



**October 5, 2009**

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Deferred Maintenance and Asset Impairment <sup>1</sup>, **TAB I**

### **MEETING OBJECTIVES**

The objective for this meeting is to briefly update the members on the status of the work performed to date on the Deferred Maintenance and Asset Impairment ("DM-AI") project and to obtain comments or input concerning the Task Force's initial determinations.

### **BRIEFING MATERIAL**

The following documents are attached to this memorandum:

- Attachment 1 - Deferred Maintenance Chronology: Review of Board Actions/Deliberations
- Attachment 2 - Asset Impairment Chronology: Review of Board Actions/Deliberations
- Attachment 3 – September 1<sup>st</sup>, 2009 Draft Task Force Minutes

### **BACKGROUND**

The objective of the project work is to develop accounting guidance relative to Deferred Maintenance and Asset Impairment. SFFAS 14 issued in April 1999 reclassified DM to Required Supplementary Information (RSI) primarily as a result of auditor concerns. Since then, asset assessment methodologies have matured and administration initiatives<sup>2</sup> have prompted

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

<sup>2</sup> Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4<sup>th</sup>, 2004 established the following policy in Section 1, "*It is the policy of the United States to promote the efficient and economical use of America's real property assets and to assure management accountability for implementing Federal real property management reforms. Based on this policy, executive branch departments and agencies shall recognize the importance of real property resources*

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agencies to develop condition assessment, measurement and reporting systems which are not uniform throughout government. As such, a lack of comparability now exists as a result of these highly institutionalized and individualized processes and systems.

## PROJECT STATUS

A summary of the project milestones either completed or in process follows:

Milestone I: Literature Review and Consultation. The literature review consisted of an examination of articles identified by the GAO librarian as pertaining to DM-AI. This portion of the milestone was basically concluded in October 2008. Although consultations are an on-going activity, initial discussions were held with representatives from the following standard setters: GASB, IPSASB, United Kingdom Accounting Standards Board, Canadian Public Sector Accounting Board, and Deutsches Rechnungslegungs (German Accounting Standards Board). Additional consults were obtained from the Government Finance Officer's Association and Canada's Office of the Comptroller General. The results from this milestone served as a basis to initially frame the next milestone.

Milestone II: Issue analysis and option identification. Incorporating the results from the literature review and consultations, we have formed a Task Force comprising Federal and non-Federal members that cut across various disciplines. To date, the Task Force has met three times with support from two smaller subgroups; the Real Property Subgroup and the Equipment/Personal Property Subgroup. Additionally, smaller working groups meet in order to develop future Task Force/Subgroup issues such as asset impairment, performance measurement and reporting.

The current issues being addressed by the Task Force are: redefining maintenance (i.e. to better align with actual agency practices and developments) and assessing what impairment criteria currently exists or needs to be developed for Federal asset impairment testing. Please note that to-date we have only focused on methodologies to the extent that they impact the maintenance definition.

### **SFFAS 6 Definition of Maintenance:**

**“For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.”** *SFFAS 6, Accounting for Property, Plant & Equipment*

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*through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.”*

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Task Force meetings reveal that the group's initial consensus is that:

1. Consistent with findings from a study sponsored by the CFO Council and conducted by the Federal Facilities Council<sup>3</sup> over SFFAS 6 implementation difficulties, the Task Force has initially concluded that the current maintenance definition as contained in SFFAS 6 needs revision and some elements of the definition (i.e. repairs) may need to be (re)defined in FASAB's glossary of terms.

- a. The Task Force's initial consensus confirms some of the study's findings which include:
  - i. Excluding "repairs" sets up a structure wherein agencies could report deferred maintenance and not deferred repairs.
  - ii. The term "acceptable condition" is not defined leading to different agency interpretations causing a lack of agency comparability.
  - iii. The term "expected life" is not defined whereas the FASAB glossary does define "economic life" and "useful life"; leading to ambiguity.
  - iv. The term "expected life" infers a finite period whereas in practice, federal facilities are often used far beyond standard projections of expected life.
  - v. The term "originally intended" does not reflect three major issues: first, facilities are often renovated to reflect new functions quite different from the original intent, second, inadequate funding of facilities is a long standing problem and as a result, asset maintenance investment decisions often reflect this reality (i.e. assets are not kept in an acceptable condition as per original intent but rather per current mission requirements) and third, assets are maintained to effectively support an agency's mission as opposed to achieving a set number of years.
  
- b. Consequences of the forgoing include the following:
  - i. Different interpretations among agencies and auditors
  - ii. Certain terms in SFFAS 6 not commonly understood in the field
  - iii. Certain terms not reflective of actual practice
  
- c. The ultimate effects of revising the maintenance definition include but are not limited to:
  - i. Developing FASAB terminology that is meaningful to the industry/agencies
  - ii. Helping reduce disparate and non-uniform definitions and/or terms
  - iii. Increasing measurement / data accuracy by reducing variations among terms
  - iv. Improving financial reporting results

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<sup>3</sup> Deferred Maintenance Reporting for Federal Facilities, The National Academies, ISBN 0-309-56339-9, (2001).

2. Acknowledging that agencies still require a degree of flexibility in implementing DM reporting requirements, the analysis of agency-specific trend data can be adopted in order to help address the lack of agency comparability. The Task Force has initially concluded that should a reader wish to compare agencies against one another, consistent agency data over a period of time would be more meaningful than a point-in-time comparison.

- a. Due to the development of different asset management practices at many of the agencies, the Task Force has initially concluded that flexibility in the area of condition assessments needs to continue. For example, both NASA and the Smithsonian Institution use parametric estimating techniques that differ from traditional condition assessments inasmuch as systems are evaluated based on degrees of deterioration and not project driven deficiencies. This approach does not specify needed repairs, but rather the systems requiring attention.
- b. Additionally, the Task Force has leaned towards retaining flexibility in agency determination of “acceptable condition.” Some members are in favor of replacing the phrase, “*the act of keeping fixed assets in acceptable condition*” to read, “*the act of keeping fixed assets in a condition to effectively support the mission*.” This change would reflect an asset management philosophy that moves away from one that is solely asset based to one that reflects the activities of the asset in relation to its most current intended use. Please note that when the Task Force begins reviewing asset impairment in greater depth (see related comments below), it may decide to revisit “acceptable condition” as both a concept and/or term.

3. An asset impairment methodology in the federal arena needs to ensure reliance on technical evaluations (i.e. condition assessments, inspection reports, etc.) taking into consideration asset-system complexities when considering asset impairment.

- a. At our September meeting (please refer to Attachment 3 for related details), the Task Force briefly reviewed impairment standards as issued by the FASB, GASB, and IPSASB.
- b. As a result of fairly well developed asset condition assessments over real property and the quasi-scientific engineering assessments done primarily over military equipment, the Task Force believes that such asset management information will be critical in assessing whether or not an asset is impaired.
- c. Due to the nature of military equipment, the Equipment/Personal Property Subgroup has advised that most impairments are temporary in nature since mission and safety requirements would require such assets being taken out of service until made operational.

## **NEXT STEPS**

The Task Force will continue meeting with the near-term goal of completing the definitions phase of its work and then turning to the measurement and reporting phases.

