Federal Accounting Standards Advisory Board

Deferred Maintenance and Repairs

Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by September 16, 2011

June 27, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, and analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

June 27, 2011

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on this exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Deferred Maintenance and Repairs - Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*. Specific questions for your consideration begin on page 7 but you are welcome to comment on any aspect of this proposal. Your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by September 16, 2011.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to defmaint@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen

Chairman

Executive Summary

What is the Board proposing?

This exposure draft proposes amending the reporting requirements contained in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment.* The amendments would 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 deferred maintenance and repairs (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.

Other significant proposals contained in this Exposure Draft 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 optional reporting of high-low DM&R estimates as well as the option to report critical and non-critical DM&R.

Additionally, the proposed amendments note the importance of communication with and input from professionals in diverse disciplines in compiling and reporting DM&R information.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

DM&R reporting enables the government to be accountable to citizens for the proper administration and stewardship of its assets, and thus meets both the operating and stewardship performance objectives.[1] Specifically, DM&R reporting assists users by providing an entity's realistic estimate of DM&R amounts and the effectiveness of asset maintenance practices the entities employ in fulfilling their missions.

The two most common concerns noted since the implementation of SFFAS 6 are (1) the lack of comparability in assessing asset condition both within and among entities and (2) measurement and reporting practices and formats that vary greatly among entities. These concerns largely result from entities defining and estimating DM&R differently and the degree of flexibility afforded by both SFFAS 6 and the Federal Real Property Profile (FRPP)

[1] Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, September 2, 1993, paragraphs 14 through 16.

Reporting Guidelines.[2] As a result, these issues have contributed to confusion among interested users of DM&R information.

In an attempt to achieve greater consistency and comparability in the reporting of DM&R and to increase the reliability and relevance of DM&R estimates, the Board believes that certain refinements and changes to DM&R requirements in SFFAS 6 are required. These significant changes would include both the addition and elimination of certain reporting requirements. Regarding DM&R reporting for real property, the Board believes that these changes will facilitate reliance on FRPP information to support DM&R amounts presented in general purpose federal financial reports.

Operating Performance Objective

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.

Source: SFFAC 1, par. 14.

Stewardship Objective

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 conditions have 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.

Source: SFFAC 1, paragraphs 15 – 16.

[2] The most current version can be found at: http://www.gsa.gov/portal/content/104918. Please refer to *Federal Real Property Council, Real Property Inventory - User Guidance for FY 2010 Reporting October 25, 2010.*

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Exposure Draft before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to defmaint@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by September 16, 2011.

Q1. The Board proposes to eliminate the requirement to report condition information. Refer to paragraphs 13, 14, and 17 of the proposed standards and paragraph A8 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to no longer require condition reporting? Please provide the rationale for your answer.

Q2. The proposed standards would require that DM&R estimates for beginning and ending balances be presented with an explanation of significant changes in estimates. Refer to paragraph 14.f. and g. of the proposed standard and paragraph A20 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. Do you agree or disagree that DM&R estimates for beginning and ending balances should be presented? Please provide the rationale for your answer.

b. Do you agree or disagree with the requirement to explain significant DM&R changes? Please provide the rationale for your answer.

Q3. The proposed standards state that entities should apply reported methods and reporting formats consistently unless management determines that changes are necessary and if changes to methods or formats are necessary, such changes should be explained. Refer to paragraph 11 of the proposed standards and paragraphs A10 and A11 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. Do you agree or disagree that entities should apply reported methods and reporting formats consistently? Please provide the rationale for your answer.

b. Do you agree or disagree with requiring an explanation if entities change methods or formats? Please provide the rationale for your answer.

Q4. The proposed standards would require entities to provide narrative information describing M&R policies and other non-financial information including any significant changes to policies and other factors from the prior year. Refer to paragraphs 13 and 14, items a. through f. of the proposed standards and paragraphs A11 and A17, respectively in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the above referenced requirements? Please provide the rationale for your answer.

Q5. The proposed standards state that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R. Refer to paragraph 11 of the proposed standards and paragraphs A15 and A16 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation. .

Do you agree or disagree that communication with and consideration of input from professionals in diverse disciplines is necessary to effectively compile and report DM&R? Please provide the rationale for your answer.

Q6. The proposed standards would eliminate the option to report a range of DM&R estimates and the distinction between critical and non-critical amounts. The reported amount of DM&R may be disaggregated in a variety of ways without explicit mention in the standards. Refer to paragraph 14 of the proposed standards and to paragraphs A18 and A19 in Appendix A - Basis for Conclusions for a discussion and related explanations.

a. **Do you agree or disagree with eliminating the option to report a range of DM&R estimates? Please provide the rationale for your answer.**

b. **Do you agree or disagree with eliminating the distinction between critical and non-critical DM&R estimates? Please provide the rationale for your answer.**

Q7. The proposed standards would be effective beginning in fiscal year 2015 with earlier implementation permitted.

