. The requirements to include evidence of management's decision to dispose, remove, or retire PP&E for permanent removal from service simplifies the instruction.

BE: Disagree with the criteria that a removal from service is deemed temporary until management decides to permanently retire or disposes of the asset. There has to be a "time limit" imposed on the removal from service, such as two consecutive years of non-functional use. Otherwise, there is a potential for assets to sit out of service for long periods of time, meanwhile overstating the assets on the balance sheet.

Staff Recommendation:

Non-Concur with recommendation of the addition of a ‘time limit’ as the need to temporarily remove assets can vary greatly by Agency. Individual agencies can implement policy to address issue of ‘time limit’ as they deem appropriate.

#4 Gerald Tucker, HUD - OCFO

HUD agrees with the outlined criteria for differentiating between temporary and permanent removal from service, specifically that two business events are required to establish permanent removal from service. HUD further agrees that, where there is intent to dispose of assets, there should be disclosure of that intent.

Staff Recommendation:
Thank you.

#5 Michael Steinberg, NRC - OIG

Agree. The criteria outlined adequately addresses the concerns regarding the issue of differentiating between permanent and temporary removal from service of G-PP&E assets. The criteria now allows for more flexibility so you are not required to reclassify the asset every time it is used. Moreover, the criteria now provides a definitive answer – “The removal from service should be deemed temporary, unless there is evidence of management’s decision to permanently remove the asset from service. . . “

Staff Recommendation:
Thank you.

#6 Anita Jones, EPA - OCFO

No Comment

Staff Recommendation:
Thank you.

#7 John Wall, DOE - OCFO

Agree. Criteria are adequate for differentiating between temporary and permanent removal from service. The criteria for temporary removal from service would allow an asset’s use to be terminated and then not remove the asset from service while management makes a determination on the future use of the asset. Once this determination is made it can be permanently removed.

Staff Recommendation:
Thank you.

#8 Susan Tonner, Aerospace Industry Association

Disagree! There would be a large amount of administrative cost associated with items being deemed temporary – then waiting for a management decision or evidence of a management decision… Recognition occurs as events occur. Management approval process must not interfere with appropriate recognition.

Depreciation occurs based upon the estimated useful life established in the depreciation accounting system.

Depreciable PP&E assets should depreciate as long as those items remain assets. If items are retired or dismantled and placed into stores and are available for sale – they are no longer PP&E.

Placing items in storage in lieu of disposition in order to avoid proper recognition of retirement is not an acceptable practice.

Staff Recommendation:
Non-concur. The cost associated with the event may vary agency to agency and therefore can not be a factor from governance prospective. Management decisions are events and a factor as they determine capitalization threshold, estimated useful lives, and recognition of certain events and use of assets to include temporary or permanent removal from service. While you are correct that items retired or dismantled and placed into stores and are available for sale are no longer PP&E, they are still assets and therefore reclassified when permanently removed from service to 'Other Assets' account. Also, using your words, 'placing items in storage' is not always in lieu of disposition and is the point of the differentiation of temporary and permanent removal from service.

#9 Terri Straite, CBP - OCFO

Agree. We believe that the criteria clearly define the difference.

Staff Recommendation:
Thank you.

#10 Rafael Cotto, NSF - OCFO

NSF agrees with the criteria outlined for differentiating between temporary and permanent removal from service.

Staff Recommendation:
Thank you.

#11 Eric Berman, AGA - FMSB

We suggest that the Board may want to consider adding guidance for a permanent change of use, such as a plane retained for parts, which would occur after a removal from the asset's normal service, and before a permanent disposal.

Staff Recommendation:
It is assumed that when an asset is to be dismantled for parts, the asset is permanently removed from service. In some cases, the parts could individually become new assets and accounting rules for booking new assets would apply. See paragraph 12.

#12 Cynthia Simpson, DOL – OCFO

We agree that removal from service should be deemed temporary unless there is evidence of management's decision to permanently remove the asset (paragraph 7). However, we believe that the examples could be improved (paragraph 8).

In paragraph 8, we believe that the example of continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted could provide evidence for ***both*** temporary and permanent removal; we believe that low-level maintenance could keep assets to be disposed of in saleable or usable condition in the case of permanent removal and disposal. Furthermore, we believe that the example of processing an aircraft in such a way as to retain its potential for future operability could provide evidence of ***both*** temporary and permanent removal; we believe that such actions would keep the asset to be disposed of in saleable and/or usable condition in the case of permanent removal and disposal. Therefore, we suggest that FASAB acknowledge that activities may provide evidence with respect to ***both*** temporary and permanent removal. We believe that documentation which confirms management's decision to permanently remove, retire, and/or dispose of the asset may provide high quality evidence.

With respect to paragraph 8, we believe that it would be helpful if FASAB could provide additional examples of evidence of management's decision to permanently remove, retire, and/or dispose of the asset; if possible, these examples should be different from examples that could also provide evidence supporting temporary removal of the asset and eventual return to service.

Staff Recommendation:
Agree with reviewer's assessment. Updated verbiage to paragraph 7 and 8 for stronger position for permanent removal from service.

#13 Andrew Lewis, GWSCPA - FISC

The FISC generally agrees with the criteria outlined for differentiating between temporary and permanent removal from service. However, we recommend that the second business event outlined in paragraph 9 (i.e., "there is evidence of management's decision to permanently remove, retire, and/or dispose of the asset") be broadened to include a phrase such as, "or the likelihood of the assets return to service is remote." In some circumstances, management may terminate use of the asset as part of the agency's active operations, such as in favor of a newer generation of equipment, or after the original purpose of the use of the asset was accomplished, but management may stop short of a formal decision to "permanently remove, retire, and/or dispose of the asset" in favor of storing the asset and spare parts for a potential emergency or failure of the newer generation of equipment. Some examples of such situations are:

- Federal law enforcement agencies, which may store older generations of communications equipment;
- Federal air transportation agencies, which may store older generations of radar equipment;
- Military services, which may store older generations of vehicles, ships, and combat equipment; and
- Federal agencies, which may have constructed roads to extract natural resources (e.g., timber cutting, subsurface mining, etc.), but no longer require or readily use the road since the original purpose of the road (to extract the natural resources) has been accomplished.

