

Reclamation Manual

Directives and Standards

Subject:	Accounting for the Partial Impairment of General Property, Plant, and Equipment (G-PP&E)
Purpose:	To establish the Bureau of Reclamation's requirements and procedures for the valuation and accounting of partially impaired G-PP&E. The benefit of this Directive and Standard (D&S) is to provide guidance to properly value and record partially impaired G-PP&E in accordance with generally accepted accounting principles.
Authority:	Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i>); FASAB SFFAS 44 , <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i> ; and Department of the Interior, Financial Management Memorandum (FMM) 2015-005 (Vol. II.B), <i>Implementation Guidance for the Statement of Federal Financial Accounting Standards 44: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i>
Approving Official:	Director, Mission Support Organization (MSO)
Contact:	Business Analysis Division (BAD), Compliance and Audit Team (84-27410)

1. **Introduction.** [SFFAS 6](#) requires Reclamation to dispose of G-PP&E it removed from service due to full impairment. See Reclamation Manual (RM) D&S, *General Property, Plant, and Equipment (G-PP&E)* ([FIN 07-20](#)) for information regarding G-PP&E disposals. [SFFAS 44](#) requires Reclamation to adjust the net book value and recognize an impairment loss on partially impaired G-PP&E when Reclamation's management has no reasonable expectation they will replace or restore the lost service utility.
2. **Applicability.** This D&S applies to all Reclamation staff involved in recording transactions or managing or overseeing a project, feature, or asset. The requirements of this D&S apply to G-PP&E including multi-use heritage assets, assets under construction (AUC), and capitalized improvements to heritage land. It does not apply to heritage assets or stewardship land. This D&S also does not apply to software costs, see RM D&S, *Computer Software Costs* ([FIN 07-32](#)).
3. **Definitions.**
 - A. **Asset Under Construction or AUC.** Also known as construction in progress. G-PP&E construction costs that meet the requirements for capitalization are AUC until the work is substantially complete, as defined in the project management plan.

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- B. **Construction in Abeyance (CIA).** Construction activities approved by Reclamation management, as outlined in temporary RM release (TRMR), *Determination to Suspend an Authorized Construction Activity* ([CMP TRMR-88](#)), to be identified as temporarily suspended.
- C. **General Property, Plant, and Equipment or G-PP&E.** Any property, plant, and equipment (PP&E) Reclamation uses to provide goods or services. G-PP&E typically has one or more of the following characteristics:
- (1) used to produce goods or services, or to support Reclamation's mission although potentially useful for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities);
 - (2) used in business-type activities; and/or
 - (3) used in activities whose costs are comparable to those of other entities performing similar activities.
- D. **Heritage Asset.** PP&E that is unique because of its historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics.
- E. **Impairment.** A significant decline, in whole or in part, whether gradual or sudden, in the service utility of G-PP&E or expected service utility for AUC. The events or changes in circumstances leading to impairments are not normal and ordinary. That is, at the time Reclamation acquired the G-PP&E, Reclamation would not expect the event or change in circumstance to occur during the useful life of the G-PP&E or, if expected, find it sufficiently predictable to be applicable in estimating the G-PP&E useful life.
- F. **Multi-Use Heritage Asset.** A heritage asset which serves two purposes where the predominant use of the asset is general government operations.
- G. **Property, Plant, and Equipment or PP&E.** Tangible assets, including land; assets acquired through capital leases, including leasehold improvements; property Reclamation owns in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and land rights that meet the capitalization criteria:
- (1) have estimated useful life of 2 years or more;
 - (2) are not intended for sale in the ordinary course of operations; and
 - (3) have been acquired or constructed with the intention of being used or being available for use by Reclamation.