Do you agree or disagree with the proposed effective date? Please provide the rationale for your answer.

Introduction

Purpose

1. The Board desires to improve deferred maintenance and repairs (DM&R) measurement and to enhance current federal reporting. The objective of this Statement is to incorporate reporting changes responsive to concerns raised by the financial and technical [3] communities. The Board also considered, where appropriate, a Government Accountability Office (GAO) study [4] specific to repair and maintenance backlog issues surrounding federal real property.

Materiality

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

3. When finalized, the requirements in this Statement will be effective beginning in fiscal year 2015. The Board believes the standards will be finalized in fiscal year 2012 and a two year implementation period is sufficient.

[3] This Statement uses the phrase “technical community” to refer to entity personnel responsible for the management of property, plant, and equipment including maintenance and repair.
[4] GAO Report No. GAO-09-10 dated October 2008. Federal Real Property. *Government’s Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.*

Proposed Standards

Scope

4. This Statement replaces 'deferred maintenance and repairs' definitions, measurement and reporting requirements established in Statement of Federal Financial Accounting Standards (SFFAS) 6, as amended by *SFFAS 40, Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment* (SFFAS 40). SFFAS 6, *Chapter 3: Deferred Maintenance and Repairs*, paragraphs 77 through 84 are rescinded and *Appendix C, Deferred Maintenance and Repairs Illustration* is also rescinded.

5. In addition to SFFAS 6, this Statement also provides the following conforming amendments:

   a. **SFFAS 14*, Amendments to Deferred Maintenance Reporting Amending SFFAS 6, Accounting for Property, Plant and Equipment, and SFFAS 8, Supplementary Stewardship Reporting,* is rescinded.**

   b. **SFFAS 29*, Heritage Assets and Stewardship Land,* is amended to adopt the revised terminology and to rescind requirements for condition information.**

   c. **SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,"* is amended to adopt the revised terminology and to rescind certain requirements.**

   d. **Technical Release 9*, Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land,* Section III: Assessing and Reporting Condition is amended to explain the status of guidance relating to condition reporting.**

Definition

6. "Deferred maintenance and repairs" (DM&R) are maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period.

7. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.[5] Activities include preventive maintenance; replacement of parts, systems,[6] 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.

Measurement

8. Amounts for DM&R may be measured using:

   a. condition assessment surveys,

   b. life-cycle cost forecasts, or

   c. other methods which are similar to the condition assessment survey or life-cycle costing methods.

9. *Condition assessment surveys* are periodic[7] visual (i.e., physical) inspections of property, plant and equipment (PP&E) to determine their current condition and estimated cost to correct any deficiencies.

10. *Life-cycle costing* is an acquisition or procurement technique which considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in forecasts of maintenance and repairs expense, these forecasts may serve as a basis against which to compare actual maintenance and repairs expense to arrive at an estimate of deferred maintenance and repairs.

11. Management should determine which methods to apply and what condition standards are acceptable. Once determined, condition standards, related assessment methods [8] and reporting formats should be consistently applied unless management determines that changes are necessary. Changes to methods or formats that management determines are necessary should be accompanied by an

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[5] The determination of acceptable condition may vary both between entities and among sites within the same entity. Management shall determine what level of condition is acceptable.
[6] The term "systems" can refer to either (1) information technology assets (e.g., hardware, internal use software, data communication devices, etc.) or (2) groupings (assemblages) of component parts belonging to a building, equipment or other personal property.
[7] This Statement does not require an entity's entire portfolio to be inspected each year. It is permissible to schedule condition assessment surveys on a cyclical basis, provided scheduling is done in accordance with established practices.
[8] Assessment methods are techniques or procedures used in a process of systematically evaluating an entity's PP&E in order to project M&R, renewal, or replacement needs that will maintain or preserve their ability to support the entity's mission or activities they are assigned to serve.

explanation documenting the rationale for the change and any related impact on the DM&R estimate(s). To best meet the goal of DM&R reporting, communication with and consideration of input from professionals in diverse disciplines such as engineering, facilities management, finance, budgeting and accounting is necessary.

12. DM&R should be measured and reported for capitalized general PP&E and stewardship PP&E. DM&R also may be measured and reported for non-capitalized or fully depreciated general PP&E. DM&R should include funded maintenance & repair (M&R) that has been delayed for a future period as well as unfunded M&R. DM&R on inactive and/or excess PP&E should be included to the extent that it is required to maintain inactive or excess PP&E in acceptable condition. For example, inactive PP&E may be maintained or repaired either to comply with existing laws and regulations, or to preserve the value of PP&E pending disposal.

Component Entity Required Supplementary Information

13. DM&R reporting should provide (1) DM&R beginning and ending balances for the reporting period and (2) narrative information related to DM&R costs. Entities are required to present both qualitative and quantitative information.

14. At a minimum, the following information should be presented as required supplementary information (RSI) for all PP&E (each category established in SFFAS 6, as amended, should be included) regardless of the measurement method chosen.

