



**Annual FASAB Conference  
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

2012 Financial Report of the United States Government, RSI page 201.

## Deferred Maintenance and Repairs as of September 30, 2012, and 2011

	Deferred Maintenance and Repairs					
	Cost Range				Critical Maintenance	
	Low Estimate		High Estimate		2012	2011
(In billions of dollars)	2012	2011	2012	2011	2012	2011
<b>Asset category:</b>						
Buildings, structures and facilities .....	31.5	31.3	34.5	36.4	106.3	97.6
Furniture, fixtures and equipment .....	0.1	0.1	0.1	0.1	1.3	2.5
Other general property, plant, and equipment .....	5.3	5.1	5.3	5.1	0.7	0.8
Heritage assets.....	0.9	0.9	0.8	0.9	1.7	1.2
Stewardship land .....	5.8	3.6	8.4	5.2	-	-
<b>Total deferred maintenance ....</b>	<b>43.6</b>	<b>41.0</b>	<b>49.1</b>	<b>47.7</b>	<b>110.0</b>	<b>102.1</b>

The critical maintenance amount is not included in the low or high estimate amounts and is reported separately. Low and high estimates are based on the materiality of the estimated cost of returning the asset to the acceptable condition versus the total value of the corresponding asset.

# 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*, **Effective FY2015**
  - Improving & simplifying the measurement & reporting of DM&R.
- SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, **Effective FY2015**
  - **Impairment is a significant and permanent decline in the service utility of G-PP&E, or expected service utility for construction work in process.**

## **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 & clarify that DM&R applies to personal property/equipment**
    - 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 40: Is Guidance Needed?

- Do you foresee a need for additional guidance beyond what has been provided in SFFAS 40 regarding the definitional changes to DM&R? Please be as specific as possible.





## **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.
- See example in SFFAS 42, Appendix B: Sample Illustration

***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

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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)

<u>Asset Category</u>	20x2 Ending Balance <u>DM&amp;R</u>	20x2 Beginning Balance <u>DM&amp;R</u>
General PP&E	\$33,500	\$30,500
Heritage Assets	5,000	6,000
Stewardship Land	2,500	2,500
Total	\$41,000	\$39,000

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

<b>Deferred Maintenance and Repair Costs</b> (Dollars in Millions)	<b>20x2</b>	<b>20x2</b>
<b><u>Asset Category / Class</u></b>	<b><u>Ending Balance</u></b> <b><u>DM&amp;R</u></b>	<b><u>Beginning</u></b> <b><u>Balance</u></b> <b><u>DM&amp;R</u></b>
<b><u>Active:</u></b>		
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
<b><u>Inactive and Excess:</u></b>		
General PP&E		
Buildings	2,500	2,500
Structures	1,875	1,000
subtotal - general PP&E - inactive and excess	4,375	3,500
<b>Total</b>	<b>\$20,500</b>	<b>\$19,500</b>

# SFFAS 42: Is Guidance Needed?

- Do you foresee a need for additional guidance beyond what has been provided in SFFAS 42 regarding the measurement and reporting of DM&R? Please be as specific as possible.



# Big Picture

2012 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, 2012

(In billions of dollars)	<u>Cost</u>		<u>Accumulated Depreciation/Amortization</u>		<u>Net</u>	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities.....	248.9	234.0	120.9	123.4	128.0	110.6
Furniture, fixtures, and equipment.....	984.4	160.8	570.4	99.1	414.0	61.7
Construction in progress.....	42.8	50.8	N/A	N/A	42.8	50.8
Land.....	10.7	12.2	N/A	N/A	10.7	12.2
Internal use software.....	11.3	22.1	7.6	12.3	3.7	9.8
Assets under capital lease.....	0.9	3.1	0.5	1.5	0.4	1.6
Leasehold improvements.....	0.9	7.6	0.3	4.0	0.6	3.6
Other property, plant, and equipment.....	1.2	6.7	-	3.4	1.2	3.3
Subtotal.....	<u>1,301.1</u>	<u>497.3</u>	<u>699.7</u>	<u>243.7</u>	<u>601.4</u>	<u>253.6</u>
Total property, plant, and equipment, net.....		<u>1,798.4</u>		<u>943.4</u>		<u>855.0</u>

## ***SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use***

- 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,
  - e. changes in the manner or duration of use of G-PP&E,
  - f. construction stoppage or contract termination, and
  - g. G-PP&E idled or unserviceable 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

## **SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use***

“The future ain't what it used to be.” Yogi Berra

- Asset impairment standards built mostly from GASB standards
  - Assets held in-use
  - Indicators of potential impairment
  - Techniques for measuring potential impairment
  - Recognition guidance vs. adjusting estimates or NBV
- Significant **and** *permanent* declines in service utility
- Should be **limited & rare** cases
  - Prominent events
  - Entities **not required to “search or hunt”**





## General PP&E Impairment Decision Table

### Selecting a Measurement Method

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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 <sup>18</sup>	Potential Indicators	Type of PP&E *	Reference	Illustrations that may be appropriate
Replacement Approach	<ul style="list-style-type: none"> <li>• Physical Damage</li> </ul>	All G-PP&E	Par. 17 a	1c
Restoration Approach	<ul style="list-style-type: none"> <li>• Physical Damage</li> </ul>	Multi-use Heritage PP&E	Par. 17 b	2b
Service Units Approach	<ul style="list-style-type: none"> <li>• Enactment or approval of laws/regulations</li> <li>• Changes in environmental or economic factors</li> <li>• Technological changes or obsolescence</li> </ul>	All G-PP&E	Par. 17 c	1d, 3a, 3b
Deflated Depreciated Current Cost Approach	<ul style="list-style-type: none"> <li>• Change in manner or duration of use.</li> </ul>	All G-PP&E	Par. 17 d	4a
Cash Flow Approach	<ul style="list-style-type: none"> <li>• Any of the indicators as listed at Paragraph 12 (a through g)</li> </ul>	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	<ul style="list-style-type: none"> <li>• Construction stoppage / Contract terminations</li> </ul>	All G-PP&E	Par. 17 f	5, 6a, 6b

\* = excluding internal use software

# SFFAS 44: Is Guidance Needed?

- Do you foresee a need for additional guidance beyond what has been provided in SFFAS 44 regarding the impairment of PP&E? Please be as specific as possible.



# Contact and Website Information

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- General inquiries can be directed to [fasab@fasab.gov](mailto:fasab@fasab.gov)
- Phone: 202 512-7350
- [www.FASAB.gov](http://www.FASAB.gov)
  - Listserv
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  - Active Projects
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