## QUESTIONS FOR THE BOARD

**QUESTION 1** – The Federal Real Property Council (FRPC) recognizes that there is an opportunity for congruence in setting a minimum standard (DM definition) for agencies to follow. Such alignment of definitions is expected to reduce ambiguity and confusion and help increase the efficient use of deferred maintenance information. To this end, the FRPC has deferred to FASAB. Please note that there is a fair amount of Congressional interest<sup>4</sup> in deferred maintenance as it relates to real property and that GSA and OMB are central to this issue.

**Should incremental progress (e.g. clarification of definitions) be needed to meet requirements other than GAAP reporting, would the Board entertain a piece meal approach? For example, a Technical Release to clarify application of the definition.**

**QUESTION 2** – Consistent with prior Board decisions<sup>5</sup>, the majority of Task Force members believe that any standard/guidance should allow for agency flexibility due to unique agency and operational differences. However, there is a recognition that certain agency practices may need to be refined and/or changed as a result of clarifying and eliminating existing ambiguities; i.e. adding or enhancing certain definitions or terms. Ultimately, continued flexibility might continue to constrain DM's placement and restrict it to RSI.

**Does the Board agree with the Task Force's opinion that subject to forthcoming improvements to clarify existing guidance, agencies may continue to need some flexibility in reporting when maintenance and repair activities have been deferred?**

<sup>4</sup> H.R. 2495 111<sup>th</sup> Congress, *Federal Real Property Disposal Enhancement Act of 2009* introduced May 19<sup>th</sup>, 2009. As of September 10<sup>th</sup>, this bill was considered in committee which has recommended it be considered by the full House. Although it has been placed on the calendar, the order in which legislation is considered and voted on is determined by the majority party leadership. S. 1667 110<sup>th</sup> Congress *Federal Real Property Disposal Pilot Program* introduced June 20<sup>th</sup>, 2007. On April 7, 2008 this bill was placed on the Senate Legislative Calendar. Please note that this senate bill was proposed in a previous session of Congress, as such, since sessions last two years at the end of each session all proposed bills and resolutions that have not passed are cleared from the calendar. **Note:** The House bill includes a requirement to report "aggregated estimated deferred maintenance costs...government-wide and by agency...at the constructed asset level and at the facility/installation level."

<sup>5</sup> SFFAS 6, Accounting for PP&E. Par. 78, note 1 reads, "Acceptable services and condition may vary both between entities and among sites within the same entity. Management shall determine what level of service and condition is acceptable". Regarding condition assessment surveys, Par. 81, note 5 reads, "Management shall determine what methods and standards to apply. Once determined, it is desirable but not required that methods and standards be applied consistently from period to period".

**Attachment 1 - Deferred Maintenance Chronology: Review of Board Actions/Deliberations**

| <b>Pronouncement &amp; Date</b>  | <b>Major Topic Addressed / Discussed</b>                                       | <b>Board Decision / Comments</b>  |
|--|--|---|
| <p align="center"><b>SFFAS 6</b></p> <p align="center">November 1995</p> | <p align="center"><b>PP &amp; E</b></p>  | <ol style="list-style-type: none"> <li>1. Defined DM as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.</li> <li>2. Recognized condition assessment surveys and life-cycle cost forecasts as measurement techniques.</li> <li>3. Established minimum RSI.</li> <li>4. Established a footnote reference on agency Statement of Net Cost.</li> <li>5. At present, DM hard to measure thus not recognized in accounting systems.</li> <li>6. DM reporting is in evolutionary stage.</li> </ol> |
| <p align="center"><b>SFFAS 8</b></p> <p align="center">June 1996</p>     | <p align="center"><b>Stewardship Reporting</b></p>                             | <ol style="list-style-type: none"> <li>7. Government demonstrates accountability for assets via reporting on existence and condition with reference to DM reported in the financials.</li> <li>8. Although DM requirements are flexible, they apply to all PP&amp;E; general and stewardship.</li> </ol>  |
| <p align="center"><b>SFFAC 3</b></p> <p align="center">April 1999</p>    | <p align="center"><b>MD&amp;A</b></p>  | <ol style="list-style-type: none"> <li>9. MD&amp;A should address significant events, conditions, trends and conditions that may affect future operations even if reported elsewhere in more detail.</li> </ol>   |
| <p align="center"><b>SFFAS 14</b></p> <p align="center">April 1999</p>   | <p align="center"><b>Amendments to DM Reporting; SFFAS 6 &amp; SFFAS 8</b></p> | <ol style="list-style-type: none"> <li>10. Modified status of DM from F/S to RSI thus changing auditor review level.</li> <li>11. RSI facilitates experimentation in order to increase usefulness.</li> <li>12. Board intentions: (a) AAPC work with government groups to review first-year reports, (b) to develop guidance on determining acceptable condition, and (c) revise standards based on experience during experimentation period.</li> </ol>  |
| <p align="center"><b>SFFAS 29</b></p> <p align="center">July 2005</p>    | <p align="center"><b>Heritage Assets &amp; Stewardship Land</b></p>            | <ol style="list-style-type: none"> <li>13. Reclassified HA &amp; SL as basic information except for condition reporting which is reclassified as RSI.</li> <li>14. Condition of HA &amp; SL may be reported with DM information in RSI.</li> </ol>  |

## Attachment 2 - Asset Impairment Chronology: Review of Board Actions/Deliberations

| Pronouncement & Date             | Major Topic Addressed / Discussed  | Board Decision / Comments   |
|----------------------------------|--|---|
| <b>SFFAS 1</b><br>March 1993     | <b>Accounting for Selected Assets &amp; Liabilities</b>                  | 1. Impairment is discussed relative to accounts receivable measurement.   |
| <b>SFFAS 6</b><br>November 1995  | <b>Accounting for PPE</b>  | 2. The term "impairment" is not used expressly.<br>3. Para. 39 under Expense Recognition addresses events that could trigger impairment such as no longer providing services, damage, and obsolescence.   |
| <b>SFFAS 5</b><br>December 1995  | <b>Accounting for Liabilities</b>  | 4. Impairment is specifically noted to be beyond the statement and refers readers to SFFAS 6, PP&E.   |
| <b>SFFAS 10</b><br>October 1998  | <b>Accounting for Internal Use Software</b>                              | 5. Recognition of asset impairment receives discussion in connection with post-implementation/operational software. Recognition occurs when one of 2 conditions exists: (1) software no longer provides substantive service and will be removed from service or (2) a significant reduction in capabilities, functions, or uses of the software (or modules).<br><br>6. Measured as difference between Book Value and Net Realizable Value.<br><br>7. Discusses partial impairment and that regular review for impairment provides an early warning of problems.<br><br>8. Two-thirds of respondents felt guidance on impairment was sufficient.<br><br>9. New or updated software does not necessarily cause/result in impairment. |
| <b>SFFAS 12</b><br>February 1999 | <b>Recognition of Contingent Liabilities: Litigation; Amend. SFFAS 5</b> | 10. Adopted FASB Statement 5, <i>Accounting for Contingencies</i> language as Part of Appendix B;<br>a. resolution of an uncertainty may result in recognition of asset impairment.<br>b. excludes impairment over non-financial assets.<br><br>11. Many Board members stated that depreciation, impairment, deferred maintenance and condition are inter-related judgments; periodic analyses are important especially over national defense assets.   |
| <b>SFFAC 1</b><br>September 2003 | <b>Objectives of Financial Reporting</b>                                 | 12. In the context of Environmental data (as opposed to data arising from transactions) impairment is stated to be either in financial terms (market value) or service potential.   |

**Attachment 3**  
**September 1<sup>st</sup>, 2009 Draft Task Force Minutes**

**FASAB Minutes**  
**Deferred Maintenance & Asset Impairment (DM-AI)**  
**Task Force Meeting Held on**  
**September 1st, 2009 at the GAO**

**Attachments include:**

1. List of 38 attendees (11 via phone).
2. September 1st Agenda along with an appendix.
3. Review of Asset Impairment (MS PowerPoint presentation).