The likelihood of the asset's return to service may be remote, and may only take place if a catastrophic event or chain of events occurred that would cause the in-service assets to be inoperable. Under the ED and without the proposed modification above, these assets would be considered "temporarily removed from service" since the second business event has not been entirely fulfilled, and depreciation would continue to occur (per paragraph 13) – even though the agency may have no planned intent of returning the asset to service.

Also, we recommend that the first provision of paragraph 9 ("Asset's use is terminated") be modified to include reference to infrequently used assets or assets with specific and limited purpose. As an example, some dams or diversion channels that may only come into service after a severe and unpredictable rainstorm every 5-10 years. One could argue during the time between rainstorms that the asset is no longer in use, and should be moved to "temporarily not in use." A revision to the language in paragraph 9 could eliminate confusion in classifying infrequently used or assets with specific and limited purpose as "in-use" or "temporarily not-in-use."

Staff Recommendation:
Thank you for your comments. However, your own examples show that different agencies have differing specific requirements as it pertains to maintaining assets not currently in use.

#14 Kevin Buford, NASA - OCFO

Agree. The criteria for differentiating between temporary and permanent removal outlined in this technical release seems appropriate since it is based on management's decision in accordance with their policies and procedures. We believe that the additional clarifications provided in this exposure draft (ED) will help to remove the confusion regarding the temporary and permanent removal from service and Agencies will be able to use a consistent approach when they remove General Property, Plant, and Equipment (G-PP&E) from service.

Staff Recommendation:
Thank you.

#15 Carla Krabbe, SSA - OCFO

No Comment.

Staff Recommendation:
Thank you.

#16 Elliott Lewis, DOL - OIG

We agree with the criteria outlined for differentiating between temporary and permanent removal from service. However, some of the language in paragraph 7 appears to be conflicting. For instance, it states in paragraph 7 that “Removal of service is defined as an event that terminates the use of a G- PP&E asset….” It further states that “the removal of service may occur because of a change in the manner or duration of use….” If the asset is still in use and only the manner or duration has changed, why would this be considered a removal from service? The Board should consider further clarifying what is meant by a “change in the manner or use” or remove this language from the paragraph.

Staff Recommendation:
Paragraph 7 speaks to removal from service, both temporary and permanent so the phrase ‘change in manner’ is appropriate. Further clarification for permanent removal added.

#17 Amanda Nelson, KPMG

No comment.

Staff Recommendation:
None.

Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD agrees with the G-PP&E permanent removal financial transactions outlined in paragraph 11 and Appendix B: Illustrations. If the asset has been permanently removed from service, it should be indicated on the financial statements. Net realizable value should recognize that the asset may be used for other than the original intended purpose.

Staff Recommendation:
Thank you.

#2 Mark Jenson, NASA - OIG

Since nowhere in the guide does the Disposal subgroup document its rational for reclassifying G-PP&E costs and associated accumulated depreciation from the G-PP&E account to the other asset account at the assets' net realizable value, we must make some assumptions. Our assumption is that the definitions of most G-PP&E accounts (e.g., 1730 and 1750) in the USSGL include wording similar to 'used in providing goods or services' and an asset being permanently removed is no longer being 'used' nor is it anticipated that it would ever be 'used' again. As such, the assets would be reclassified to the USSGL account for Other Assets (i.e., 1990) since its definition does not include this type of wording. We made a similar assumption for the use of the different gain and loss accounts proposed in the financial transactions. Assuming our assumptions are correct, we can understand the logic behind the proposed financial transactions. However, our preference would not be to strip the asset of its 'property' classification as part of Step 2 of Scenarios I and II in Table 1 of Appendix B since G-PP&E does not stop being 'property' once it is permanently removed from service; prior to its disposal. We believe it is reasonable for a reader of the financial statements to assume that a building is still a building, recorded at the appropriate value, even after the building is vacated, abandoned, etc., and management has decided to permanently retire it.

Staff Recommendation:
The recommendation in the draft document is based on SFFAS 6, paragraph 38 and 39 for removal of the assets from the G-PP&E accounts. The guide has been revised to add the account "G-PP&E Permanently Removed but not yet Disposed."

#3 Alexis Stowe, GSA - OCFO

BE: Agree. It should also be noted that any salvage value should be considered in the gain or loss calculation. Also, there should be a financial disclosure of the transaction in the financial reporting.

PFF: Agree with the logic behind the permanent removal of financial transactions. However, GSA have concerns over the accuracy of estimates of "net realizable value" early in the disposal process before a method of disposal is determined. The net realizable value could change dramatically with proceeds from disposal ranging from zero to fair market value depending on the disposal method (federal transfer, public conveyance, negotiated sale, or public auction).

Staff Recommendation:
Agreed that the salvage value of the G-PP&E should have been considered in the gain or loss calculation as it should have been included in the depreciation schedule when the asset was being placed in service. This is covered in SFFAS 6, par. 35 and the determination of depreciation schedule is outside of scope of the document.

Changes in net realizable value and related transactions are covered in par. 39 of SFFAS 6 and also spoken to in A9 of the implementation guidance.

#4 Gerald Tucker, HUD - OCFO
HUD generally agrees with the proposed financial transaction required for permanent removal. However, in Scenario I we suggest changing the credit from "Other assets" to "G-PP&E."

Staff Recommendation:
SFFAS specifically speaks to removing the value from G-PP&E accounts. The guidance's purpose is not to change SFFAS 6 but to clarify it. The guide has been revised to add the account "G-PP&E Permanently Removed but not yet Disposed."

#5 Michael Steinberg, NRC - OIG

Agree. It is reasonable to expect that if an asset has been permanently removed from service, it should be so disclosed on the financial statements. The guidance calls for recording the asset "at its net realizable value with an offsetting entry to gain or loss." This permits the federal entity to record its asset at its approximate market value until disposal, which is in line with generally accepted accounting principles.

Staff Recommendation:
Thank you.

#6 Anita Jones, EPA - OCFO

No comment.

Staff Recommendation:
Thank you.

#7 John Wall, DOE - OCFO

Agree. Permanent removal should result in removal of the asset from the financial records and the posting of any associated gain or loss.

Staff Recommendation:
Thank you.

