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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 42

April 25, 2012

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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Summary

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Summary

Deferred Maintenance and Repairs (DM&R) reporting enables the government to be accountable to citizens for the proper administration and stewardship of its assets. 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.

This Statement amends the required supplementary information (RSI) presentation requirements contained in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment* and also provides conforming amendments as explained within the Scope and Applicability section at paragraph 6. The amendments require entities to: (1) describe their maintenance and repairs (M&R) policies and how they are applied, (2) discuss how they rank and prioritize M&R activities among other activities, (3) identify factors considered in determining acceptable condition standards, (4) state whether DM&R relate solely to capitalized general property, plant and equipment (PP&E) and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E, (5) identify PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E, (6) provide beginning and ending DM&R balances by category of PP&E, and (7) explain significant changes from the prior year.

Other significant amendments contained in this Statement include (1) requiring that condition standards, related assessment methods, and reporting formats be consistently applied unless management determines that changes are necessary, (2) eliminating the requirement to report condition information, and (3) eliminating the (i) optional reporting of low-high DM&R estimates as well as (ii) option to report critical and non-critical DM&R.

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

Introduction

Purpose

1. The objective of this Statement is to improve the measurement of deferred maintenance and repairs (DM&R) by incorporating changes responsive to concerns raised by the financial and technical¹ communities. The Board also considered, where appropriate, a Government Accountability Office (GAO) study² 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. This Statement is effective for periods beginning after September 30, 2014. Earlier implementation is encouraged.

¹ This Statement uses the phrase “technical community” or “technical communities” to refer to entity personnel responsible for the management of property, plant, and equipment (PP&E), including maintenance and repair.

² GAO Report No. GAO-09-10 dated October 2008. *Federal Real Property. Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.*

Standards

Scope and Applicability

4. This Statement applies to federal entities that present general purpose federal financial reports in conformance with generally accepted accounting principles as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
5. This Statement replaces the definitions, measurement and reporting requirements for deferred maintenance and repairs established in 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 6, *Chapter 3: Deferred Maintenance and Repairs*, paragraphs 77 through 84, and *Appendix C, Deferred Maintenance and Repairs Illustration* are rescinded.
6. 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 reporting **condition**³ 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.

³ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

Definition

7. 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.
8. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.⁴ Activities include preventive maintenance; replacement of parts, systems,⁵ 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

9. Amounts for DM&R may be measured using:
 - a. condition assessment surveys,
 - b. life-cycle cost forecasts, or
 - c. other methods that are similar to the condition assessment survey or life-cycle costing methods.
10. *Condition assessment surveys* are periodic⁶ visual (i.e., physical) inspections of property, plant and equipment (PP&E) to determine their current condition and estimated cost to correct any deficiencies.
11. *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.

⁴ 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.

⁵ 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.

⁶ 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 (i.e., calendar) basis or a frequency based on consideration of risk provided scheduling is done in accordance with established practices.

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12. Management should determine which methods to apply and what condition standards are acceptable. Once determined, condition standards, related assessment methods⁷, and reporting formats should be consistently applied unless management determines that changes are necessary. Although condition information is essential in developing DM&R amounts, reporting of condition information is not required. Changes to methods or formats that management determines are necessary should be accompanied by an 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.
 13. 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 and repairs (M&R) that have 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

14. DM&R reporting should provide (1) DM&R beginning and ending balances for the reporting period and (2) narrative information related to DM&R activities. Entities are required to present both qualitative and quantitative information.
15. 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.

⁷ 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 its ability to support the entity's mission or activities it is assigned to serve.

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 activities⁸
- 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
- 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 changes⁹ 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 year¹⁰

Quantitative

- g. Estimates of the beginning and ending balances of DM&R for each major category¹¹ of PP&E for which maintenance and repairs have been deferred

**Consolidated Financial Report of the US Government
Required Supplementary Information**

16. The disclosure requirements listed in paragraphs 14 and 15 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 DM&R and how it was measured

⁸ 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.