**Meeting overview:**

The meeting began at 10 am and substantially accomplished its three objectives to (1) discuss the preliminary results of the RPSG's work on redefining "maintenance", (2) confirm the next step in seeking third-party consults and (3) set a time frame to work on the "deferred" portion of the DM definition. In addition, the April minutes were accepted as proposed and a brief overview of the 2008 CFR deferred maintenance reporting (page 150) was conducted.

Since no clear consensus was reached concerning a most-favored definition from the preliminary results of the RPSG's work, it was agreed to do some additional work and meet again (either late October or early November) to address the definitions (key phrases) in light of how repairs and/or capital repairs should be defined. With the exception of one representative, the equipment/personal property subgroup agreed that any of the 6 definitions as currently written could serve their respective communities.

Agreement was reached:

- (a) to address the definition of "capital repair" and whether or not it should be included as an M&R component,
- (b) to address the definition of "repair" and whether or not statutory definitions exist,
- (c) to address the definition of "expected life",
- (d) to more discretely focus on "key phrase" differences contained in each of the competing definitions,
- (e) to remove Alternate definition 4 as it relates to deferred maintenance and not maintenance, and
- (f) that references to mission (FFC definition) and life-cycle (Alternate 3 definition) do not seem to add much value and might be problematic as well as confusing/inappropriate.

Although no one definition stood out as being the most-favored definition among the Task Force members, some key comments and observations did in fact help to narrow the choices down to Alternate 1 and Alternate 2. However, the Task Force decided to hone in on the key phrases for further analysis, review and third-party (i.e. FRPC, agency) consults.

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**Deliverables:**

**(1) Obtain concurrence or feedback from Equipment/personal property subgroup concerning applicability of the definitions to non-facility assets.**

- a. With the exception of the State Department representative, the remaining personal property and equipment representatives did not take exception to the use of any of the 6 RPSG definitions.

**(2) “Vote-out” and/or rank the definitions with a show of hands.**

**a. No Vote but focus on Key Phrases instead –**

Via the discussion it was clear that the Task Force desired more time to study these definitions (key phrases) as well as obtain input from agencies through a survey instrument before considering rating or ranking the definitions. Instead, a strategy to focus on key phrases was accepted as a way to push ahead. The Task Force believed a critical need existed to define what constitutes repairs as opposed to capital improvements/repairs; what do each include and what makes them different..

**b. The concepts of mission and life-cycle received little support -**

As previously stated, some key comments and observations did in fact help to narrow the choices and identify areas requiring further analysis and review. A summary of these key statements follows:

- I. Relating asset condition to agency mission in lieu of acceptable condition (see FFC definition).

Comments seemed to suggest that this change does very little to improve the definition and may actually result in confusion and increased administrative costs. The arguments against it include:

- a. tying to mission inadvertently excludes certain M&R thus understating the total needs and/or fiscal exposure,
- b. if mission changes occur frequently, it would be impractical in many cases for asset management systems to reflect such changes on a timely basis,
- c. expanding the scope of activities (i.e. alterations, betterments, etc) to be included in the numerator of the FCI which may not be reflected in the base denominator could provide misleading results,
- d. for personal property/equipment, intended use seems to drive M&R rather than agency mission changes, and

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**Deliverables: (continued)**

- e. investment strategy looks at the condition of the asset and its mission dependency, however, mission alone is not the key factor in this strategy.

II. Preserving the asset over its Life-cycle rather than preserving it to provide acceptable services and achieving its expected life. (see alternate definition 3)

Comments seemed to suggest that making this change would be impractical and cause uncertainty. The arguments against it include:

- a. Reference to life-cycle seems to add very little to the definition; since the life-cycle can be indefinite thus introducing another (i.e. quantitative) problem (i.e. how to measure).
- b. In the final analysis, life-cycle has very little bearing on the M&R plan/schedule since it is a methodology adopted either before an asset is procured or very early on its deployment. For example, basing an M&R schedule on an analysis that may have been done say 40 years ago doesn't seem appropriate. Life-cycle analysis is very important on the front-end, however, afterwards, it loses technical relevance.
- c. From an implementation point of view, how do the individual component systems and related life-cycles relate back to the asset; i.e. building?

**(3) Set tentative dates for next subgroup meetings to begin working on the “deferred” portion of the DM definition.**

Late October or early November were set as tentative meeting dates for a follow-on meeting with separate work group or sub-group meetings if deemed necessary.

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**Specific Meeting Highlights:**

1. **Review of FASB Reporting Objectives** – The “guiding star” for the Task Force is that our ultimate goal is to develop accounting guidance which may not in all cases be a perfect fit with each profession/discipline represented. However, as the Task Force attempts to better align our definitions, we should note that the FASAB Board will ultimately debate/decide the major accounting and reporting issues we are dealing with. Emphasis on the operating performance and stewardship reporting objectives were briefly reviewed.

2. **Member Updates/Comments** –

- (a) **Bob Coffman** – Bob began this session by asking two questions. First, how do we best exercise our stewardship responsibilities in light of the numerous competing stakeholder requirements and then, how do we best portray this information and allow for a meaningful analysis/drill-down? Bob reminded us that Stewardship reporting should include the issue of unfunded maintenance.

The FRPP database may need to be revisited in light of various business cases that could develop over time. The key item that impacts reporting is understanding what constitutes repair and maintenance since there are multiple definitions in use in addition to different processes. Since there are various definitions in play (some of which are codified in Title 41 and similarly in the GAO appropriations law budgetary glossary), should we attempt to define terms as a Task Force (i.e. alterations, repairs, betterments, improvements) which are in many cases terms of art or applied in various ways, we will have difficulty getting to a redefined definition of maintenance or DM. We should consider another cycle or methodology to address these matters.

The FASAB guidance we help write should (1) hopefully assist users in the application and implementation of asset management policies and (2) better align divergent practices.

Concerning condition assessments, Bob noted that the practices used to develop the Condition Indexes might be asking for the wrong things. The FRPC definition for the numerator is simply repairs. However, the betterments and capital improvements combined with the repairs has led to a new term of art called the Facilities Condition Needs Index (FCNI). This gives the user the total requirements for the building.