Qualitative

a. A summary of the entity's M&R policies and brief description of how they are applied; i.e., method of measuring DM&R
b. Policies for ranking and prioritizing M&R activities[9]
c. Factors the entity considers in determining acceptable condition standards
d. Whether DM&R relates solely to capitalized general PP&E and non-capitalized stewardship PP&E or also to amounts relating to non-capitalized or fully depreciated general PP&E

[9] As an example, entities may report (1) how they will pursue reducing their DM&R backlog and how they will be impacted by budget or funding shortfalls or reductions, and (2) whether or not the entity has used Return on Investment analyses in its ranking and prioritizing of either M&R or DM&R.

e. Capitalized general PP&E, and non-capitalized heritage assets and stewardship land for which management does not measure and/or report DM&R and the rationale for the exclusion
f. If applicable, explanation of any significant changes to (1) the policies and factors subject to the reporting requirements established in a. through e. above and (2) DM&R amounts from the prior year[10]

Quantitative

g. Estimates of the beginning and ending balances of deferred maintenance and repairs for each major category [11] of asset for which maintenance and repairs have been deferred

Consolidated Financial Report of the US Government Required Supplementary Information

15. The disclosure requirements listed in paragraphs 13 and 14 above are not applicable to the U.S. government-wide financial statements. The U. S. government-wide financial statements should include the following RSI:

a. A description of what constitutes deferred DM&R and how it was measured
b. Amounts of DM&R for each major category of PP&E (i.e., general PP&E, heritage assets, and stewardship land)
c. A reference to component entity reports for additional information

Conforming Amendments to Other Statements and Technical Releases

16. This Statement amends requirements in SFFAS 29 and 32 to replace 'deferred maintenance' with 'deferred maintenance and repairs' and to rescind certain requirements in SFFAS 29 and 32, including the requirement to report condition information. The changes to SFFAS 29 and 32 are presented in paragraphs 17 and 18 below.

[10] Consistent with paragraph 11, once determined, condition standards and related assessment methods and reporting formats should be consistently applied.
[11] SFFAS 6 sets forth three categories of PP&E: (1) general PP&E are PP&E used to provide general government services or goods; (2) heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and (3) stewardship land (i.e., land other than that included in general PP&E).

17. Paragraphs 26, 28, 41 and 42 of SFFAS 29, Heritage Assets and Stewardship Land, are amended as follows:

> [26] ~~Entities should report the condition[11] of the heritage assets (which may be reported with the deferred maintenance information[12]) as required supplementary information.~~ Entities should include a reference to ~~the condition and~~ deferred maintenance <u>and repairs</u> information[13] ~~if~~ reported <u>in required supplementary information</u> ~~elsewhere in the report containing the basic financial statements~~.

Paragraph 26 Footnote references:

> ~~[11] Condition is the physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a tragic event), disasters (a sudden calamitous event bringing great damage, loss, or destruction), and obsolescence. Examples of condition information include, among others, (1) averages of standardized condition rating codes; (2) percentage of assets above, at, or below acceptable condition; or (3) narrative information.~~

> ~~[12] See SFFAS 6, Chapter 3, Deferred Maintenance (par. 77-84) for information regarding definition, measurement and disclosures specific to deferred maintenance~~.

> [13] <u>See SFFAS ##, *Deferred Maintenance and Repairs,* for information regarding definition, measurement and required supplementary information.</u> ~~SFFAS 14, Amendments to Deferred Maintenance Reporting Amending SFFAS 6, Accounting for Property, Plant and Equipment and SFFAS 8, Supplementary Stewardship Reporting, defined deferred maintenance as RSI. The Board believed that a period of experimentation was necessary for deferred maintenance information and that classifying it as RSI would be more appropriate during the experimentation period. The Board may revise this standard based on experience gained during this time and the development of additional criteria.~~

[28.][c.] A general reference to agency reports for additional information about heritage assets, such as agency stewardship policies for heritage assets, and physical units by major categories of heritage assets~~, and the condition of the heritage assets~~.

[41] ~~Entities should report the condition[22] of the stewardship land (which may be reported with the deferred maintenance information[23]) as required supplementary information.~~ Entities should include a reference to the ~~condition and~~ deferred maintenance and repairs information[24] ~~if~~ reported in required supplementary information ~~elsewhere in the report containing the basic financial statements~~.