⁹ The determination of whether or not an item is significant is a matter of professional judgment. This determination is separate and distinct from materiality considerations that include considering the likely influence that such information could have on judgments or decisions of financial statement users.

¹⁰ Consistent with paragraph 12, 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; (2) heritage assets; and (3) stewardship land.

- b. Amounts of DM&R for each major category of PP&E (i.e., general PP&E, heritage assets, and stewardship land); and
- c. A general reference to specific component entity reports for additional information

Conforming Amendments to Other Statements and Technical Releases

- 17. 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 18 and 19 below.
- 18. Paragraphs 26, 28, 41 and 42 of SFFAS 29, *Heritage Assets and Stewardship Land*, are amended as follows:

~~[26] Entities should report the condition¹¹ of the heritage assets (which may be reported with the deferred maintenance information¹²) as required supplementary information. Entities should include a reference to the condition and deferred maintenance and repairs information¹³ if reported in required supplementary information elsewhere in the report containing the basic financial statements.~~

Paragraph 26 Footnote references:

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

[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 condition²² of the stewardship land (which may be reported with the deferred maintenance information²³) as required supplementary information. Entities should include a reference to the condition and deferred maintenance and repairs information²⁴ 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 42, *Deferred Maintenance and Repairs, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, 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.

19. 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.~~

20. 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 42, *Deferred Maintenance and Repairs, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, 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.

Standards

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Effective Date

21. This Statement is effective for periods beginning after September 30, 2014. Earlier implementation is encouraged.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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Appendix A: Basis for Conclusions

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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 (GAO Report No. GAO-09-10 dated October 2008), 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 supplementary information instead of a disclosure in the notes to the financial statements.
- A3. At the 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 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

Appendix A: Basis for Conclusions

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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 (Deferred Maintenance Reporting for Federal Facilities, The National Academies, (2001), ISBN 0-309-56339-9) was a critique of the deferred maintenance definition in SFFAS 6, *Accounting for Property, Plant, and Equipment*. 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 (GAO Report No. GAO-09-10 dated October 2008) 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.

Summary of Outreach Efforts

- A8. The Exposure Draft was issued June 27, 2011 with comments requested by September 16, 2011. Upon release of the exposure draft, notices and press releases went to *The Federal Register*, *FASAB News*, *the Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, the CFO Council, the Council of Inspectors General on Integrity and Efficiency (CIGIE), the Financial Statement Audit Network; members of both the Federal Real Property Council and the Federal Facilities Council and committees of professional associations generally commenting on exposure drafts in the past.

Responses to the Exposure Draft

- A9. Twenty-two responses were received. Table 1.0 summarizes responses by respondent type.

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 and valuation services, engineering, architecture, accounting, internal auditing, external auditing, finance, and budgeting.

Appendix A: Basis for Conclusions

Table 1.0
Summary of Respondents by Type to Exposure Draft

RESPONDENT TYPE	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Preparers and financial managers	11	-0-	11
Users, academics, others	5	3	8
Auditors	3	0	3
Total	19	3	22

- A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The following paragraphs discuss significant issues identified by respondents followed by Board decisions.

Respondents' Comments on the Exposure Draft

No Longer Requiring Condition Reporting - Refining the Goal of DM&R

- A11. The majority of respondents agreed with the Board's proposal to no longer require condition reporting. Respondents who disagreed noted that (1) condition reporting for key infrastructure which directly affects public safety provides a measure of the effectiveness of the allocated budget to maintain those critical assets, (2) condition reporting has become the "standard" to understand the overall condition of facilities, and (3) all federal agencies are required to report condition information and DM&R by the Federal Real Property Council Reporting Requirements.
- A12. 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, this

Appendix A: Basis for Conclusions

Statement no longer requires that condition information be reported. Although condition reporting is important and is the basis of an entity's DM&R estimate, the Board determined that it is not an 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.