Bob suggested that we press on with the maintenance and DM definitional reviews and resolve how we are going to treat this issue of repairs, capital improvements/repairs and maintenance definitions and then create a link to either the FCI or FCNI.

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- (b) Bob Lange – Bob succinctly stated that accounting seems to need to know what is capitalized versus what isn't. In essence, maintenance then becomes what gets expensed and if this definition (that excludes capital items from the condition index) is what is used for FRPP reporting, we will all have one common number. This will simplify implementation in the field.

Asset maintenance plans sometimes commingle capital repairs with those repairs that get expensed and there isn't always a precise fit to the accounting property records. It may require changes in some practices however the benefits would be accrued in field implementation.

In order to have effective trend data, an agency will need stabilized policies in place. However, we still should strive for a refinement of terms in order to assist the field and minimize data variations. DoD will adjust its processes accordingly as long as we don't need statutory changes. The FCNI concept could yield good results however, we would need to consider costs.

- (c) Alaleh Amiri – Alaleh made the distinction that we are talking about classifying work as either capital or expendable and not necessarily the accounting thresholds that each agency uniquely develops for its capitalization criteria. Alaleh made it clear that we were addressing the scope of activities to be included as "capital" versus those activities that are expensed.
- (d) Larry Grauberger – Larry introduced funding sources and their need to be considered in this matter of capital activities versus expense activities. He pointed to one-year money that usually covers routine type maintenance and repair whereas capital work is usually multi-year money. Agencies at times use one-year M&R monies to execute capital work and oversight agencies tend to question this application. The point made here is that the way monies are appropriated by Congress might in fact directly impact some of our definitions.

Larry succinctly noted the funding issue this way, can accounting guidance be developed to assist agencies in minimizing differences and/or non-compliances?

Note: Both Bob L. and Larry address differences in two different contexts. Bob addresses differences arising from year-to-year comparisons of what should be data points derived from the consistent application of policies/definitions, whereas Larry's point deals with budget to actual comparisons being distorted since the budgetary rules are not consistent with the accounting rules and vice versa.

- (e) Ron Di Lustro – In addressing Larry's comment, Ron stated that funding alone does not determine whether or not work is capitalized, instead, such decisions can be subjective and each agency interprets this differently. For example, new construction is typically capitalized whereas

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maintenance or repair (in-kind) work is expensed. The FRPC reporting requirements might need to be revisited, however, adding a new FRPC requirement such as Mr. Coffman has suggested (introducing the FCNI) might be cost prohibitive.

Ron emphasized that each agency is too unique to warrant a one-size fits all approach and even though NASA is open to modifying its definitions in order to better conform with a new definition that might arise, it is his opinion that trend data can accomplish our reporting objectives while preserving an agency's uniqueness.

- (f) Shawn Mickey – Shawn pointed out that at VA they basically include all capital repairs in the FCI numerator and then later subtract them out for the actual FCI calculation/reporting.

**3. Discuss preliminary results of RPSG's work on redefining "maintenance" (Obj.1) –**

Key comments by Task Force members include:

- (a) Lynda Stanley – 24/25 agencies had many meetings to address this issue and they recognized that due to funding limitations and in order to reflect reality, mission criticality would drive the allocation of resources. The committee opined that effective asset management should consider priority as it relates to mission. When the FFC defined mission is was at the agency level and not the asset level. Agencies needed and wanted flexibility so they could prioritize and classify activities. For example, painting is not usually considered mission critical by most agencies, however, for NIH laboratories painting was deemed a mission critical activity.
- (b) Bob Lange – By tying to mission you could inadvertently exclude certain assets and not give a complete picture; i.e. Congress needs to know the total exposure. In order to properly report the condition of assets, we should sweep-in all activities. We could accept the FFC definition and ultimately any one of these since they are very close to one another. The issue is that we need to make it understandable for the functional personnel who will be responsible in executing the effort. Also, there are other ways to prioritize activities outside of whether or not an asset is deemed mission critical. Concerning alternate definition 3 that refers to life-cycle, it seems to add very little to the definition; since the life-cycle can be indefinite, it then becomes a (i.e. quantitative) problem (i.e. how to measure). In the end, life-cycle has very little bearing on the M&R plan/schedule.
- (c) Bill Buyers – The replacement plant value (denominator to the FCI) does not include changes brought about as result to mission changes. As such, mission improvements have no comparison to the RPV. If you

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include mission in your definition, you open up the calculation to include changes and there is a resultant disconnect to the RPV.

- (d) Ron Di Lusto – DM does not include any changes brought about by mission or code changes. Future plans are not incorporated. We think that the definition (Alternate 1) should stop at “*preserving the asset*” period. Anything beyond that goes beyond traditional M&R; i.e. alterations, renewals, etc. Mission changes are too voluminous to track. Furthermore, missions of each facility could also vary and further complicate reporting. Concerning alternate definition 3 that refers to life-cycle, basing an M&R schedule on an analysis that may have been done say 40 years ago doesn’t seem appropriate.
- (e) Tim Timko – A subset of the DOD maintenance definition includes the phrase “*to carry out its mission*”. However, there is no assumption that equipment will be upgraded or capabilities changed/added. Furthermore, DOD also states in a policy document that specifically addresses infrastructure, “*routine, recurring work to keep a facility (real property) in such condition....original or designed capacity and efficiency for its intended purpose*”. This definition links back to the original asset’s intent.
- (f) Bob Coffman – In essence, if we bring mission into the definition, we now open it up for alterations, upgrades; which will in-turn require us to now define these terms. That is, is the work a repair, alteration or capital improvement? Ultimately, adding mission might lead to additional confusion.
- (g) Alaleh Amiri – Clearly defining repair is most important. DoD tends to put more activities under the umbrella definition of repair; leading us to recommend clarifying the definition of repair. We should also consider specifically excluding alterations, renovations, etc.
- (h) Ivan Graff – We should take this issue (repair definition) up later since it deserves additional time and discussion. We should consider defining maintenance in a crisp and sharp manner such as restricting it to just the act itself and then rely on the facility manager as to when to do the maintenance.
- (i) Kirk Marzock – In reality, concerning Real Property, mission changes will have little impact in M&R. The mission of the agency will not change materially. M&R impact is more likely to happen regarding personal property and equipment.
- (j) Ron Wertz – From a personal property viewpoint, we believe intended purpose and use best reflect actual practices. Also, there is no mention of either industry standards or manufacturer’s recommendations. The FFC definition appears to be the best one with the exception of its reference to mission.
- (k) Bob Jarcho –Along the lines of what Ivan stated concerning how best to define maintenance, our investment strategy looks at the condition of the asset and its mission dependency. Mission alone is not the key factor in this strategy.

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**Task Force Meeting Held on**  
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- (l) Larry Grauberger – Concerning the alternate definition 3 that refers to life-cycle, you are getting into evaluating systems since life-cycles vary system to system such as a roof compared to the HVAC. So, how do the individual systems and related life-cycles relate back to the building? Life-cycle analysis is very important on the front-end, however, afterwards, it loses technical relevance. Also, what does “expected life” mean? This needs to be defined if we are going to use it.