#8 Susan Tonner, Aerospace Industry Association

In part, the two step process is noted -- write down to fair value, then adjust, based upon the actual disposal transaction. This is technically correct, but may not be practical in operation. For the initial recognition – there is no natural choke point -- items may just be delivered to a disposition area without regard to book value. The guidance needs to address transfers. Should not write down until it is known a transfer will not occur.

Staff Recommendation:
The transfer of an asset may or may not result in the permanent removal from service so the individual Agency needs to address recognition of transfers with the removal from service process. As different Agencies may recognize a transfer differently, it is inappropriate to add to guidance.

#9 Terri Straite, CBP - OCFO

Agree. The underlying accounting principles support this procedure. However, the expected materiality, cost, and time to estimate net realizable value prior to disposal needs to be considered. The practicality of implementing this and determining the net realizable value on an asset-by-asset basis is cost prohibitive. Many times the value of an item which will be auctioned off cannot be estimated. Suggest that non-material values be zeroed out when disposal is known.

Staff Recommendation:
The issue of non-material or not is a matter for FASAB to address in a SFFAS. This document is implementation guidance and is not intended to change requirements but provide clarification. Adding the issue of materiality is outside of the scope of the document.

#10 Rafael Cotto, NSF - OCFO

NSF agrees with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11.

The logic of the financial transactions is compliant with GAAP

Staff Recommendation:
Thank you.

#11 Eric Berman, AGA - FMSB

We agree as it removes the asset from the financial records and recognizes any realized gain or loss from the disposal.

Staff Recommendation:
Thank you.

#12 Cynthia Simpson, DOL - OCFO

We agree with the G-PP&E permanent removal financial transactions as described in paragraph 11. We believe that this treatment is consistent with SFFAS 6 and current practice.

Staff Recommendation:
Thank you.

#13 Andrew Lewis, GWSCPA - FISC

The paragraph appears to direct an agency to record the disposition entry when the two business events in paragraph 9 are fulfilled (see first sentence of paragraph 11), including the recognition of an *expected* gain or loss prior to actual disposition. The second and third sentences of paragraph 11 appear to then direct the agency to "true up" its recognition of a gain or loss once the actual disposal has occurred. Although this accounting treatment is consistent with standards issued by the Financial Accounting Standards Board and the Governmental Accounting Standards Board, we could not locate similar narrative allowing such recognition of an expected gain or loss within current FASAB standards. We recommend that the final TR either include a reference to the applicable FASAB standard in which this accounting treatment is discussed, or subject this accounting treatment to FASAB's due process of standard setting.

Staff Recommendation:
Please refer to par. 39 of SFFAS 6 for the standard.

#14 Kevin Buford, NASA - OCFO

Agree. The financial transactions described in paragraph II and the step-by-step illustration in Appendix B when G-PP&E is permanently removed from service is appropriate and clear and will improve consistency of application.

Staff Recommendation:
Thank you.

#15 Carla Krabbe, SSA - OCFO

No comment.

Staff Recommendation:
Thank you.

#16 Elliott Lewis, DOL - OIG

We agree with the transactions as outlined in paragraph 11. However, the language as currently written is confusing. For instance, in the first sentence it states "…the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss." This language is confusing as it says that the acquisition cost and related accumulated depreciation should be removed but then says the asset is recorded at its net realizable value, which appears to be contradictory.

Staff Recommendation:
Thank you. We have modified verbiage in paragraph 11 for clarity.

#17 Amanda Nelson, KPMG
No comment.

Staff Recommendation:

None.

Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD agrees with the G-PP&E temporary removal financial transactions outlined in paragraph 13 and in the Appendix B: Illustrations. If the asset has not been permanently removed from service and/or still being used, and the situation is treated as temporary removal from service, there should be no change in the G-PP&E reported value and depreciation continues. SFFAS 6 provides flexibility in mechanisms for depreciation. Thus, agencies may use activity-based, rather than time-based depreciation.

Staff Recommendation:
Thank you.

#2 Mark Jenson, NASA - OIG

We agree with the financial transactions outlined in paragraph 13 when removal of G-PP&E is deemed temporary.

Staff Recommendation:
Thank you.

#3 Alexis Stowe, GSA - OCFO

BE: Agree that the temporary removal of assets should continue to be depreciated because there is the high probability that the asset will continue to operate.

PFF: Agree. If management has not decided to permanently remove or dispose of the asset, there should be no change in the accounting of the asset and depreciation should continue.

Staff Recommendation:
Thank you.

#4 Gerald Tucker, HUD - OCFO

HUD agrees with the financial transactions outlined pertaining to temporary removal of PP&E. Assets in use must be depreciated.

Staff Recommendation:
Thank you.

#5 Michael Steinberg, NRC - OIG

Agree. It makes perfectly good accounting sense that depreciation continues in the following scenario: the asset has <u>not</u> been permanently removed from service or it is still in use providing a benefit.

Staff Recommendation:
Thank you.

#6 Anita Jones, EPA - OCFO

No comment.

Staff Recommendation:
Thank you.

#7 John Wall, DOE - OCFO
Agree. Pending management's decision whether to permanently remove an asset, it can be placed back into service at any time. Additional clarification should be provided on terminating an asset's use and how long the asset can remain in temporary removal status.

Staff Recommendation:
As Agencies policies and procedure may differ, the guidance is intended to be useful for different assets types so any reference to a time limit in the document is not appropriate.

#8 Susan Tonner, Aerospace Industry Association

See as marked and noted – focus on proper recognition based on the definition of an asset – when the item is no longer an asset – proper recognition is required.

This is "stand-by" -- per Cost Accounting Standard (CAS) 409. Recommend using the same terms.

> **Suggested Revision: Par.13 -** G-PP&E Acquisition Cost & Depreciation at Temporary Removal - If the asset's normal use is terminated but management has not decided to permanently remove, retire or dispose of the asset, the item may still be an asset until it is decided there is no probable future use. In this case, there is no change in the G-PP&E reported value and depreciation continues. Likewise, if the asset is still in use even though management has decided to permanently remove, retire or dispose of the asset, the permanent removal from service has not occurred. There is also no change in the G-PP&E reported value and depreciation continues.

Staff Recommendation:
Thank you. 'Normal' for an Agency is defined by the Agency and inappropriate to define in the document.

#9 Terri Straite, CBP - OCFO

Agree. There should be no recognition until the removal is permanent.

Staff Recommendation:
Thank you.