- A13. This Statement eliminates the requirement to report condition information. However, entities may include condition information in a manner they believe best presents and contextualizes DM&R and related performance matters.

Presenting Beginning and Ending DM&R Balances and Explanation of Significant Changes

- A14. The majority of respondents agreed with the Board's proposal to require that entities present beginning and ending DM&R balances and explain significant changes. Respondents who disagreed noted that because many variables impact the change in DM&R estimates a significant change could result in wide disparities among the component entities.
- A15. The Board believes that presenting DM&R balances and discussing significant changes increases comparability while also enhancing entity-specific consistency. Some respondents have noted that discussing significant changes is not only reasonable, but required inasmuch as it is a part of determining the underlying causes to such changes. As one respondent noted, discussing changes is essential for transparency and accountability.
- A16. The Board believes that users need to know how much the M&R 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

Appendix A: Basis for Conclusions

determination of whether an item is significant is a matter of professional judgment. This determination is separate and distinct from materiality considerations. Factors that might be considered when determining whether an item is significant include the: (1) absolute dollar amount of the change in DM&R estimates, (2) percent change in DM&R estimates, (3) perceived importance of the reason for the change to financial statement users, and (4) potential consequences arising from the change (e.g., effect on mission). 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.

Applying Reported Methods and Reporting Formats Consistently using an Interdisciplinary and Integrated approach

- A17. The majority of respondents agreed with the Board's proposal to require that entities 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. Furthermore, respondents agreed that input from professionals in diverse disciplines is necessary to effectively compile and report DM&R.
- A18. 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.
- A19. Staff research found that some agencies have interpreted SFFAS 6 requirements to apply only to unfunded DM&R activities.¹³ 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.

¹³ Department of Defense Inspector General Report dated September 25, 2009, *Deferred Maintenance on the Air Force C-130 Aircraft* (Report No. D-2009-112.)

Appendix A: Basis for Conclusions

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- A20. 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 its 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.”¹⁴ 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.
- A21. An interdisciplinary and integrated approach is necessary to address completeness and consistency and meet the goal of DM&R reporting. This includes communicating among and considering input from experts in diverse disciplines such as engineering, facilities management, finance, budgeting, and accounting. Such input should be considered 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 integration and process improvements via continual interaction among entity staff.

Narrative Information Describing M&R Policies and other Non-financial Information

- A22. The majority of respondents agreed with the Board’s proposal to require that entities 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. Respondents who disagreed noted that combining policy statements across a reporting entity with heterogeneous assets and varying missions is difficult.
- A23. The Board believes that users need to understand how entities carry-out their stewardship responsibilities. Moreover, many entities maintain such information as part of their overall management and stewardship responsibilities.
- A24. 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:

¹⁴ SFFAS 34, footnote 5.

Appendix A: Basis for Conclusions

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- 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. As such, preparers may provide general context in their explanations concerning the amount of the ending balance that the entity would need to incur in the near-term to avoid adverse impact to the entity's mission. 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. 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. Partially as a result of increased emphasis in the reporting of real property information, it has come to the Board's attention that some entities, in addition to tracking DM&R on capitalized general and non-capitalized stewardship PP&E, also track and report DM&R on expensed or fully depreciated general PP&E; i.e., all accountable PP&E.
 - 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 and provide a rationale for this exclusion. For example, PP&E designated as excess and subject to disposal or considered unserviceable may not have any associated DM&R.

Appendix A: Basis for Conclusions

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Eliminating Dollar Ranges and Critical / Non-critical Designations

- A25. The majority of respondents agreed with the Board's proposal to eliminate dollar ranges and critical / non-critical designations. However, a respondent noted that the intent of distinguishing critical from non-critical DM&R was to provide insight into the timing of such expenditures. As such, the respondent asked the Board to consider an alternative to providing information concerning the ending balance that the entity would need to achieve in the near term in order to avoid adverse impact to the entity's mission.
- A26. The Board notes that requiring DM&R designations would be (1) overly prescriptive and difficult for agencies to calculate, (2) inconsistent with Board actions to-date that acknowledge the imprecise nature of DM&R estimates and (3) contrary to the goal of focusing on a singular DM&R estimate. However, the Board does believe that this may be beneficial information that preparers could consider providing.
- A27. 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).¹⁵ 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.