**4. Confirm next step in seeking third-party consults (Obj.2)**

The FFC agreed to working with us over the next few weeks/months as we press ahead. Ms. Stanley advised our Task Force that when the FFC reviewed this matter, they emphasized the external users (i.e. congress and the public) needs over those of the preparers.

The Task Force decided that should a survey of agencies be performed, it would be best to array only the key elements/phrases in order to narrow the focus to key decision points.

Key comments by Task Force members include:

- (a) Ron Di Lustro – We do not have consensus and we still seem to have concerns over many of the proposed terms/changes. All agencies seem to agree with the capital improvement exclusion in the FASAB standard.
- (b) Tim Timko – It would be hard to select any one of these since DOD’s definition touches on elements contained in all 6. There are no serious reservations concerning any of these 6 definitions.
- (c) Ron Wertz – Also agrees that there are no serious reservations concerning any of these 6 definitions from a personal property point of view.
- (d) Tim Macdonald – At State we believe that in regards to equipment, the only definition that counts is one that ties back to mission. For example, maintaining a tool without regard to a mission is not in the best interests of the taxpayer. Also, concerning real property, take as an example the Post Office which will close Saturday delivery. This will more than likely impact several thousand buildings. The mission has changed. When an embassy is bombed, our mission changes thus affecting both building and personal property/equipment; enhanced security needs.
- (e) Wendy Payne – Security upgrades seem to be more in line with capital improvements and by definition, they are excluded from DM. Typically management decides if an asset is in “acceptable condition”. When the Standard 6 was written, we could have used mission, however, we made sure to state that it would need to be acceptable to management; i.e. mission. Changing to mission and retaining the current exclusions really has no impact other than clarifying internal agency communication.

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- (f) Bob Lange - If the FASAB number equals to the FRPC number at the end of the day, the real property portfolio has a singular value for each asset. Afterwards, an agency can then do a mission dependency sort/analysis. However, if an agency ties the asset to mission dependency from the onset, its first sort or data filtering will obscure and/or eliminate the exposure an agency has in regards to its entire portfolio. It would seem better for an agency to first start with an asset's condition and then consider mission dependency as a separate analysis. As an example, we have excess assets that are deemed mission critical and we are in turn required to maintain them.

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Attendee List

| <u>Number</u> | <u>Organization</u>                         | <u>Name</u>         |
|---------------|---|---------------------|
| 1             | American Institutes for Research            | Runolfson, Case     |
| 2             | DoD (Defense)                               | Amiri, Alaleh       |
| 3             | DoD (Defense)                               | Coffman, Bob        |
| 4             | DoD (Defense)                               | Lange, Robert       |
| 5             | DoD (Defense)                               | Nakama, Karen       |
| 6             | DoD (Defense)                               | Timko, Tim          |
| 7             | DoE (Energy)                                | Graff, Ivan         |
| 8             | DoL (Labor)                                 | Donovan, Joseph     |
| 9             | Federal Facilities Council                  | Lewis, Kevin        |
| 10            | Federal Facilities Council                  | Stanley, Lynda      |
| 11            | GAO   | Edelstein, Maria    |
| 12            | GSA   | Thompson, Gary      |
| 13            | DoL (Labor)                                 | Donovan, Joseph     |
| 14            | Federal Facilities Council                  | Lewis, Kevin        |
| 15            | Idaho National Labs/DoE                     | Buyers, William T.  |
| 16            | Interior                                    | Hill, Parker        |
| 17            | Interior                                    | Jarcho, Robert      |
| 18            | Interior                                    | Lasser, Craig       |
| 19            | Interior                                    | Wertz, Ronald       |
| 20            | International Boundary and Water Commission | Parker, Christopher |
| 21            | KPMG  | Marzock, Kirk       |
| 22            | KPMG  | Valentine, Robin    |
| 23            | NASA  | Di Lustro, Ronald   |
| 24            | NASA  | Hu , Wei            |
| 25            | NASA  | White, Courtney     |

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|---------------|---------------------|---------------------------|
| 26            | NOAA                | Whitmeyer, MaryAnn        |
| 27            | OMB                 | Kearney, Regina           |
| 28            | OMB                 | Stofko, Gary R            |
| 29            | Self/User           | Duller, Matthew           |
| 30            | Smithsonian         | Grauberger, Larry         |
| 31            | State Department    | Macdonald, Robert Timothy |
| 32            | State Department    | Reba, Jeff                |
| 33            | USAID               | Wexel, Pat                |
| 34            | US Post Office      | Castillo, Miguel          |
| 35            | US Post Office      | Hepner, James             |
| 36            | VA                  | Mickey, Shawn             |
| 37            | FASAB               | Payne, Wendy              |
| 38            | FASAB               | Savini, Dom               |

**FASAB**  
**Deferred Maintenance & Asset Impairment (DM-AI)**  
**Task Force Meeting**  
**September 1<sup>st</sup>, 2009**  
**10AM to 12 Noon**

**Agenda**

1. **Introduction & welcome**
2. **Motion to accept April Revised Minutes**
3. **FASAB Reporting Objectives Overview** – see attached appendix.
4. **Member updates (FRPC, FFC, etc.)** - task force member briefings/comments.
5. **Review Maintenance Definitions** – see email dated 7/30/09.
6. **Today's objectives** – (1) discuss the preliminary results of the RPSG's work on redefining "maintenance", (2) confirm next step in seeking third-party consults and (3) set time frame to work on the "deferred" portion of the DM definition.
7. **Today's deliverables** – After a review of the preliminary results in light of FASAB's reporting objectives, (1) obtain concurrence or feedback from Equipment/personal property subgroup concerning applicability of the definitions to non-facility assets, (2) "vote-out" and/or rank the definitions with a show of hands, and (3) set tentative dates for next subgroup meetings to begin working on the "deferred" portion of the DM definition.
8. **Impairment Presentation** – MaryAnn Whitmeyer and Ivan Graff.
9. **Wrap-up and Q&A** – Logistics such as next meeting date, to-do list, data analysis, readings, etc.

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**APPENDIX 1**

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**FASAB**  
**Reporting objectives**

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**In its conceptual framework, FASAB lists four reporting objectives as follows:**

5. Budgetary integrity.
6. **Operating performance.**
7. **Stewardship.**
8. Systems and controls.

Excerpts taken from: *Statement of Federal Financial Accounting Concepts 1: Objectives of Federal Financial Reporting.*

1. Budgetary Integrity—Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine
  - how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
  - the status of budgetary resources, and
  - how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

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2. **Operating Performance**—Federal financial reporting **should assist report users in evaluating the service efforts, costs, and accomplishments** of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities. Federal financial reporting should **provide information that helps the reader to determine**
  - **the costs of providing specific programs and activities** and the composition of, and changes in, these costs;
  - **the efforts and accomplishments associated with federal programs** and the changes over time and in relation to costs; and
  - the **efficiency and effectiveness of the government’s management of its assets** and liabilities.
  