Paragraph 41 Footnote references:

~~[22] Condition is the physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a tragic event), disasters (a sudden calamitous event bringing great damage, loss, or destruction), and obsolescence. Examples of condition information include, among others, (1) averages of standardized condition rating codes; (2) percentage of assets above, at, or below acceptable condition; or (3) narrative information.~~

~~[23] See SFFAS 6, Chapter 3, Deferred Maintenance (par. 77-84) for information regarding definition, measurement and disclosures specific to deferred maintenance.~~

[24] See SFFAS ##, *Deferred Maintenance and Repairs,* for information regarding definition, measurement and required supplementary information. ~~SFFAS 14, Amendments to Deferred Maintenance Reporting Amending SFFAS 6, Accounting for Property, Plant and Equipment and SFFAS 8, Supplementary~~

~~Stewardship Reporting, defined deferred maintenance as RSI. The Board believed that a period of experimentation was necessary for deferred maintenance information and that classifying it as RSI would be more appropriate during the experimentation period. The Board may revise this standard based on experience gained during this time and the development of additional criteria.~~

[42. c.] A general reference to agency reports for additional information about stewardship land, such as agency stewardship policies for stewardship land, and physical units by major categories of stewardship land use~~, and the condition of the stewardship land~~.

18. Paragraphs 12b., 12c., and 24 of *SFFAS 32: Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government" are rescinded.*

~~12. b. The text "The above listed required supplementary information is not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for required supplementary information applicable to the U.S. government-wide financial statements for these activities." is added as a separate bullet following the existing text for par. 83.~~

~~12. c. The text "The U.S. government-wide financial statements need not separately report stratification between critical and non-critical amounts of maintenance needed to return each major class of asset to its acceptable operating condition as well as management's definition of these categories. SFFAS 32 provides for optional information applicable to the U.S. government-wide financial statements for these activities." is added to par. 84 as the final sentences.~~

~~24. The U.S. government-wide financial statements should include the following required supplementary information:~~

~~a. a broad description of deferred maintenance,~~

~~b. amounts or ranges of amounts of deferred maintenance for each major asset category (i.e., general property, plant, and equipment; heritage assets, and stewardship land) for which maintenance has been deferred,~~

~~c. a general reference to component entity reports, and~~

~~d. optional reporting of the stratification between critical and non-critical amounts of maintenance needed to return each major asset category to its acceptable operating condition.~~

19. This Statement amends requirements in Technical Release 9, Section III, to acknowledge the rescission of requirements to report condition information as RSI. The following text is to be inserted before Section III:

    Statement of Federal Financial Accounting Standards ##, *Deferred Maintenance and Repairs*, rescinded the requirement to report condition information regarding heritage assets and stewardship land as RSI. The following guidance offers insights regarding condition assessments and factors that may influence reporting of deferred maintenance and repairs information. The guidance has not been updated to conform to the new standards and should be considered other literature until revised implementation guidance – if any – is provided.

Effective Date

20. These standards are effective for periods beginning after September 30, 2014. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards provided in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

A1. Concerns pertaining to DM&R reporting have arisen since the issuance of SFFAS 6. The two most common concerns related to (1) the lack of comparability in assessing asset condition both within and among entities and (2) measurement and reporting practices and formats that vary greatly among entities. In its most recent real property study, the GAO noted that entities define and estimate DM&R differently in part due to the degree of flexibility afforded by both SFFAS 6 and the Federal Real Property Profile Reporting Guidelines. As a result, confusion and uncertainty exists among users of DM&R information.

A2. Primarily as a result of auditor concerns, SFFAS 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS 6, Accounting for Property, Plant and Equipment and SFFAS 8, Supplementary Stewardship Reporting*, amended SFFAS 6 and SFFAS 8 to reclassify deferred maintenance information as required supplemental information instead of a disclosure in the notes to the financial statements.

A3. At that time, the Board believed that a period of experimentation would be desirable for deferred maintenance information and that classifying it as RSI was appropriate during the experimentation period. As a result, the standards for estimating deferred maintenance were intentionally flexible. However, at a minimum, the Board expected to develop guidance on determining acceptable condition and revise the standards based on experience gained during the experimentation period.

A4. Since completing deliberations on *Statement of Federal Financial Accounting Standards* (SFFAS 40): *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*, the Board has continued seeking advice and guidance from stakeholders interested in improving the management of, and reporting on, federal PP&E and related DM&R.

A5. As demonstrated by SFFAS 40*,* the Board has spent considerable time and effort working with key stakeholders and the community-at-large evaluating much of the experience gained during the experimentation period. As a result, the Board has both reaffirmed and refined its position regarding DM&R measurement and reporting.

A6. Two external reports served as the initial basis for the scope of the Task Force's work.[12] The first report was a critique of the deferred maintenance definition in Statement of Federal Financial Accounting Standards 6*, Accounting for Property, Plant, and Equipment* (SFFAS 6). This report was prepared by the Federal Facilities Council under the auspices of The National Academies. The report was reviewed by the Task Force and provided a foundation for the proposed amendment(s) contained in SFFAS 40. The second report was a GAO study specific to federal real property repair and maintenance backlog issues. In that study, the GAO discussed the need for comparability and realistic estimates of deferred maintenance so that the government's fiscal exposure could be revealed.

A7. The Task Force's work was not constrained by either of these external reports. Task Force members contributed entity specific information which also included input from internal and external audit communities.