#10 Rafael Cotto, NSF - OCFO

NSF agrees with paragraph 13 G-PP&E Acquisition Cost & Depreciation at Temporary Removal. The cost-benefit of annually assessing net realizable value for items that will ultimately return to service supports the proposed financial transaction.

Staff Recommendation:
Thank you.

#11 Eric Berman, AGA - FMSB

We agree, since the asset is still in use and management may decide not to permanently remove it from service. If the asset's normal use has been permanently changed, we think that provision should be made for these assets to be reclassified as held for parts, etc., rather than continue at its reported value with depreciation continuing. For example, if an airplane or ship is 'mothballed' with the intent to use parts from it to repair other planes or ships, its normal use has been terminated, but it is not permanently removed or disposed of because it has value to the service for its parts.

Staff Recommendation:
The example given in the comment illustrates the disposal of one asset and the creation of a new asset(s). The Agency should record the disposal entries and create acquisition entries as described in paragraph 12 for 'parts.'

#12 Cynthia Simpson, DOL - OCFO

We agree with the treatment of G-PP&E for temporary removal as outlined in paragraph 13 because we believe that this treatment is managerially expedient. However, we think that FASAB should acknowledge that there may be certain circumstances that may warrant an alternative treatment, e.g., temporary removal of large amounts of tangible G-PP&E due to a major Department or Agency reorganization that may take an extended period of time. During such a time, it may be preferable to suspend depreciation.

Staff Recommendation:
The guidance is developed as a clarifying document to SFFAS, not as a change in policy. Changes requested to SFFAS guidance should be directed to FASAB.

#13 Andrew Lewis, GWSCPA - FISC

The FISC generally agrees with the proposal to continue to depreciate assets that have been temporarily removed from service. However, the final TR should provide guidance to cease depreciation for assets that will be removed from service for a significant period of time (the time period would also need to be defined in the final TR), or for which the likelihood is remote that the asset will return to service.

Staff Recommendation:
Current guidance requires depreciation to be captured until the asset is either fully depreciated or permanently removed from service. However, an Agency can decide to use a depreciation method, such as flying hours, that would account for an assets 'lack of activity.' This point will be added to the technical release's basis for conclusions.

#14 Kevin Buford, NASA - OCFO

Agree. As outlined in paragraph 13, if the asset's use is terminated but management has not decided to permanently remove, retire or dispose the asset, and then there is no change in the G-PP&E reported value and depreciation should continue. Similarly if the asset is still in use even though management has decided to permanently removing it, there is no change in the G-PP&E reported value and depreciation should continue

Staff Recommendation:
Thank you.

#15 Carla Krabbe, SSA - OCFO

No comment.

Staff Recommendation:
Thank you.

#16 Elliott Lewis, DOL - OIG

We disagree with the financial transactions outlined in paragraph 13 because they do not address assets whose temporary removal may be due to impairment and/or whose useful service life has changed, which under existing accounting standards may require changes to the future transactions.

Staff Recommendation:
Changes in value or useful lives of assets remaining in service regardless of the reason (e.g. impairment) are outside of the scope of this document. However, that point will be added to the technical release's basis for conclusions.

#17 Amanda Nelson, KPMG
No comment.

Staff Recommendation:
None.

Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD agrees with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15 and in the Appendix B: Illustrations. If values of components under group or composite depreciation are small, the resulting estimates are likely not material. If costs are large, this will likely be a manual effort to record the transactions. Although DoD agrees with the financial transactions outlined in paragraph 15, the use of technology has taken most of DoD away from using group and composite rates.

Staff Recommendation:
Thank you.

#2 Mark Jenson, NASA - OIG

Although we agree with the proposed financial transactions when dealing with the disposal of assets being accounted for using the group or composite depreciation method, we believe a couple of revisions would improve the understanding of the message being conveyed. Specifically, we suggest that the following sentences within paragraph 15 be revised.

Initial Wording of Sentences:

> However, if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized. The G-PP&E account is credited for the original cost of the asset and accumulated depreciation is debited for the same amount less any salvage value.

Suggested Revision of Sentences:
However, if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, the G-PP&E account is credited for the original cost of the asset and accumulated depreciation is debited for the same amount less any salvage value*, thus no gain or loss is recognized.*

Staff Recommendation:
Agree with recommendation and document updated.

#3 Alexis Stowe, GSA - OCFO

Agree.

Staff Recommendation:
Thank you.

#4 Gerald Tucker, HUD - OCFO

HUD agrees with the PP&E disposal financial transactions when group or composite depreciation is used. This is consistent with the accounting standard in which no gain or loss on the sale of a fixed asset is recognized under the composite method. The item cost is the *pro rata* share of the total original group cost. This method allows for consistent treatment and auditable records.

Staff Recommendation:
Thank you.

#5 Michael Steinberg, NRC - OIG

Disagree. Paragraph 15 is somewhat confusing as drafted. The beginning of the paragraph provides that no transaction will recognize permanent removal of assets until the entire group has been permanently removed from service. Then, the reader has to wait until the end of the paragraph to find the appropriate accounting entry. For continuity and clarity, suggest the following wording: At the point in time when the entire group of assets have been permanently removed, retired, and/or disposed, then debit accumulated depreciation and credit the asset account, etc.

Staff Recommendation:
Noted. Paragraph 15 rewritten for clarity.

#6 Anita Jones, EPA - OCFO

No comment.

Staff Recommendation:
Thank you.

#7 John Wall, DOE - OCFO

Agree. Making adjustments to assets and accumulated depreciation is common practice as changes are recognized. These changes should be reviewed regularly.

Staff Recommendation:
Thank you.

#8 Susan Tonner, Aerospace Industry Association

Disagree. The purpose of group or composite depreciation method is to minimize administrative cost. The method proposed requires accountability and accounting of units or parts of the group – making these techniques unworkable. It is assumed parts of the group will be disposed before and after the group is fully depreciated. Finite recognition, management and accounting of parts were waived when this approach was chosen. For property management purposes parts of the group could be managed.

For reference – see the FASB treatment in their PP&E exposure draft in ~2001.

Staff Recommendation:

Language in paragraph 15 has been revised.