3. **Stewardship**—Federal financial reporting **should assist report users in assessing** the impact on the country of the **government’s operations and investments** for the period and how, as a result, the government’s and **the nation’s financial condition** has changed and may change in the future. Federal financial reporting should provide information that **helps the reader to determine whether**
  - the government’s **financial position improved or deteriorated** over the period,
  - **future budgetary resources will likely be sufficient** to sustain public services and to meet obligations as they come due, and
  - **government operations have contributed** to the nation’s current and future **well-being**.
  
4. **Systems and Control**—Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that
  - transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;
  - assets are properly safeguarded to deter fraud, waste, and abuse; and
  - performance measurement information is adequately supported.

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Specific member comments

**9. Member Updates/Comments –**

- (a) Bob Coffman – How do we best exercise our stewardship responsibilities in light of the numerous competing stakeholder requirements? How do we best portray this information and allow drill-down? This should include unfunded maintenance. The FRPP database may need to be revisited in light of various business cases. **The key item that impacts reporting is understanding what constitutes repair and maintenance since there are multiple definitions in use in addition to different processes.** Since there are various definitions in play, for example, some of which are codified in Title 41 and similarly in the GAO appropriations law budgetary glossary, **should we attempt to define terms** (i.e. alterations, repairs, betterments, improvements) which are in essence terms of art or applied in various ways, **we will have difficulty getting to a redefined definition of maintenance or DM.** We should consider another cycle or methodology to address these matters. **The FASAB guidance we help write should (1) hopefully assist users in the application and implementation and (2) better align divergent practices.**

The practices used to develop the Condition Indexes might be asking for the wrong things. The FRPC definition for the numerator is simply repairs. However, the betterments and capital improvements combined with the repairs has led to a new term of art called the Facilities Condition Needs Index. This gives the full requirement of the building.

**My suggestion is that we press on with the maintenance and DM definitional reviews and resolve how we are going to treat this issue of repairs, capital improvements/repairs and maintenance definitions and then link to either the FCI or FCNI.**

- (b) Bob Lange – Accounting seems to need to know what is capitalized versus what isn't. In essence, Maintenance then becomes what gets expensed and if this definition (that excludes capital items from the condition index) is what is used for FRPP reporting, we will have one number. **This will simplify implementation in the field.** Asset maintenance plans sometimes commingle capital repairs with those repairs that get expensed and there isn't always a precise fit to the accounting property records. **It may require changes in some practices however the benefits would be accrued in field implementation.** In order to have effective trend data, an agency will need stabilized policies in place. However, we still should strive for a refinement of terms in order to assist the field and minimize variations. DoD will adjust its processes accordingly as long as

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we don't need statutory changes. The FCNI concept could yield good results however, we would need to consider costs.

- (c) Alaleh Amiri – We are talking about classifying work as either capital or expendable and not necessarily the accounting thresholds that each agency uniquely develops.
- (d) Larry Grauberger – Funding sources need to be considered since one-year money usually covers routine type maintenance and repair whereas capital work is usually multi-year monies. At times M&R monies are used to execute capital work and oversight agencies tend to question such application. How the monies are appropriated by Congress should be considered since this would directly impact the definitions. Can accounting guidance be developed to assist agencies in minimizing differences and/or non-compliances?
- (e) Ron Di Lustro – Funding alone does not determine whether or not work is capitalized. Such decisions at times are subjective. Each agency interprets this differently. Typically, new construction is capitalized whereas maintenance or repair in-kind work is expensed. The FRPC reporting requirements might need to be revisited. I believe that adding a new FRPC requirement such as Mr. Coffman has suggested (introducing the FCNI) might be cost prohibitive. Each agency is too unique to warrant a one-size approach. We are open to modifying our definitions but it is the trend data that is important.
- (f) Shawn Mickey – at VA we basically include our capital repairs in the FCI numerator and then subtract it out for the actual FCI calculation.

**10. Discuss preliminary results of RPSG's work on redefining "maintenance" (Obj.1) –**

- (a) Lynda Stanley – 24/25 agencies had many meetings to address this issue and they recognized that due to funding limitations and in order to reflect reality, mission criticality would drive the allocation of resources. Asset management should consider priority which is driven by mission. At the FFC, when the committee defined mission is was at the agency level and not the asset level. Agencies needed and wanted flexibility so they could prioritize and classify activities. For example, painting is not usually considered mission critical by most agencies, however, for NIH laboratories painting was deemed a mission critical activity.
- (b) Bob Lange – By tying to mission you would exclude certain assets and not give a complete picture; i.e. Congress needs to know the total exposure. In order to properly report the condition of assets, we should sweep all activities. We could accept the FFC definition and ultimately any one of these since they are very close to one another. The issue is that we need to make it understandable for the functional personnel who will be responsible in executing the effort. There are other ways to prioritize activities outside of whether or not an asset is mission critical or

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- not.** Concerning alternate definition 3 that refers to life-cycle, it seems to add very little to the definition; **since the life-cycle can be indefinite**, it then becomes a (i.e. quantitative) problem (i.e. how to measure). In the end, life-cycle has very little bearing on the M&R plan/schedule.
- (c) **Bill Buyers** – The replacement plant value (denominator to the FCI) does not include changes brought about as result to mission changes. Mission improvements have no comparison to the RPV. **If you include mission in your definition, you open up the calculation to include changes.**
- (d) **Ron Di Lustro** – **DM does not include any changes brought about by mission or code changes.** Future plans are not incorporated. We think that the definition (Alternate 1) should stop at **“preserving the asset”** period. **Anything beyond that goes beyond traditional M&R;** i.e. alterations, renewals, etc. Mission changes are too voluminous to track. Furthermore, missions of each facility could also vary and further complicate reporting. Concerning alternate definition 3 that refers to **life-cycle, basing an M&R schedule on an analysis that may have been done say 40 years ago doesn't seem appropriate.**
- (e) **Tim Timko** – A subset of DOD maintenance definition includes the phrase is **“to carry out its mission”**. However, there is no assumption that equipment will be upgraded or capabilities changed/added. Furthermore, DOD also states in a policy document that specifically addresses infrastructure, **“routine, recurring work to keep a facility (real property) in such condition....original or designed capacity and efficiency for its intended purpose”**. **This definition links back to the original asset's intent.**
- (f) **Bob Coffman** – So, if we bring mission into the definition, we now open it up for alterations, upgrades; requiring us to now define. That is, is the work a repair, alteration or capital improvement? **Adding mission might lead to confusion.**
- (g) **Alaleh Amiri** – Clearly defining repair is most important. **DoD tends to put more activities under the umbrella definition of repair; leading us to recommend clarifying the definition of repair.** Possibly we should also exclude alterations, renovations, etc.
- (h) **Ivan Graff** – We should take this issue (repair definition) up later since it deserves additional time and discussion. **We should consider defining maintenance in a crisp and sharp manner such as restricting it to just the act itself and then rely on the facility manager as to when to do the maintenance.**
- (i) **Kirk Marzock** – In reality, concerning Real Property, **mission changes will have little impact in M&R.** The mission of the agency will not change materially. **It is more likely to happen regarding personal property.**
- (j) **Ron Wertz** – **From a personal property viewpoint,** we believe intended purpose and use best reflect practices. Also, there is no mention of either industry standards or manufacturer's recommendations. **The FFC**

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definition appears to be the best one with the exception of its reference to mission.