Refining the Goal of DM&R

A8. The goal of DM&R is to provide reliable information on the estimated cost of the PP&E maintenance and repairs that have been deferred. To that end, the proposed standards would no longer require that condition information be reported. Although condition reporting is important and is the basis of an entity's DM&R estimate, it is not an

[12] During 2008 FASAB established a task force to address deferred maintenance and asset impairment issues. The task force consists of government and non-government representatives from various disciplines such as: real property/facilities management, personal property management, appraisal & valuation services, engineering, architecture, accounting, internal auditing, external auditing, finance and budgeting.

essential component of financial reports. The Board's rationale for this decision is that condition assessment methods and reporting continue to evolve and there are no federal-wide uniform assessment or measurement methods that would increase comparability and understandability. Therefore, summarized condition information may not provide meaningful information to users. The Board believes the wide variation among entities in condition assessment methods and reporting (i.e., different condition ratings/rankings) could obscure user understanding of the government's fiscal exposure (realistic DM&R estimate). The Board believes that this is an area where entity administrative burden can be alleviated given the questionable benefits of summarized condition information.

Assessment Method Factors & Selection Criteria

A9. Entities are free to choose among assessment methods described in this Statement. The Board realizes that entities need to consider many factors when selecting assessment methods. Such factors could include:

a. nature, size & complexity of the PP&E portfolio,

b. mission requirements,

c. cost versus benefit,

d. changes in economic outlook,

e. project management strategy,

f. nature or type of asset to be inspected,

g. asset-specific condition assessment requirements,

h. environmental or weather conditions,

i. availability of commercial-off-the-shelf (COTS) software,

j. availability of government-off-the-shelf (GOTS) software,

k. software scalability & related vendor support,

l. regulatory requirements, and

m. health and safety considerations.

.

For example, an entity may elect to use a life-cycle method to assess its PP&E as part of its overall project management strategy to enhance its ability to predict future maintenance and repair requirements. Another entity may elect to use a parametric [13] method due to the size and complexity of its portfolio and to realize efficiencies and cost savings while another entity requiring asset-specific condition information may select the condition assessment survey method.

A10. In order to obtain greater consistency and comparability the Statement provides that once selected, condition standards, related assessment methods and reporting formats should be consistently applied unless management determines that changes are necessary. Some general selection criteria management could use in evaluating different assessment methods include the following:

CONDITION ASSESSMENT SURVEYS (i.e. visual, physical inspections)

PROS

- Generates DM&R estimates
- More timely identification of health & safety issues
- Usually identifies and prioritizes work items / specific repairs
- Modified surveys are affordable
- Knowledge-based surveys (e.g., risk management strategies) eliminate over- and under-inspection
- Engineered-based surveys provide consistent & credible results

CONS

- Traditional surveys are expensive

[13] Similar to the life-cycle costing method, parametric cost estimating is an accepted technique used in planning, budgeting, and performance stages of the acquisition process. The technique expedites the development of cost estimates and is appropriate when traditional (i.e., discrete physical inspections) estimating techniques would require inordinate amounts of time and resources. A distinct feature of this method is that condition assessments are performed at the system level rather than the component level. Adapted from: National Institute of Building Sciences, *Whole Building Design Guide.*

- Does not always identify or prioritize work items / specific repairs
- Wasteful over-inspection, risky under-inspection
- Inspector bias could distort results

LIFE CYCLE COSTING METHODS (i.e., modeling)

PROS

- Generates DM&R estimates
- Affordable
- Efficient
- Focuses on buildings and systems
- Facilitates evaluation of large portfolios

CONS

- Determining the cumulative costs of deferring maintenance
- Does not identify or prioritize work items / specific repairs
- Not always appropriate for smaller portfolios
- Could require expensive updating of initial procurement information
- Credibility issues

Consistency and Comparability

A11. Because consistency in measurement and reporting significantly adds to the informational value of DM&R estimates (i.e., trend information is useful to decision makers), management must use consistent assessment techniques, measurement methods and reporting formats from year-to-year. However, if management decides to change methods or formats such changes should be accompanied by an explanation documenting the rationale for the change and any related impact to the DM&R estimate(s). This is consistent with Task Force concerns that (1) entities be allowed to adopt new and improved methods or technologies that might be brought about in the area of asset management and (2) greater rigor and discipline is needed in the area of DM&R measurement and reporting.

A12. Staff research found that some agencies have interpreted SFFAS 6 requirements to apply only to unfunded DM&R activities. [14] As a result, inaccurate reporting and increased lack of consistency and comparability has resulted. The Board notes whether funded or not, DM&R should be reported. For example, if funding exists but competing demands cause a schedule slippage and result in a delay to a future period, such costs should be reported as DM&R.

A13. Staff research also found that some entities have not reported DM&R because they have not distinguished between needed capital improvements (e.g., activities which extend the useful life of PP&E) and needed repairs (e.g., activities which allow PP&E to attain the original useful life). SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* states that "[g]enerally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. Consideration should be given to whether the substance of transactions or events differs materially from their form."[15] For DM&R amounts to be comparable, entities must consider the substance rather than the form—that is, the terms applied by management—of future activities relating to PP&E.