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- H. **Service Utility.** The usable capacity that at acquisition Reclamation expected to use to provide service; distinguished from the level of utilization, which is the portion of the usable capacity currently used.
4. **Responsibilities.**
- A. **Director, Policy and Administration (POLICY).** The Director, POLICY is responsible for:
- (1) reviewing requests for partial impairment of real property in coordination with BAD; and
 - (2) approving a request for partial impairment of real property as the designated Reclamation Senior Asset Management Officer.
- B. **Branch Manager, MSO, Property Management Office.** The Branch Manager, Property Management Office is responsible for:
- (1) reviewing requests for partial impairment of personal property in coordination with BAD; and
 - (2) approving a request for partial impairment of personal property.
- C. **Manager, MSO, BAD.** The Manager, BAD is responsible for:
- (1) providing accounting guidance for a partially impaired asset, when requested; and
 - (2) reviewing requests for partial impairment in coordination with POLICY or the Property Management Office.
- D. **Regional Directors.** Regional directors are responsible for reviewing, evaluating, and submitting, requests from program managers that recommend, document, and solicit the request for partial impairment of G-PP&E.
- E. **Program Manager and Area Office Personnel.** Program managers and area office personnel are responsible for:
- (1) identifying potential impaired G-PP&E;
 - (2) collaborating with the regional finance office to determine whether impairment exists;
 - (3) preparing and coordinating the development and submission of a request for partial impairment;

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- (4) preparing a business case in accordance with Reclamation's [Real Property Efficiency Plan](#) when the impairment of real property may result in a change in space; and
 - (5) assisting regional finance office personnel in the calculation and recording of partial impairments.
- F. **Regional Property Officer.** The regional property officer is responsible for:
- (1) assisting the program manager or area office personnel in the preparation of a request for partial impairment; and
 - (2) assisting regional finance office personnel in the calculation and recording of partial impairments.
- G. **Regional Finance Office Personnel.** Regional finance office personnel are responsible for:
- (1) collaborating with the program manager and area office staff to determine whether an impairment exists; and
 - (2) calculating and recording partial impairments in the Financial and Business Management System in conjunction with the program manager, area office personnel and/or regional property officer.
5. **Criteria for Partial Impairment.** Partial impairment is a significant **and** permanent decline in service utility of G-PP&E or expected service utility in AUC.
- A. **Significant.** When determining whether the partial impairment is significant, Reclamation will consider the impact on operations such as cost of service rather than the materiality of finance reporting. For example, the costs on the partially impaired asset are now disproportionate to the new expected service utility/useable capacity. Considerations to the impact may include:
- (1) the relative costs of providing the service before and after the decline; and
 - (2) the percentage of decline in service utility.
- B. **Permanent.** The decline in service utility is permanent when Reclamation has no reasonable expectation to replace or restore the service utility but the asset will remain in service using the remaining service utility.
- C. **Additional information.**
- (1) Reduction in service utility due to normal use or ordinary events is not an impairment. It may indicate a need to adjust the useful life of the asset.

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- (2) Decreases in utilization and the simultaneous existence of an increase in capacity available for use not associated with a decline in service utility is not an impairment.
 - (3) Decreases in utilization to mitigate risks of personal and public safety, with no plans to remediate the risk, may be a partial impairment.
 - (4) Reduced demand for services is not a discrete or sole indicator of impairment. There must be an underlying potential impairment resulting in the reduced demand.
 - (5) Overbuilding an asset to meet potential future needs is not an impairment. This is an example of the usable capacity not currently being used due to the lack of demand for services, not an underlying impairment.
- D. **Full Impairment.** Dispose of fully impaired G-PP&E that will no longer remain in service in accordance with [FIN 07-20](#).
- E. **Assets Under Construction or AUC and Construction in Abeyance or CIA.** AUC impairment is a significant and permanent decline in the expected service utility of the AUC. Reclamation should not have many impairments in AUC because it generally repairs or restores the expected service utility. Reclamation records costs associated with a temporarily suspended construction activity in CIA pending a determination of continuing or permanently suspending the construction activity. See RM D&S, *Construction in Abeyance (CIA)* ([FIN 07-26](#)) and RM TRMR, *Determination to Suspend an Authorized Construction Activity* ([CMP TRMR-88](#)) for information regarding the suspension of AUC.
6. **Indications of Potential Impairment.** An impairment must be a significant **and** permanent decline in service utility of G-PP&E or expected service utility in AUC. Common indicators of a potential impairment include:
- A. evidence of physical damage;
 - B. enactment or approval of laws or regulations which limit or restrict G-PP&E usage;
 - C. changes in environmental or economic factors;
 - D. technological changes or evidence of obsolescence;
 - E. changes in the manner or duration of use of the G-PP&E;
 - F. construction stoppage or contract termination; or
 - G. G-PP&E idle or unserviceable for excessively long periods.

