FASAB Update
Recent Issuances and Ongoing Initiatives

Deferred Maintenance and Repairs
&
Asset Impairment

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Disclaimer

- Views expressed are those of the speaker. The Board expresses its views in official publications.

Big Picture

2011 Financial Report of the United States Government, Note 8 page 79.

Note 8. Property, Plant, and Equipment, Net

Property, Plant, and Equipment as of September 30, 2011

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions of dollars)	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	230.2	220.6	118.6	115.5	111.6	105.1
Furniture, fixtures, and equipment	945.1	161.6	511.1	98.3	434.0	63.3
Construction in progress	46.5	47.5	N/A	N/A	46.5	47.5
Land	10.6	11.9	N/A	N/A	10.6	11.9
Internal use software	10.0	19.9	6.9	10.7	3.1	9.2
Assets under capital lease	1.2	2.9	0.7	1.5	0.5	1.4
Leasehold improvements	1.0	6.9	0.5	3.6	0.5	3.3
Other property, plant, and equipment	1.2	6.2	-	3.1	1.2	3.1
Subtotal	1,245.8	477.5	637.8	232.7	608.0	244.8
Total property, plant, and equipment, net		1,723.3		870.5		852.8

Big Picture

2011 Financial Report of the United States Government, RSI page 191.

Deferred Maintenance as of September 30, 2011, and 2010

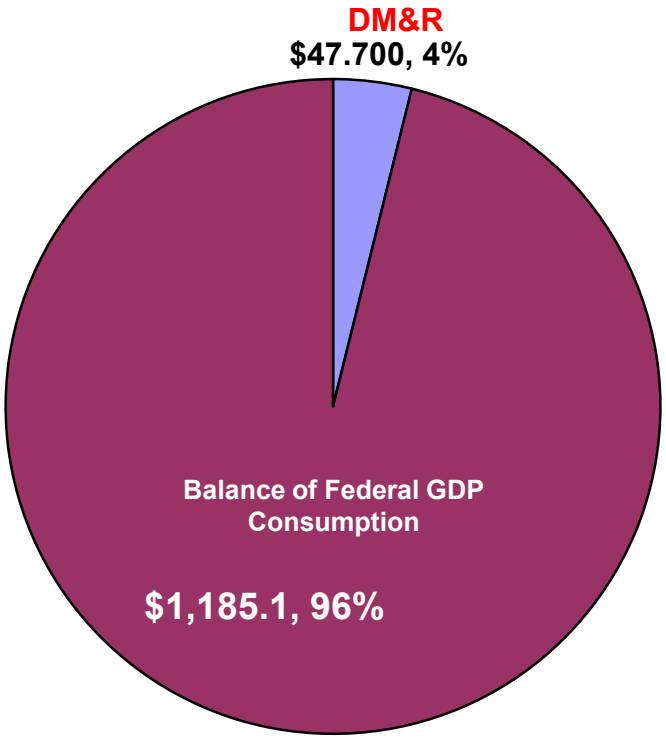
	Deferred Maintenance Cost Range					
	Low Estimate		High Estimate		Critical Maintenance	
(In billions of dollars)	2011	2010	2011	2010	2011	2010
Asset category:						
Buildings, structures and facilities	31.3	129.7	36.4	134.8	97.6	95.0
Furniture, fixtures and equipment	0.1	4.7	0.1	4.7	2.5	4.5
Other general property, plant, and equipment	5.1	5.3	5.1	5.3	0.8	4.9
Heritage assets	0.9	1.9	0.9	1.9	1.2	1.6
Stewardship land	3.6	3.5	5.2	5.2	-	-
Total deferred maintenance	41.0	145.1	47.7	151.9	102.1	106.0

The low and high estimate amounts for 2011 are significantly lower than 2010 due to agencies' incorrect reporting in 2010 that was not adjusted.