#9 Terri Straite, CBP - OCFO

Partially agree. For constructed assets that work and are capitalized as a system, it is particularly difficult to determine the original cost of any portion of the system that might be disposed. This is particularly true when a significant amount of the asset cost was for labor. Suggest that estimates be allowed to determine original cost and depreciation.

Staff Recommendation:
How the original cost a single asset in a group is determined is outside of the scope of the document although paragraph 15 states *"The prorata share of the total original group cost may be used to determine the item share cost."* Whatever methodology is used, it should be done in accordance with FASAB standards.

#10 Rafael Cotto, NSF - OCFO

NSF agrees with the disposal transactions when group or composite depreciation is used. The proration of costs to determine the value of the remaining items, and not recognizing a gain or loss until the entire group is permanently removed from service is reasonable and rational.

Staff Recommendation:
Thank you.

#11 Eric Berman, AGA – FMSB

The first sentence seems to contradict the second sentence: could this be clarified? The first sentence says that permanent removal transactions will be made only when the entire group has been permanently removed; the second sentence seems to be saying that an asset within the group can be permanently removed with some, but not all aspects of a permanent removal transaction.

Staff Recommendation:
Paragraph 15 has been rewritten for clarity.

#12 Cynthia Simpson, DOL - OCFO

We do not agree with the paragraph as it is currently written. We believe that the first sentence in paragraph 15 should include a reference to recognizing gain or loss upon permanent removal of an entire group of assets when the group or composite method of depreciation is used.

We believe that the last sentence in paragraph 15 should allow the prorata share of the total original group cost to be used as the item share cost ***only if*** the actual cost of the item is unknown. Furthermore, we believe that FASAB should make a reference to the requirement in this paragraph in its Technical Release, "Implementation Guide for Estimating the Historical Cost of G-PP&E."

Staff Recommendation:
Paragraph 15 has been rewritten for clarity.

#13 Andrew Lewis, GWSCPA - FISC

The FISC generally agrees with the group or composite depreciation guidance in paragraph 15. However, we recommend that the final TR include a provision that gains or losses on individual assets be recognized if there is a material difference between the disposition proceeds and the pro-rated remaining book value. The current ED does not require a gain or loss to be recorded, even if the gain or loss is material.

Staff Recommendation:
Paragraph 15 has been rewritten for clarity.

#14 Kevin Buford, NASA - OCFO

Agree. Even though the explanation in paragraph 15 appears logical, it can be made clearer with an illustration of an example or scenario. Also, the cost of more precise allocation will likely outweigh the benefit of minimal improvement in precision that allocation will yield.

Staff Recommendation:

#15 Carla Krabbe, SSA - OCFO

No comment.

Staff Recommendation:

#16 Elliott Lewis, DOL – OIG

We disagree with the G-PP&E disposal financial transactions outlined in paragraph 15. It states in paragraph 15 that “for assets recognized using a group or composite method of depreciation, transactions to recognize permanent removal of assets will apply only when the entire group has been permanently removed from service.” However, the paragraph goes on to discuss how to remove an asset within a group when the other assets in the group have not been permanently removed from service. These transaction triggers seemingly contradict one another. The Board should clarify whether the transactions should be recorded for individual assets or if they should only be recorded when the entire group is permanently removed.

In addition, paragraph 15 states that “…if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized.” This seems to contradict SFFAS 6, paragraph 38 which states, “Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.”

Staff Recommendation:

Language in paragraph 15 has been revised.

#17 Amanda Nelson, KPMG
No comment.

Staff Recommendation:

Thank you.

Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD agrees with the G-PP&E permanent removal financial transactions outlined in paragraph 14. It would be helpful if the proposed change clearly stated when the cleanup costs are incurred (e.g. at the beginning of the asset's life) and what the accumulated liabilities are when in temporary disposal status.

Staff Recommendation:
Thank you.

#2 Mark Jenson, NASA - OIG

We agree that unallocated/unamortized clean-up costs should be recognized in full for G-PP&E permanently removed from service. If the G-PP&E is permanently removed from service then it is feasible that the property item may be disposed of at any time and thus the clean-up costs which would be necessary to dispose of the property item could also be incurred at any time.

Staff Recommendation:
Thank you.

#3 Alexis Stowe, GSA - OCFO

BE: Agree. For assets permanently removed, the unauthorized/unallocated portion of the total cleanup cost associated with the disposal is recognized in full.

PFF: Agree that any unamortized cleanup costs should be recognized in full upon disposal.

Staff Recommendation:
Thank you.

#4 Gerald Tucker, HUD - OCFO

HUD agrees with the financial transactions related to disposal and the application of cleanup costs for PP&E. Amortization of cleanup costs continues for temporary disposal, while full recognition of cleanup costs occurs for permanent disposal.

Staff Recommendation:
Thank you.

#5 Michael Steinberg, NRC - OIG

Disagree. Suggest additional information is needed perhaps a clarifying footnote. What is the meaning of the terminology "any unallocated/unamortized portion of the total cleanup cost estimate" and "recognized in full"? Also, it might be helpful to explain when cleanup costs are incurred.

Staff Recommendation:
Non-Concur. When cleanup costs are incurred is outside of the scope of this document. For further clarification of meaning of "any unallocated/unamortized portion of the total cleanup cost estimate" and "recognized in full", please refer to SFFAS.

#6 Anita Jones, EPA - OCFO

No comment.

Staff Recommendation:
Thank you.

#7 John Wall, DOE - OCFO

Agree. The Department agrees that when an asset is disposed of and removed from the financial records, associated costs should be recognized. However, the Department handles cleanup as part of the unfunded environmental liability estimate.

Staff Recommendation:
Thank you.

#8 Susan Tonner, Aerospace Industry Association

Agree.

Staff Recommendation:
Thank you.

#9 Terri Straite, CBP - OCFO

Agree. This matches the asset disposal with a removal of the related clean up cost amortization/amount to be allocated.

Staff Recommendation:
Thank you.

#10 Rafael Cotto, NSF - OCFO

NSF agrees with the cleanup cost financial transactions as presented. Recognizing the full unallocated/unamortized portion of the cleanup cost at the time an asset is permanently removed is a reasonable approach.

Staff Recommendation:
Thank you.

#11 Eric Berman, AGA - FMSB

We agree.

Staff Recommendation:
Thank you.

