March 9, 2016

David Bean
Director of Research
Project No. 3-27E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), Certain Asset Retirement Obligations. We generally agree with the ED proposals. We agree that this proposed statement would enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations. However, we do have some general comments and specific suggestions to help improve clarity of the proposed standard.

In general, we question why asset retirement obligation guidance was not considered more comprehensively within existing GASBs 18 and 49 guidance as either amendments or superseding said Statements. It would appear that a more consistent and comprehensive standard for all asset retirement obligations, including those from GASBs 18 and 49, is preferable for consistent application in practice, especially since the board acknowledged that practitioners were already analogizing to GASBs 18 and 49. We prefer a more comprehensive approach rather than a piecemeal approach for this particular topic.

For ¶5b, is the described activity intended to be an example of “disposal in some other manner.” Also, this criterion appears to conflict with the notion that an ARO is associated with the permanent removal from service of the tangible capital asset. Disposal of a replacement part implies the tangible capital asset will continue in use. In addition, this criterion appears to conflict with ¶6e that excludes the cost of replacement parts from the scope of this Statement.

For ¶16 and ¶B43, the board considered two approaches; however, it appears that the end result was a hybrid of both those approaches (probability-weighted approach and best-estimate approach). Should the description of the approach be characterized as a hybrid approach if that was the board’s intent?
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For ¶B2, we suggest the board explain why analogizing to GASBs 18 and 49 were incorrect by practitioners, especially if a materially different answer was the result.

In the last sentence of ¶B4, reword the last phrase to, “…, regardless of the types of tangible capital assets and types of governments for which asset retirement obligations are associated.”

For ¶B9, we recommend that the board discuss what “friable” means (such as, “Friable asbestos is a term used to describe any asbestos-containing material that when dry, can be easily crumbled or pulverized to powder by hand.”).

For ¶B23, throughout the proposed standard, the board discusses “normal operations.” We suggest clarifying in this paragraph what is meant by “other-than-normal operations” either with examples or a description.

The fourth sentence in ¶B28 appears to be incomplete. We suggest the following change: “Therefore, this alternative could reflect the recognition…."

For ¶B49, we suggest adapting the next to last sentence to clarify in ¶12 why deferred outflows of resources should be recognized (i.e., “Because the tangible capital asset is or will be used in service, the asset retirement outlays are applicable to future periods of service.”)

Next, the last sentence in ¶B50 needs to be clarified because it appears to contradict the prior sentence (or at least appears to be a circular argument). We do not see the distinction between “not asset retirement liabilities” and “liabilities for goods and services used in asset retirement activities.” What other costs would there be than for goods and services for such activities resulting in the liability? Is the former intended to distinguish current from long-term?

Finally, for ¶B52, should the reference to “restricted net assets” be changed to “restricted net position?”

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit