

February 11, 2011

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
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Washington, DC 20548

Advancing  
Government  
Accountability

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Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its Technical Release exposure draft (ED) of proposed Implementation Guidance on the Accounting for the Disposal of Property, Plant and Equipment. The FMSB, comprising 24 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

**Overall comment:**

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, all 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 disassemble 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.

***Responses to the questions posed in the ED:***

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

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.

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

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

*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.*

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.

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

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.

*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.*

We agree.

*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.*

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.

***Editorial comments:***

- Correct the font on footnote 2 (the number 2 is larger than the others) to match the numbering of the other footnotes.
- Need to change “dissembled” to “disassembled” in paragraph 12, Spare Parts and Subcomponents, page 11.
- Need to remove the extra space and period following the first sentence of paragraph 14, G-PPE&E Cleanup Costs, page 11.
- Appendix B: Illustrations, Table 1, Scenario II, Step 3 under Business Event – need to delete the period under the first bullet of Step 3.
- Appendix B: Illustrations, Example of Practice, paragraph B4 – appears to be an extra space between the second and third sentences.
- Appendix B: Illustrations, Table 2 – Under Management, 3<sup>rd</sup> item down, recommend changing “watertight asset” to “viable asset”.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or at 703.684.6931 ext. 313.

Sincerely,



Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Lisa Casias, CPA  
AGA National President

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Financial Management Standards Board**

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