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7. **Identifying Potential Partial Impairments.** Reclamation will not conduct assessments solely for the purpose of identifying partial impairments. Reclamation's current asset management practices allow program managers, area office staff, and regional property officers the opportunity to identify potential partial impairments such as when:
 - A. overseeing operating and maintenance activities;
 - B. conducting reviews, examinations, and inventories of Reclamation's G-PP&E;
 - C. performing Safety of Dams reviews;
 - D. reporting deferred maintenance and repairs; and
 - E. monitoring significant events or changes in circumstances.
8. **Calculating Partial Impairment.** If the situation meets the criteria for partial impairment, the program manager and area office staff will work with the regional finance office to determine the calculated cost of the impairment. [SFFAS 44](#) and FMM 2015-005 provide several methods and examples for calculating partial impairment. Contact MSO or POLICY for assistance.
9. **Requesting Partial Impairment.** Regions request partial impairment using a memorandum as described below. In addition, when a partial impairment of real property results in a change in space, the region must prepare a business case in accordance with Reclamation's [Real Property Efficiency Plan](#). The regional program manager and area office staff, in conjunction with the regional finance office and the regional property officers, complete the request for partial impairment memorandum and submit it to the regional director. Upon receipt of the regional director's approval, forward the request for partial impairment memorandum of real property and the business case, if applicable, to POLICY, Attention: 84-57000 and BAD, Attention: 84-27400. Forward the request for partial impairment memorandum of personal property to Branch Manager, Property Management, Attention: 84-27100 and BAD, Attention: 84-27400. A request for partial impairment memorandum may take any form but must contain the following minimum information:
 - A. Project name.
 - B. Real property unique identifier and asset name, if applicable.
 - C. Main usage type, if applicable.
 - D. Original acquisition date and cost.
 - E. Accumulated depreciation.
 - F. Useful life of the asset.

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- G. Detailed description of the partial impairment including statements addressing the following:
 - (1) The circumstances causing the impairment.
 - (2) The extent of the impairment.
 - (3) Why the asset does not require full disposal.
 - (4) Why the region is not replacing or repairing the asset.
 - (5) Interdependence with other assets, if applicable.
 - H. Details of the impacts on repayment, if any.
 - I. Methodology of the partial impairment calculation.
10. **Approving Partial Impairment.** Upon receipt of the regional director's approved request for partial impairment, POLICY and/or MSO will review the request, solicit additional information from the respective region if applicable, and prepare a memorandum determining concurrence. They will distribute the signed partial impairment approval memorandum to the appropriate regional director for dissemination. The region will not process the partial impairment until they receive the approval memorandum.
11. **Accounting Entries.** The regional finance office has 45 days from the receipt of the partial impairment approval memorandum or before year end, whichever occurs first, to record the accounting entries. The regional finance office will adjust the net book value of the asset and record a loss for the partial impairment using general ledger 7292.C0000, *Other Losses from Impairment of Assets*.

RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: _____

Release No. _____

Ensure all employees needing this information are provided a copy of this release.

Reclamation Manual Release Number and Subject

Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

Filing instructions

Remove Sheets

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All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: _____

Date: _____