A14. Measuring DM&R related to active and inactive PP&E helps ensure that DM&R estimates capture reliable information on the estimated cost of the PP&E maintenance and repairs that have been deferred. For example, entities are often required by law or regulation to obtain approval(s) prior to disposing real property deemed inactive or excess. If entities continue to measure DM&R on PP&E pending disposition, DM&R estimates may be overstated because M&R having a low probability of occurrence may be included. As a result, DM&R that is not expected to be incurred due to an asset's inactive status may be separately identified in order to provide for a more realistic DM&R estimate, if deemed material.

[14] Department of Defense Inspector General Report dated September 25, 2009, *Deferred Maintenance on the Air Force C-130 Aircraft* (Report No. D-2009-112.)
[15] SFFAS 34, footnote 5.

Interdisciplinary and Integrated Approach

A15. Staff research found that at some entities DM&R information is obtained from data gathering processes without the collaboration necessary to maximize completeness and consistency.

A16. To address completeness and consistency, the Board believes entities should use an interdisciplinary and integrated approach to meet the goals of DM&R reporting. This includes communicating among and considering input from diverse disciplines such as engineering, facilities management, finance, budgeting, and accounting. Such input should be considered together when determining acceptable condition and related costs to remedy assets. Such an approach will help to (1) ensure the increased value and efficacy of the reported information, (2) meet diverse user needs, and (3) foster system and process improvements via continual integration and interaction among entity staff.

Additional Narrative Information

A17. Although flexibility is necessary in the areas of determining asset condition and defining acceptable condition, the Board believes that additional disclosures are required in order to increase consistency, comparability, and the reliability and relevance of DM&R estimates. Consequently, the Board believes that:

a. disclosing M&R policies and how they are applied in practice assists users in understanding how an entity manages its DM&R.

b. disclosing policies for ranking and prioritizing M&R activities assists users in understanding how an entity efficiently and effectively manages its M&R resources. Additionally, the Board believes that in order to enhance the relevance and reliability of the entity's estimated DM&R amount, an entity should explain how it decides to allocate its (available) resources. For example, entities frequently give top priority to maintenance and repair activities that maintain employee or constituent health and safety or are required to satisfy regulatory mandates. Once this is accomplished, entity rankings may be adjusted for asset condition assessments, and management considerations that include: capital improvement plans, asset disposal plans, and budgetary funding outlook.

c. identifying factors the entity considers in selecting acceptable condition standards assists users in understanding the unique nature of the entity's mission and operating environment and how these affect asset management. Regardless of whether entities report condition information, the underlying rationale an entity uses in making this managerial judgment enhances the relevance and reliability of the entity's estimated DM&R. For example, an entity might set different acceptable condition standards for identical assets because of geographical or environmental factors specific to each.

d. Partially as a result of increased emphasis in the reporting of real property information, it has come to the Board's attention that in addition to capitalized general and non-capitalized stewardship PP&E, entities track and report DM&R on expensed or fully depreciated general PP&E; i.e., all accountable PP&E. Disclosing whether DM&R relates solely to capitalized general PP&E and non-capitalized stewardship PP&E or also includes amounts relating to non-capitalized or fully depreciated general PP&E assists users in understanding how an entity manages its DM&R.

e. identifying PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion assists users in understanding how an entity efficiently and effectively manages its M&R resources. Management should clearly disclose this fact and provide its rationale for the exclusion. For example, PP&E designated as excess and subject to disposal or considered unserviceable may not have any associated DM&R.

Reducing Confusion and Increasing Relevance & Reliability

A18. The stratification between critical and non-critical DM&R at SFFAS 6, paragraph 84 was intended to be optional and not an unnecessary burden to entities. It has come to the Board's attention that the Federal Real Property Guidelines define "critical" at the asset level (i.e., asset classification defines if M&R is critical or not) whereas the SFFAS 6 guidelines have been interpreted to apply to the discrete M&R activity (i.e., the nature of the work defines if M&R is critical or not). Furthermore, some entities are following Treasury guidelines which define "critical" as a matter of consequence or exigency (i.e., impact of not performing the M&R work/activity).[16] Consistent with the Task Force's recommendation, it is the Board's opinion that having three separate definitions for "critical" has led to confusion, increased lack of comparability, and estimates that are not necessarily reflective of what entities expect to incur. The Board believes that the reporting of critical and non-critical DM&R is not useful, can lead to inconsistency, and therefore should be not be addressed in the Statement.