#12 Cynthia Simpson, DOL - OCFO

We agree with the treatment of the G-PP&E disposal, as it relates to cleanup costs. In the case of temporary removal of large amounts of G-PP&E due to a major Department or Agency reorganization that may take an extended period of time, we believe that the accounting treatment described in paragraph 14 continues to be appropriate because it is both managerially expedient and conservative.

Staff Recommendation:
Thank you.

#13 Andrew Lewis, GWSCPA - FISC

The FISC generally agrees with the guidance in paragraph 14.

Staff Recommendation:
Thank you.

#14 Kevin Buford, NASA - OCFO

Agree. It is a reasonable accounting treatment of the unallocated and/or unamortized portion of the total clean-up costs when the associated G-PP&E is permanently or temporarily removed from service. But we believe that an illustration using an example or scenario could have been beneficial to make it clear.

Staff Recommendation:
Thank you.

#15 Carla Krabbe, SSA - OCFO

No comment.

Staff Recommendation:
Thank you.

#16 Elliott Lewis, DOL - OIG

We agree in part with the financial transactions illustrated in paragraph 14. It says in paragraph 14 that the liability and associated cleanup cost expense should continue to accumulate for assets if removal from service is temporary. However, in accordance with SFFAS 6, paragraph 98, “Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation." Based on SFFAS 6, it would appear that if the asset is not in service that cleanup cost should not continue.

Staff Recommendation:
This document deems ceased operation as referred to in SFFAS 6, paragraph 98 as permanently removed from service. No change made.

#17 Amanda Nelson, KPMG
No comment.

Staff Recommendation:
Thank you.

Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

#1 Mark Easton, DoD- OCFO

DoD is comfortable with the amount and level of technical guidance provided.

As a matter of clarification, Question 2 implies that assets may be sold to others for uses not consistent with the original intent. It should also recognize that the asset may be sold to another country for its original intent.

Other than the comment above, no additional technical guidance is needed at this time.

Staff Recommendation:
Thank you. This point will be added to the technical release's basis for conclusions.

#2 Mark Jenson, NASA - OIG

We believe it would be helpful to include a statement that that the salvage value and net realizable value for a property item would not necessarily be the same at the time when the G-PP&E is considered to be permanently removed from service.

Staff Recommendation:
The distinction between these terms and how to calculate them is outside the scope of this document. No change made.

#3 Alexis Stowe, GSA – OCFO

BCA: No. This Technical Release provides adequate technical guidance.

BE: This guidance is clear as to the financial recording of a removed asset from service.

PFF: Additional clarification on setting the net realizable value could be helpful.

Staff Recommendation:
Setting net realizable value is the responsibility of an Agency's policy based on the definition of "net realizable value" as noted in FASAB Consolidated Glossary (see Appendix D: Glossary of document).

#4 Gerald Tucker, HUD – OCFO

HUD does not foresee the need for additional technical guidance to record disposal transactions for G-PP&E. These guidelines adequately address the differentiation between permanent and temporary removal from service and financial transactions related to permanent or temporary disposals. Management should be able to make an appropriate selection from the available choices.

Staff Recommendation:
Thank you.

#5 Michael Steinberg, NRC - OIG

Agree. Any additional technical guidance would certainly be helpful to the reader. Additional guidance would be helpful in resolving responses to questions 4 and 5 above.

Staff Recommendation:
Thank you. Noted.

#6 Anita Jones, EPA - OCFO

No comment.

Staff Recommendation:
Thank you.

#7 John Wall, DOE – OCFO

No. The exposure draft adequately addresses the various financial transactions related to disposals.

Staff Recommendation:
Thank you.

#8 Susan Tonner, Aerospace Industry Association

Yes – focus on proper recognition rather than a finite process that may inhibit proper recognition. Emphasize minimizing administrative cost.

Staff Recommendation:
Noted.

#9 Terri Straite, CBP - OCFO

Yes. It should be emphasized that materiality should determine whether this guidance is applied.

Staff Recommendation:
Noted.

#10 Rafael Cotto, NSF - OCFO

NSF believes that the technical guidance provided is sufficient.

Staff Recommendation:
Thank you.
#11 Eric Berman, AGA - FMSB

See Overall Comment and answers above. We do think that the Illustrations in Appendix B provide helpful guidance to assist government entities in consistently applying federal accounting standards.

Staff Recommendation:
Thank you.

#12 Cynthia Simpson, DOL – OCFO

Yes, we believe that additional technical guidance to record disposal transactions related to G-PP&E is needed. We have described the additional technical guidance needed in our response to Questions 1, 3, 4, and 5 above.

Staff Recommendation:
Noted.

#13 Andrew Lewis, GWSCPA - FISC

The FISC supports the AAPC's efforts to provide additional guidance on the disposal of G-PP&E. However, and as detailed above, we have concerns on the narrative provided in the ED, and have proposed several areas where additional guidance should be provided in the final TR.

Staff Recommendation:
Noted.

#14 Kevin Buford, NASA - OCFO

We believe that the guidance provided is sufficient for recording the accounting events and fair representation of financial statements.

Staff Recommendation:
Thank you.

#15 Carla Krabbe, SSA - OCFO

No comment.

Staff Recommendation:
Thank you.

#16 Elliott Lewis, DOL - OIG

We believe the additional guidance to record disposal transactions related to G-PP&E should not be in this proposal because it introduces two new terms that are not addressed in the

Statements of Federal Financial Accounting Standards, permanent and temporary removal. The Board should consider whether it is necessary to amend SFFAS 6 to define these terms and to better clarify when an asset is to be disposed.

Staff Recommendation:
The purpose of the document is to add the terms as distinctions to the terms defined in SFFAS 6.

#17 Amanda Nelson, KPMG

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment* – the exposure draft (ED). We recognize the Accounting and Auditing Policy Committee (AAPC) efforts to develop this Technical Release and appreciate that the AAPC's mission is to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. We agree that there is a need for additional guidance on accounting issues related to the disposal of general property, plant, & equipment. However, we believe that the introduction of the new terms and the related new accounting guidance in the ED would be more appropriate if the changes were done through amendment of Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* (SFFAS No. 6).