Big Picture

Impact on Federal Gross Domestic Product Table 1.1.5

FY2011 DM&R Compared to FY2011 Federal GDP
DM&R is 4% the size of the 2011 Federal Expenditures



Source: FY2011 Consolidated Financial Report of the U.S., page 191

Source: Bureau of Economic Analysis. Table 1.1.5, Line 22.

$1,232.8 minus $47.7 = $1,185.1

Note: 2011 Federal Expenditures is = 8.17% of Total GDP ($1,232.8 / $15,094.4) which amounts to DM&R being 0.3% of Total GDP.

Overview of DM&R and Asset Impairment Projects

- SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment,* Effective FY2012
  - Improving & refining the definition.
- SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32* (pending Principal and Congressional approval; circa May 2012)
  - Improving & simplifying the measurement & reporting of DM&R.
- Exposure Draft, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use* - Comments Requested by May 28, 2012
  - If an asset's service potential is partially lost, what amount, if any, should be recognized?

SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment*

"In theory there is no difference between theory and practice. In practice there is." Yogi Berra

Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment*

- This Statement :
  - clarifies that "deferred maintenance" reporting includes deferred repairs,
    - Technical distinction of M&R versus accounting treatment resulted in instances of under-reporting
    - Not all repairs should be capitalized
    - *Maintenance* "retains" function whereas *Repairs* "restore" function
  - revises the examples of maintenance and repair activities to better reflect current practices,
    - Deleted reference to "structural components" as this caused confusion leading many to think that personal property/equipment was excluded
    - Added "systems" to broaden coverage to match asset categories/classes

SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment*

- This Statement (continued):
  - encompasses activities associated with heritage assets, multi-use heritage assets and stewardship land as well as equipment and other personal property,
    - Added “preserve “ to broaden coverage to Heritage/MU Heritage assets and land
  - addresses issues related to the distinction between maintenance, repairs, and new capital expenditures.
    - Ambiguity of terms and overall definition led to confusion

SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

"I always thought that record would stand until it was broken." Yogi Berra

Hint - Does this cross-foot?

	2009 Ending Balance	*2010 Scheduled Maintenance*	*2010 Actual Maintenance*	*Adjustment*	*2010 Ending Balance*
CATEGORY					
Infrastructure	$ 838,000	$ 5,657,636	$ 1,556,434	$ 2,224,581	$ 1,876,621
Stewardship and Landscape	—	714,345	438,986	1,828	273,531
Golf Course	8,000	145,840	108,090	37,250	500
Buildings:					
Heritage	134,000	154,165	13,766	—	140,399
Multi-Use Heritage	4,951,000	6,664,952	1,670,193	3,869	4,990,890
Non-Historic	4,931,000	7,505,458	2,355,898	—	5,149,560
Total Buildings	**10,016,000**	**14,324,575**	**4,039,857**	**3,869**	**10,280,849**
GRAND TOTAL	**$ 10,862,000**	**$ 20,842,396**	**$ 6,143,367**	**$ 2,267,528**	**$ 12,431,501**

As at 9/3//2011 - PP&E Net book value of ~$249 million

SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

- Actual agency narrative:
  - *"As of the end of FY 20XX, XYZ agency had no material amounts of deferred maintenance cost to report."*
  - *"XYZ agency expenses normal repair and maintenance costs as incurred. XYZ agency has no substantive backlog of deferred maintenance costs as defined by FASAB SFFAS No. 6, Accounting for Property, Plant, and Equipment, which is intended to report only maintenance items that would be expensed through the normal course of business."*

- Now, consider this agency fact:
  - As at 9/3o//20XX - PP&E Net book value equaled ~$30 billion
- The superseded definition referred to "normal" which in practice led to some entities treating their "other-than-normal" M&R as capital-type expenditures excluded from RSI reporting.
- **What would Yogi say about this?**

SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

- This Statement amends the required supplementary information (RSI) presentation. The amendments require entities to:

  (1) describe their maintenance and repairs (M&R) policies and how they are applied,

  (2) discuss how they rank and prioritize M&R activities among other activities,

  (3) identify factors considered in determining acceptable condition standards,

  (4) State whether DM&R relate solely to capitalized general property, plant and equipment (PP&E) and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E,

  (5) identify PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E,

  (6) provide beginning and ending DM&R balances by category of PP&E, and

  (7) Explain significant changes from the prior year.

SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

- Other significant amendments contained in this Statement include:
  (1) requiring that condition standards, related assessment methods, and reporting formats be consistently applied unless management determines that changes are necessary,

  (2) eliminating the requirement to report condition information, and

  (3) eliminating the (i) optional reporting of low-high DM&R estimates as well as (ii) option to report critical and non-critical DM&R.

SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

Appendix B: Sample Illustration

28

The following illustration presents information on major PP&E categories experiencing material amounts of deferred maintenance and repairs and meets the basic illustration requirements of this Standard:

ILLUSTRATION 1 - GENERAL PURPOSE DISPLAY

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category	20x2 Ending Balance DM&R	20x2 Beginning Balance DM&R
General PP&E	$33,500	$30,500
Heritage Assets	5,000	6,000
Stewardship Land	2,500	2,500
Total	**$41,000**	**$39,000**

incipal Review

ILLUSTRATION 3 - EMPHASIS ON ACTIVE vs. INACTIVE and EXCESS BY ASSET CLASS

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category / Class	20x2 Ending Balance DM&R	20x2 Beginning Balance DM&R
Active:		
General PP&E:		
Structures	$14,375	$14,000
Aircraft	53	5
Missiles	139	58
Ships	1,058	937
subtotal - general PP&E active	15,625	15,000
Stewardship Land	500	500
Heritage Assets	0	500
subtotal - all active	16,125	16,000
Inactive and Excess:		
General PP&E		
Buildings	2,500	2,500
Structures	1,875	1,000
subtotal - general PP&E - inactive and excess	4,375	3,500
Total	**$20,500**	**$19,500**

ngressional and Principal Review

Exposure Draft, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

Comments Requested by May 28, 2012

- "The future ain't what it used to be." Yogi Berra
- Asset impairment standards built from GASB and IPSASB standards
  - Assets held in-use
  - Indicators of potential impairment
  - Techniques for measuring potential impairment
  - Recognition guidance vs. adjusting estimates or NBV
- Significant & permanent declines in service utility
- Should be limited & rare cases
  - Prominent events
  - Entities not required to "search or hunt"

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Exposure Draft, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

Comments Requested by May 28, 2012

- Some common indicators of impairment include those listed below:
  - 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,9
  - e. changes in the manner or duration of use of G-PP&E,
  - f. construction stoppage or contract termination, and
  - g. G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods.
- Widely recognized methods for measuring impairment include:
  - Replacement approach
  - Restoration approach
  - Service units method
  - Deflated depreciated current cost approach
  - Cash flow approach
  - Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach

General PP&E Impairment Decision Table

Selecting a Measurement Method

31

Select a method that reasonably represents diminished service utility by considering potential indicators and type of PP&E.

If more than one method is reasonable, select the most efficient and practicable method.

Measurement Methods[18]	Potential Indicators	Type of PP&E *	Reference	Illustrations that may be appropriate
Replacement Approach	• Physical Damage	All G-PP&E	Par. 17 a	1c
Restoration Approach	• Physical Damage	Multi-use Heritage PP&E	Par. 17 b	2b
Service Units Approach	• Enactment or approval of laws/regulations • Changes in environmental or economic factors • Technological changes or obsolescence	All G-PP&E	Par. 17 c	1d, 3a, 3b
Deflated Depreciated Current Cost Approach	• Change in manner or duration of use.	All G-PP&E	Par. 17 d	4a
Cash Flow Approach	• Any of the indicators as listed at Paragraph 12 (a through g)	All G-PP&E	Par. 17 e	7a, 7b, 7c, 7d
Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach	• Construction stoppage / Contract terminations	All G-PP&E	Par. 17 f	5, 6a, 6b

* = excluding internal use software

Contact and Website Information

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