- (k) Bob Jarcho –Along the lines of what Ivan stated concerning how best to define maintenance, our investment strategy looks at the condition of the asset and its mission dependency. Mission alone is not the key factor in this strategy.
- (l) Larry Grauberger – Concerning alternate definition 3 that refers to life-cycle, you are getting into evaluating systems since life-cycles vary system to system such as a roof compared to the HVAC. So, how do the individual systems and related life-cycles relate back to the building? Life-cycle analysis is very important on the front-end, however, afterwards, it loses technical relevance. Also, what does “expected life” mean? This needs to be defined if we are going to use it.

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FFC agreed to working with us over the next few weeks/months as we press ahead. Ms. Stanley advised our Task Force that when the FFC reviewed this matter, they emphasized the external users (i.e. congress and the public) needs over that of the preparers. The Task Force decided that should a survey of agencies be performed, it would be best to array the elements/phrases in order to narrow the focus to key decision points.

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# Asset Impairment

## Unfamiliar Term, All Too Familiar Issues

Federal Accounting  
Standards Advisory Board  
Deferred Maintenance Asset  
Impairment Task Force  
**September 1, 2009**



*NOAA Facility, Galveston, TX, following lightning strike*

**Mary Ann Whitmeyer**  
U.S. DOC, NOAA  
*Financial Management Analyst*

**Ivan Graff**  
U.S. DOE, OECM  
*Facilities Engineer*

# Questions to Answer:

- What is an impaired asset?
- How might I recognize an impaired asset?
- How do the model standards differ?
- How could the concept improve asset management?
- What might a FASAB asset impairment standard include?
- How can data I already collect clue me into an impaired asset?

# What is Carrying Amount?

- “Carrying Amount” is “Book Value”  
= Acquisition cost of an asset **less**  
accumulated depreciation
- ✍ Reported on an entity's balance sheet
- ☞ Under ordinary circumstances the **carrying amount** may not even approximate the asset's **fair value**.

# What is an Impaired Asset?

*Accounting Standards Board* *Asset impairment (AI) is . . .*

|  |  |
|--|--|
| GASB 42:<br>(government <i>domestic</i> )  | “A significant, unexpected decline in the <b>service utility</b> of a capital asset.”<br><u>Service utility</u> is the usable capacity at acquisition  |
| FASB 144:<br>(general)                     | “The condition that exists when the <b>carrying amount</b> of a long lived asset exceeds its <b>fair [market] value</b> and is non-recoverable.”   |
| IPSAS 21:<br>(international public sector) | “The amount by which the <b>carrying amount</b> of an asset exceeds its <b>recoverable service amount</b> .”<br><u>Recoverable service amount</u> is the greater of:<br>(1) fair value <b>less</b> selling costs OR (2) value in use |

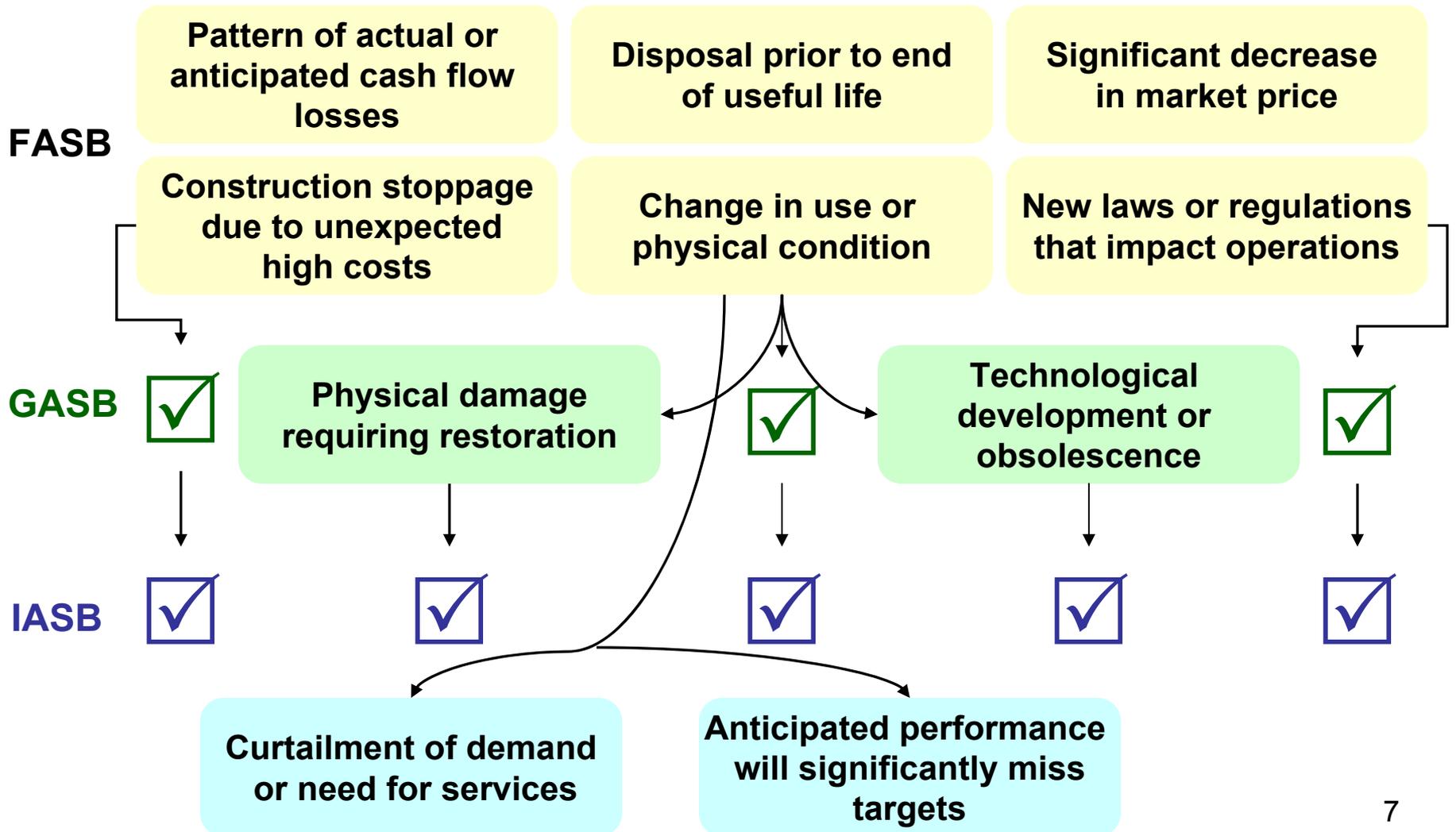
# Deferred Maintenance & AI

- Know of an asset with deferred maintenance (DM) (repair needs) exceeding its plant replacement value (PRV) (value)?
  - That means –
    - It would cost **more** to repair or replace components than build a **new** real property asset . . .
    - Assuming **no** decon., decom., and demo. or disp. costs
    - Condition Index (CI) is **less than** zero . . .
    - Is that possible? . . .