The ED introduces two key terms, "temporary removal" and "permanent removal", which bifurcate the concept of removal from service that is a central concept in SSFAS No. 6. We are concerned that the issuance of a Technical Release as the ED is drafted would result in Level C GAAP (the Technical Release) that could contradict Level A GAAP (SSFAS No. 6). This contradiction is best illustrated by an example. Suppose an entity had a facility that no longer provided service due to damage in a natural disaster or obsolescence. The entity would find accounting addressing these specific circumstances in paragraph 7 of the ED and paragraph 39 of SFFAS No. 6. However in accordance with the ED, the entity would have to meet an additional condition to achieve the same accounting specified in paragraph 39 of SFFAS No. 6. We do not understand how a Technical Release could change the accounting set forth in an existing Standard.

We recommend that the Board consider the challenges described in paragraph A6 of the ED, and whether an amendment of SFFAS No. 6 is needed. Due to the issues described above, we have not provided comments on the specific questions posed by the ED.

Staff Recommendation:

Disagree. This document does not add an addition condition to consider. Any asset removed from service, regardless of the reason, would require some level of management decision to do so. Clarifying language has been added.

#8 Susan Tonner, Aerospace Industry Association

Should not imply that depreciation is discontinued for particular reasons -- depreciation is discontinued as a result of retirement. The allocation of cost should continue until final disposition as originally established in the financial records.

Generally, depreciation occurs as increments of time passes. In some cases depreciation can occur based upon use. The Cost Accounting Standards, for example, prohibit a use allocation method unless all like assets apply the use method.

There should not be a practice – once an item is placed in service, to stop depreciation based upon, efforts to reduce operating (depreciation cost).

Retiring assets stops depreciation – rather than stopping depreciation then retiring assets. Removal from service means the asset is no longer an asset – per the definition on an asset – i.e., no longer provides probable future benefits. Removal from service may include abandonment -- in place situations. Recognition of "removal from services" means financial recognition and not necessarily physical movement of the property.
Items on standby are in use (readiness to serve).

> **Suggested Revision: Par.7 -**"Recognition and removal from service" is defined as an event that terminates the use of a GPP&E asset (e.g., shut down of a facility). .Recognition and removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or excess to entity's mission needs.

Focus should be on proper recognition not management decisions – generally these are consistent. Finance organizations have the responsibility for proper recognition – management has the responsibility for proper PP&E management. Affordability should not influence proper accounting.

> **Suggested Revision: Par. 8 -** Recognition of events may include occurrences and management's decision as evidenced by occurrences and actions taken in accordance with the entity's policies and procedures to commence the retirement or disposal process.

Again – removal from asset records is a financial recognition process not a management process. The proposed method will likely result in excessive administrative cost, delays and the over statement of PP&E.

> **Suggested Revision: Par.9 –**In the case of G-PP&E cleanup costs associated with disposal, closure, or shutdown should continue to accumulate as a liability in accordance with SFFAS 6, paragraphs 97and 98.

The two step process is noted -- write down to fair value, then adjust, based upon the actual disposal transaction. This is technically correct, but may not be practical in operation. For the initial recognition – there is no natural choke point -- items may just be delivered to a disposition area without regard to book value.
The guidance needs to address transfers. Should not write down until it is known a transfer will not occur.

> **Suggested Revision: Par.11 -** G-PP&E Acquisition Cost & Depreciation at Permanent Removal - When the entity's management decides to permanently

remove, retire, or dispose of an asset and the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss. Upon completion of the disposal of the asset, the entity should write off the asset from its financial records. Any difference between the expected net realizable value of the G-PP&E previously recorded and the actual disposition amount should be recognized as a gain or loss.

For items that are transferred to another Government agency or entity, the transaction shall be properly recognized, e.g., the asset's acquisition cost and associated accumulated depreciation are transferred to the new owner.

Spare Parts and Subcomponents : Disagree in part -- the process is more complicated than this and may imply inappropriate accounting treatments – the spare parts may not be of a capital nature; the items may already be fully depreciated; the internal controls in the accounting system may not allow establishing new assets in this manner (credit to depreciation expense and a debit to PP&E). In some cases a more appropriate treatment may be a partial dismantlement.

Capitalization thresholds should be recognized when establishing new assets.

Guidance should not require micro- accounting treatments. Cost vs. benefits should always considered when establishing policy, processes and practices.

Suggested Revision: Par.12 - Spare Parts and Subcomponents. If during the disposal process, the asset is dissembled and spare parts or sub-components are salvaged to be used for other purposes, and if the spare parts or sub-components are of a capital nature, they should be recorded as a separate asset or restored to inventory in accordance with SFFAS 6 or SFFAS 3, Accounting for Inventory and Related Property.

This is "stand-by" -- per Cost Accounting Standard (CAS) 409. Recommend using the same terms.

Suggested Revision: Par.13 - G-PP&E Acquisition Cost & Depreciation at Temporary Removal - If the asset's normal use is terminated but management has not decided to permanently remove, retire or dispose of the asset, the item may still be an asset until it is decided there is no probable future use. In this case, there is no change in the G-PP&E reported value and depreciation continues. Likewise, if the asset is still in use even though management has decided to permanently remove, retire or dispose of the asset, the permanent removal from service has not occurred. There is also no change in the G-PP&E reported value and depreciation continues.

Staff Recommendation:
Noted.

#11 Eric Berman, AGA – FMSB

The goal is to provide rules for a clear, consistent differentiation between a "temporary" and a "permanent" removal, but the guidance in ¶ 6 – 9, and the tables in Appendix B, do not seem to include the situation where an asset may be maintained and/or protected from deterioration so that it will retain either parts value or, if/when disposed of, it will have retained disposal value. That is, provision for "continuing low-level maintenance" (¶ 8) may not provide the desired "bright line" for distinguishing between a temporary and a permanent removal. For example, planes that are sent to an aircraft 'bone yard' would be protected from damage, etc. with a view to several possibilities: possible reutilization, stripped of parts over time, or eventual public sale for non-government use or salvage.

Another example would be a building that is permanently removed from use, but which is maintained and protected from damage for several years because otherwise it would lose considerable value in the public sale marketplace.

In the Maintenance and Decommissioning sections of Table 2 in Appendix B, <u>all</u> of the Maintenance actions and most of the Decommissioning actions listed could support Categories 2 and 3 (Permanent disposal) as well as Category 1 (Temporary disposal). Actions such winterizing a building's plumbing, for example, to prevent major damage, would be a prudent management action even if a public sale of the building is imminent. In its present form, the Maintenance and Decommissioning sections do not seem to acknowledge that management may protect and perform maintenance for assets that are to be disposed of.