A19. Permitting entities to provide a range of DM&R estimates (i.e., high and low), was in recognition of the fact that assessment methods and practices were fairly new and still evolving at the time SFFAS 6 was issued. However, as the GAO noted in its October 2008 report, DM&R estimates do not necessarily reflect the cost that agencies expect to incur owing, at least in part, to the methodological flexibility permitted by SFFAS 6. The identification of low and high dollar DM&R estimates contributes to the lack of comparability and hinders the transparent reporting of a more realistic estimate. A single DM&R estimate is more appropriate and informative. Moreover, an analysis of a seven-year (2004 through 2010) time span at the government-wide level reveals that there is very little distinction between low and high dollar estimates. Consistent with the Task Force's recommendation that DM&R estimates be derived directly

[16] June 17, 2010, Appendix 4 of Chapter 4700 in Vol. 1 of the Treasury Financial Manual, Other Financial Report (FR) Notes Data and Instructions. *"Critical deferred maintenance is urgently needed, absolutely necessary, and is an element that needs immediate attention. Furthermore, critical deferred maintenance is any deferred maintenance that poses a serious threat to the public or employee safety or health, natural or cultural resources, and a bureau's ability to carry out its assigned mission."*

from asset management systems and be consistent with FRPP reporting requirements, the Board believes that by eliminating the reporting of a dollar range, financial reporting of DM&R is significantly improved and administrative burdens can be reduced.

Presenting DM&R Balances and Discussing Significant Changes

A20. The Board believes that users need to know how much the maintenance and repairs requirements increased (decreased) in dollar terms and the effect of this change on the DM&R balances. Moreover, it is important for users to (1) understand the events that occurred during the year and why they brought about significant increases or decreases and (2) whether or not DM&R levels have changed (e.g., the amount declined). To that end, federal entities are required to present their DM&R beginning and ending balances. As illustrated in Appendix B, entities should present these balances by category (i.e., general PP&E, heritage assets, and stewardship land), and explain significant changes by major asset category. The Board believes that this will increase comparability and the relevance and reliability of the DM&R estimates and will significantly enhance entity-specific consistency from year to year.

Appendix B: Sample Illustration

Appendix B

Deferred Maintenance and Repairs Illustration

This appendix illustrates paragraphs 13 -14. The examples shown here are for illustrative purposes only. Different entities may develop different asset classes and descriptive terminology consistent with the set categories of General PP&E, Heritage Assets, and Stewardship Land. The following narrative discussion and Illustration #1, *General Purpose Display* meet the minimum requirements of the proposed standards. The various illustrations are not meant to articulate with one another and should be viewed on a stand-alone basis.

XYZ Entity

Deferred Maintenance and Repairs for Fiscal Year 20x2

The XYZ entity operates over 1,300 facilities throughout the world, preserves nearly 300 national historical landmarks of natural, cultural, educational, or artistic importance, and is responsible for maintaining over 80,000 acres of stewardship land. Most of the facilities are predominantly used for office space and warehousing defense assets. Additionally, the entity operates a hospital at one of its remote sites. It is entity policy to ensure that medical equipment and critical equipment systems are maintained and managed in a safe and effective manner; therefore, deferred maintenance and repairs do not arise for these two types of equipment and no periodic assessment is performed. Additionally, since (1) it is entity policy to maintain and preserve all fixed property, plant and equipment (PP&E) regardless of recorded values and (2) accounting and asset management systems do not differentiate M&R between PP&E capitalized (i.e., items whose cost exceeds the capitalization threshold) versus those expensed, DM&R estimates reported herein relate to all PP&E whether capitalized or not or fully depreciated.

Defining and Implementing M&R Policies in Practice.

As permitted under FASAB SFFAS XX, the entity employs a parametric estimating method for the largest portion of its portfolio (real property such as office and warehouse space) and the condition assessment method for its hospital facility, defense and stewardship assets. With the exception of the hospital facility which is inspected on a yearly basis, the entity's real property portfolio is assessed on a 3 to 5 year rotating calendar. Both methods measure current real property asset condition and document real property deterioration.

Real property assessment methods produce both a cost estimate of deferred maintenance and repairs, and a Facility Condition Index (FCI). Both measures are indicators of the overall condition of the entity's facilities. The parametric estimating methodology involves an independent, rapid visual assessment of nine different systems within each facility to include: structure, roof, exterior, interior finishes, HVAC, electrical, plumbing, conveyance, and program support equipment. The parametric estimating method is designed to be cost effective and appropriate for application to a large population of facilities; results are not necessarily applicable for individual facilities or small populations of facilities.

The entity's hospital is inspected on a yearly basis employing a physical inspection method which focuses on component as well as system distresses in addition to identifying deficiencies. The entity's defense assets are routinely surveyed by unit and depot maintenance personnel and stewardship assets are routinely surveyed by on-site personnel and regional inspection teams.

As stated above, it is entity policy to ensure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner. Therefore, deferred maintenance and repairs assessment methods are generally not applied to equipment assigned to hospitals as any DM&R would be negligible.

Ranking and Prioritizing M&R Activities.