# Now You Know DM > PRV . . .

- How do you report this condition in the Federal Real Property Profile (FRPP)?
  - You don't –
    - “For cases in which the calculation results in a negative number, the percentage should be reported as zero”  
*User Guidance for FY 2009 Reporting*
- How do you manage this asset?
  - Minimally maintain? Dispose? Recapitalize?
- Probably “impaired”
  - “Such a building **[book value]** should not be in this sorry state **[fair value]**.”

# Impairment Indicators Include:



# The Three Standards in Action . . .

## *An Example Worked Three Ways*



Singed batt  
insulation

### Important Details:

- Building completely renovated May 2007 for \$1,100,000
- June 2008 lightning strike caused extensive loss to systems housed in attic (communications, HVAC, etc.)
- Restoration costs totaled to \$400,000

6 . 23 . 2008

# FASB Approach

|   |                    |             |
|---|--------------------|-------------|
| 1. Acquisition cost, 2007 (40 yr useful life)   | \$1,100,000        |             |
| 2. Accumulated depreciation, 2008   | \$27,500           |             |
| 3. Carrying amount  | <u>\$1,072,500</u> | Lines 1 - 2 |
| 4. Estimated fair market value after fire (\$400k)  | \$672,500          |             |
| 5. Impairment (difference between carrying amount and fair value if fair value < carrying amount) | <u>\$400,000</u>   | Lines 3 - 4 |

## Remember:

- **Fair value**

becomes the new carrying value

- Restoration of a previously recognized impairment loss is **prohibited**

- Why this is an impairment under FAS 144?
  - Change in use or physical condition
- FAS 144 offers 15 different examples of handling an impairment loss.
  - Focus on cash-generating assets
  - Calculation requires estimation of **fair value**

# IASB Approach

|  |                    |             |
|--|--------------------|-------------|
| 1. Acquisition cost, 2007 (40 yr useful life)                        | \$1,100,000        |             |
| 2. Accumulated depreciation, 2008                                    | <u>\$27,500</u>    |             |
| 3. Carrying amount   | <u>\$1,072,500</u> | Lines 1 - 2 |
| 4. Replacement cost  | \$1,300,000        |             |
| 5. less: Accumulated Depreciation, 2008                              | \$32,500           |             |
| 6. Depreciated Replacement cost                                      | <u>\$1,267,500</u> | Lines 4 - 5 |
| 7. less: Restoration Cost  | <u>\$400,000</u>   |             |
| 8. Recoverable Service Amount  | <u>\$867,500</u>   | Lines 6 - 7 |
| 9. Impairment Loss (carrying amount less recoverable service amount) | <u>\$205,000</u>   |             |

- Why this is an impairment under IPSAS 21?
  - Physical damage requiring restoration
- Asset manager must supply:
  - Replacement cost & Restoration cost
- Recoverable Service Amount becomes the new carrying value

# GASB Approach

|   |                    |                                       |
|---|--------------------|---------------------------------------|
| 1. Acquisition cost, 2007 (40 yr useful life)                 | \$1,100,000        |                                       |
| 2. Accumulated depreciation, 2008                             | \$27,500           |                                       |
| 3. Carrying amount  | <u>\$1,072,500</u> | Line 1 - 2                            |
| 4. Restoration cost   | \$400,000          |                                       |
| 5. Replacement cost   | \$1,300,000        |                                       |
| 6. Restoration Cost Ratio                                     | 30.77%             | $\frac{\text{Line 4}}{\text{Line 5}}$ |
| 7. Impairment loss (restoration cost ratio x carrying amount) | <u>\$330,000</u>   | Line 3 X 6                            |

- Why this is an impairment under GASB 42?
  - Physical damage requiring restoration **PLUS decline** in service utility is significant and unexpected
- Asset manager must supply:
  - Replacement cost & Restoration cost
- Impairment calculation considers only the **capitalized portion** of the restoration cost.

# Comparing the Three Standards

|   | FASB | GASB | IASB |
|---|------|------|------|
| Clear and comprehensive criteria              | ✓    |      |      |
| Measurements tailored to impairment type      |      |      | ✓    |
| Impairment amount independent of fair value   |      | ✓    |      |
| Impairment “significant” and “unexpected”?    |      | ✓    |      |
| Impairment reversible?                        |      |      | ✓    |
| Temporary impairments defined?                |      | ✓    |      |
| Clearly addresses non-cash generating assets  |      | ✓    | ✓    |
| Adjustments made only once                    | ✓    | ✓    |      |
| Requirement to routinely check for impairment |      |      | ✓    |

## **IASB & “reversing”:**

New carrying amount becomes  
Recoverable service amount

## **GASB & “temporary”:**

**Don't** write down asset but **do**  
disclose carrying amount at year-end

# How Could AI Help Asset Management?

- Connects sweeping changes in utilization, mission dependence, deferred maintenance, and status
- Provides stark reminder to act on the most needy or least supportive assets
- Discourages abandonment as a management strategy

# Asset Impairment Standard Recommendation for FASAB

- GASB 42 . . .
  - Why?
    - “Fair value” hard to measure
    - “Significant” and “unexpected” are definable
    - Acknowledges “temporary” impairments
    - Addresses non-cash generating assets
    - Adjustments made only once
  - How?
    - Definitions needed for terms significant, unexpected, and temporary

# Asset Impairment Standard Recommendation for FASAB

- GASB 42 . . . plus IPSAS’ “reversal”
  - Why?
    - Just as circumstances could **change** unexpectedly, they might **revert** just as unexpectedly
    - Historic expectations for federal assets yield more “**chances**” for such a change
  - How?
    - No requirement to **routinely** test for impairment
    - Program manager would **monitor** for an equally unexpected **reversion** of circumstances

# Data Source Considerations

- Federal real property data standard
  - Federal Real Property Council's Real Property Inventory
- No single or even **combination** of absolute values will indicate impairment
- Agencies would monitor their own Inventory data elements for **significant** changes
- Agencies could refine their tests with other readily available, **agency specific** data

# GASB Clues to Impairment:

|    |  | Change in . . .                       |   |
|----|--|---------------------------------------|---|
|    |  | FRPP Data Elements                    | Other Often Available Data  |
| 1. | Construction stoppage due to unexpected high costs | Utiliz. (4) for new assets, Value     | --  |
| 2. | Change in the manner or expected duration of use   | Size, Utiliz., Mis. Dep., Oper. Costs | Utilities usage, operating hours, occupant counts, planning docs, program funds |
| 3. | New laws or regulations that impact operations     | Oper. Costs, Restrictions             | --  |
| 4. | Physical damage requiring restoration              | Status (I), Value, CI                 | DM or RN  |
| 5. | Technological development or obsolescence          | Utiliz. (3 or 4), CI, Mis. Dep.       | DM or RN, age for select use codes  |

The image shows a cluttered attic space. In the foreground, there is a large, horizontal pipe wrapped in silver insulation. Above it, several metal pipes and wires run across the ceiling. The ceiling itself is dark and appears to be made of wood or a similar material, with some insulation visible. The overall scene is messy and suggests a renovation or maintenance project.

Here we are in the attic . . . .

We need to decide . . .

... What stays?

... What goes?

What do we hope this looks  
like when we are done?