A better focus would be for the determination to be made based on the particular facts and circumstances as documented by management, with a listing of factors which tend to indicate either temporary removal, a "quasi-disposal" based upon a permanent change of use, or permanent removal, while providing for management to make a determination based upon the situation taken as a whole. The factors listed in ¶ 9 could still be the criteria for a permanent removal, but continuing maintenance should not be a factor that is limited to temporary disposal. One factor could be the impact of cyclical cost-cutting, during recessionary times.

We recommend that guidance be added for assets that have undergone a permanent change of use that substantially affects their value – for example, an asset that is retained for the value of its parts, when those parts are not going to be removed until needed. (¶12 is limited to disassembled assets; perhaps it should be expanded to include assets held for parts, which may be more typical.) Would a permanent, substantial change like this be a 'quasi disposal', or an effective disposal of the asset? We suggest that FASAB consider adding that assets held for parts should be reclassified and re-valued based upon their substantially altered use: it may not be cost effective to dissemble some assets for parts until it is clear which parts will be needed, over time.

We also suggest that a third scenario could be added to Table 1 of Appendix B for an asset that has undergone a permanent change of use that substantially affects its value.

Staff Recommendation:
This document is neutral to changes in value for determination of temporary or permanent removal from service.

ATTACHMENT 2 – FULL TEXT OF ANSWERS BY QUESTION – Other Comments

#12 Cynthia Simpson, DOL – OCFO

In paragraph 3, we noted that the TR would be effective immediately. We believe that the TR should be effective for FY 2012, with earlier implementation either allowed or encouraged.

Staff Recommendation:
Since the TR does not amend the requirements of SFFAS 6 the effective date coincides with the SFFAS 6's effective date.

#13 Andrew Lewis, GWSCPA – FISC

We recommend that the final TR state that the principles in the TR are meant as guidance for those entities that have not yet resolved the issues of recording and depreciating G-PP&E, and should be adopted on a prospective basis. We recommend that the TR indicate that it is not intended to be used as guidance for revising or reassessing known and audited G-PP&E amounts.

Staff Recommendation:
Since the TR does not amend the requirements of SFFAS 6 the effective date coincides with the SFFAS 6's effective date.

#14 Kevin Buford, NASA – OCFO

General Comments:

1. Paragraph 4, (Page 9) states that any difference in the book value of PP&E and its expected net realizable value shall be recognized as a gain or loss in the period of adjustment. In Appendix D, Glossary, "Net realizable value" is defined as "The estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated cost of completion, holding, and disposal." Holding and disposal costs suggest the nature of such costs for assets being held while awaiting disposal. However, "completion" cost of a depreciated asset removed from service and awaiting disposal is not apparent.

2. Paragraph 4, (Page 9): As stated in this paragraph (lines 10-142), book value less estimated net realizable value equals gain or loss to be recognized "in the period of adjustment." Definition of the term "adjustment" and clarification of what is being adjusted will be helpful to the readers for consistent implementation of the guidance.

3. Paragraph 4 (lines 12-14) states that the expected net realizable value shall be adjusted at the end of each accounting period ... " We believe that for financial reporting purposes, Agencies should have the discretion to choose the appropriate accounting periods for re-estimating the net realizable value and adjusting any gain or loss at the end of those accounting periods. Also, cost-benefit considerations should be weighed in to determine whether the re-estimation at the end of each accounting period is worth its cost.

4. Paragraph 7. We believe that the "management decision" to terminate the use of G-PP&E based on a preceding event, not the preceding event by itself that should be considered in the definition of the term "Removal from Service." Recommend

rewriting the first sentence so that it reads "Removal from Service is defined as a management decision to terminate the use of a G-PP&E based on a preceding event."

Rationale: The preceding "event" does not by itself result in the accounting event ("removal from service"). The accounting event results from management's decision based on the preceding event. The "shut down" example in the ED is an example of management decision based on a preceding event (fire or storm). It is conceivable that a preceding event (like fire) could render a G-PP&E unfit for its intended use. Even in this extreme scenario, management decision to "shut down" ("remove from service") is the essential factor that creates the recordable accounting event. The proposed distinction between "temporary" and "permanent" removal from service reinforces the essential factor of management decision which the definition minimizes. Rewrite.

5. In Paragraph 7, lines 3-4, suggest to rewrite "...decision to permanently remove" as "decision to remove permanently..." to make the sentence more readable.

Staff Recommendation:
Noted.

#18 Kathy Winchester, USSGL FMS

<u>Recognition of Gain or Loss</u>
We are aware that the Implementation Guidance is silent on whether the gain or loss recognized to value the GPP&E at the estimated net realizable value should be reported as unrealized or realized. We are referencing Paragraph 11 as shown below.

When the entity's management decided to permanently remove, retire and/or dispose of an asset and the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the GPPE account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss. Upon completion of the disposal of the asset, the entity should write off the asset form its financial records. Any difference between the expected net realizable value of the GPPE previously recorded and the actual realized disposition amount should be recognized as a gain or loss.

It was the general consensus of agency representatives participating in the April 7, 2011 USSGL Board's IRC that when an asset is valued at the net realizable value, the offsetting gains or losses should be recognized as unrealized. The actual realized gains or losses should be recognized when an asset is actually disposed and not when it is classified as permanently removed but not yet disposed.

If you concur, we would recommend modifying paragraph 11 (including the last sentence), Appendix B, and Scenario I and II - steps 2 & 3.

<u>Capitalized GPP&E</u>
We recommend adding a statement to the Implementation Guidance that would clearly state that the guidance applies only to GPP&E that has been previously capitalized.

Balance Sheet Presentation
The Implementation Guidance does not address Balance Sheet presentation. We request that the Implementation Guidance recommend a specific classification (i.e., PP&E or Other Assets) of the assets permanently removed but not yet disposed.

For your general information, I have attached the draft USSGL scenario as updated after today's IRC meeting.

Staff Recommendation:
Guidance has been updated to recognize both unrealized and realized gains and losses. The guide has also been revised to add the account "G-PP&E Permanently Removed but not yet Disposed."