

# Reclamation Manual

## Directives and Standards

<b>Subject:</b>	Accounting for the Partial Impairment of General Property, Plant, and Equipment (G-PP&E)
<b>Purpose:</b>	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.
<b>Authority:</b>	Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ( <a href="#">SFFAS 6</a> ), <i>Accounting for Property, Plant, and Equipment</i> ; FASAB <a href="#">SFFAS 44</a> , <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>
<b>Approving Official:</b>	Director, Mission Support Organization (MSO)
<b>Contact:</b>	Finance Policy & Programs Division (FPPD); Policy, Compliance, & Audit (84-27410)

1. **Introduction.** When Reclamation removes G-PP&E from service due to full impairment, [SFFAS 6](#) requires Reclamation to dispose the G-PP&E. 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 remaining in use including multi-use heritage assets, assets under construction (AUC), and capitalized improvements to stewardship 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. **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 considers 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

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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.
- (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 (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 D&S, *Determination to Suspend an Authorized Construction Activity* ([FAC 01-13](#)) for information regarding the suspension of AUC.

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4. **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.
5. **Identifying Potential Partial Impairments.** Reclamation does not conduct assessments solely for the purpose of identifying partial impairments. Program managers, area office staff, and regional property officers identify potential partial impairments while performing Reclamation's current asset management practices. They work with the regional finance office to determine whether an impairment exists. In following Reclamation's asset management practices, opportunities to identify potential partial impairments exist when:
  - A. overseeing operating and maintenance activities,
  - B. conducting reviews, examinations, and inventories of Reclamation's G-PP&E,
  - C. performing Safety of Dams review,
  - D. reporting deferred maintenance and repairs, and
  - E. monitoring significant events or changes in circumstances.
6. **Calculating Partial Impairment.** If the situation meets the criteria for partial impairment, the program manager, area office staff, and the regional property officer 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 FPPD or the Asset Management Division (AMD) for assistance.
7. **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 program manager and area office 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

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the regional property officers, prepare and coordinate the request for partial impairment memorandum. They submit the request to the regional director for evaluation and recommendation. The regional director submits the request for partial impairment memorandum of real property and the business case, if applicable, to AMD, Attention: 86-67000 and FPPD, Attention: 84-27400 for review and approval. The regional director submits the request for partial impairment memorandum of personal property to Branch Manager, Property Management, Attention: 84-27100 and FPPD, Attention: 84-27400 for review and approval. A request for approval of 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.
  - 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.
8. **Approving Partial Impairment.** Upon receipt of the regional director's request for partial impairment, the Director, Dam Safety and Infrastructure or Branch Manager, MSO Property Management and Division Chief, FPPD review the request and solicit additional information from the respective region if applicable. The Director, Dam Safety and Infrastructure, as the designated Reclamation Senior Asset Management Officer, approves requests for partial impairments of real property. The Branch Manager, MSO Property Management approves requests for partial impairments of personal property. The Director,

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Dam Safety and Infrastructure or Branch Manager, MSO prepares a memorandum determining concurrence and distributes the memorandum to the appropriate regional director for dissemination. The region will not process a partial impairment transaction until they receive the approval memorandum.

9. **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*.
10. **Definitions.**
  - A. **Asset Under Construction or AUC.** Also known as construction in progress. G-PP&E construction costs that meet the requirements for capitalization until the work is substantially complete, as defined in the project management plan.
  - B. **Construction in Abeyance or CIA.** Construction activities approved by Reclamation management, as outlined in [FAC 01-13](#), to be identified as temporarily suspended.
  - C. **General Property, Plant, and Equipment or G-PP&E.** Property, plant, and equipment (PP&E) Reclamation uses to provide goods or services, and 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 and permanent 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.

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- 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 as a result of leases and 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.
- 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.
11. **Review Period.** The originating office will review this release every 4 years.

## 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

Insert Sheets

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

Filed by: \_\_\_\_\_

Date: \_\_\_\_\_