Maintenance and repair activities are first prioritized via health, safety and regulatory considerations at all facilities. Once this is accomplished, the FCI values are then ranked based on the ratings obtained during the condition assessment site visits. Rankings are generally adjusted to take into account current capital improvement efforts underway, future capital improvement plans, asset disposal plans, and budgetary funding outlook.

Factors Considered in Setting Acceptable Condition.

For office and warehouse space, the entity defines acceptable condition in accordance with standards comparable to those used in private industry. For example, industry standards for administrative buildings can vary substantially depending upon their classification as either a Class A, B or C property. Such classifications are affected by building location, design, and age. Condition standards for warehouses are primarily set by local jurisdictions and consider factors such as accommodating loads, materials to be stored, the associated handling equipment, the receiving and shipping operations and associated trucking, and the needs of the operating personnel. Acceptable condition for the hospital facility is in accordance with federal statutory requirements and requirements adopted by the health care facilities industry substantially comparable to the requirements at 42 C.F.R. Part 483 entitled, *Requirements for States and Long Term Care Facilities*.

Military specifications and standards for defense assets vary greatly depending upon numerous factors such as the nature and type of equipment and mission expectations. Acceptable condition standards for defense assets are set at levels deemed to be mission capable or serviceable. Heritage assets and stewardship land adopt scientific conservation standards to preserve assets in a manner that fulfills the entity's obligation to stabilize, protect, and preserve the assets.

Significant Changes from Prior Year and Related Events.

The overall net increase of $2.0 billion in DM&R is a result of the $3.0 billion increase in General PP&E DM&R, offset by a $1.0 billion decrease in heritage assets DM&R.

Funded DM&R decreased by $1.0 billion as result of the entity's strategic initiative to repair and restore many of its historical landmarks. However, unfunded DM&R pertaining to inactive/excess General PP&E increased by $3.0 billion as a result of (1) the transfer of properties from other federal entities, (2) newly identified properties and equipment no longer needed by the entity, and (3) continued degradation of properties awaiting final disposition. Management policy is to comply with legal requirements to maintain inactive/excess property in safe condition and to pursue cost-beneficial measures to preserve the value of properties. The entity in collaboration with other entities and members of Congress is in the process of finalizing plans to either dispose of or find alternate uses for the aforementioned properties. For such properties, DM&R include those M&R activities management believes are warranted but not necessarily the M&R appropriate for an equivalent active property.

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 proposed standard:

ILLUSTRATION 1 - GENERAL PURPOSE DISPLAY

Deferred Maintenance and Repair Costs
(Dollars in Millions)

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

The following Illustration # 2 presents information on major PP&E categories experiencing material amounts of deferred maintenance and repairs with an emphasis on active versus inactive/excess assets:

ILLUSTRATION 2 - EMPHASIS ON ACTIVE vs. INACTIVE & EXCESS

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category	20x2 Beginning Balance DM&R	20x2 Ending Balance DM&R
Active:		
General PP&E	$30,000	$31,250
Heritage Assets	1,000	0
Stewardship Land	1,000	1,000
subtotal -active	32,000	32,250
Inactive & Excess:		
General PP&E	7,000	8,750
subtotal -inactive	7,000	8,750
Total	**$39,000**	**$41,000**

The following Illustration # 3 presents information on major asset classes experiencing material amounts of deferred maintenance and repairs with an emphasis on active versus inactive/excess assets:

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

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category / Class	20x2 Beginning Balance DM&R	20x2 Ending Balance DM&R
Active:		
General PP&E:		
Structures	$28,000	$28,750
Aircraft	10	106
Missiles	117	279
Ships	1,873	2,115
subtotal - general PP&E active	30,000	31,250
Stewardship Land	1,000	1,000
Heritage Assets	1,000	0
subtotal - all active	$32,000	$32,250
Inactive & Excess:		
General PP&E		
Buildings	5,000	5,000
Structures	2,000	3,750
subtotal - general PP&E inactive & excess	7,000	8,750
Total	**$39,000**	**$41,000**

The following Illustration # 4 presents information on major PP&E categories experiencing material amounts of deferred maintenance and repairs with an emphasis on funded and unfunded maintenance and repairs:

ILLUSTRATION 4 - EMPHASIS ON FUNDED & UNFUNDED M&R

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category	20x2 Beginning Balance DM&R	20x2 Ending Balance DM&R
Funded M&R:		
General PP&E -active	$15,000	$13,250
General PP&E - inactive & excess	8,000	9,750
Heritage Assets	1,000	0
subtotal	24,000	23,000
Unfunded M&R:		
General PP&E -active	7,500	7,500
General PP&E - inactive & excess	0	3,000
Heritage Assets	5,000	5,000
Stewardship Land	2,500	2,500
subtotal	15,000	18,000
Total	**$39,000**	**$41,000**

Appendix C: Abbreviations

DM&R	deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAO	Government Accountability Office
M&R	maintenance and repair
OMB	Office of Management and Budget
PP&E	property, plant and equipment
RSI	required supplementary information
SFFAS	Statement of Federal Financial Accounting Standards

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