¹⁵ 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."*

Appendix A: Basis for Conclusions

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Other Matters

Active and Inactive PP&E

- A28. 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.

Assessment Method Factors and Selection Criteria

- A29. In measuring DM&R, entities are free to choose among assessment methods described in this Statement. 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 method¹⁶ 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. The Board realizes that entities need to consider many factors when selecting assessment methods. Such factors could include:
- a. nature, size and 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,

¹⁶ Similar to the life-cycle costing method, the parametric method is an accepted technique that entails performing condition assessments at the system level rather than the component level.

Appendix A: Basis for Conclusions

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-
- i. availability of commercial-off-the-shelf (COTS) software,
 - j. availability of government-off-the-shelf (GOTS) software,
 - k. software scalability and related vendor support,
 - l. regulatory requirements, and
 - m. health and safety considerations.
- A30. In order to obtain greater consistency and comparability this Statement provides that once selected, condition standards, related assessment methods and reporting formats should be consistently applied unless management determines that changes are necessary. 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 and 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 and credible results

CONS

- Traditional surveys are expensive
- 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

Appendix A: Basis for Conclusions

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-
- 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

Board Approval

- A31. This Statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

Appendix B: Sample Illustration

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Appendix B: Sample Illustration

Appendix B

Deferred Maintenance and Repairs Illustration

This appendix illustrates the requirements at paragraphs 14 and 15. 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 this Standard. 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 SFFAS 42, *Deferred Maintenance and Repairs, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, 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

Appendix B: Sample Illustration

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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 (heating, ventilation, and air conditioning), 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, associated trucking, and the needs of the operating personnel. Acceptable condition for

Appendix B: Sample Illustration

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.

Appendix B: Sample Illustration

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

ILLUSTRATION 1 - GENERAL PURPOSE DISPLAY

Deferred Maintenance and Repair Costs (Dollars in Millions)

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

Appendix B: Sample Illustration

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 and EXCESS

Deferred Maintenance and Repair Costs
(Dollars in Millions)

<u>Asset Category</u>	20x2 Ending Balance <u>DM&R</u>	20x2 Beginning Balance <u>DM&R</u>
<u>Active:</u>		
General PP&E	\$46,875	\$45,000
Heritage Assets	0	1,500
Stewardship Land	1,500	1,500
subtotal -active	48,375	48,000
<u>Inactive and Excess:</u>		
General PP&E	13,125	10,500
subtotal –general PP&E – inactive and excess	13,125	10,500
 Total	 \$61,500	 \$58,500

Appendix B: Sample Illustration

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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 and EXCESS BY ASSET CLASS

Deferred Maintenance and Repair Costs

(Dollars in Millions)

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

Appendix B: Sample Illustration

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 and UNFUNDED M&R

Deferred Maintenance and Repair Costs
(Dollars in Millions)

<u>Asset Category</u>	20x2 Ending Balance <u>DM&R</u>	20x2 Beginning Balance <u>DM&R</u>
<u>Funded M&R:</u>		
General PP&E -active	\$26,500	\$30,000
General PP&E - inactive and excess	19,500	16,000
Heritage Assets	0	2,000
Subtotal - funded	<u>46,000</u>	<u>48,000</u>
<u>Unfunded M&R:</u>		
General PP&E -active	15,000	15,000
General PP&E - inactive and excess	6,000	0
Heritage Assets	10,000	10,000
Stewardship Land	5,000	5,000
Subtotal - unfunded	<u>36,000</u>	<u>30,000</u>
Total	<u>\$82,000</u>	<u>\$78,000</u>

Appendix C: Abbreviations

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Appendix C: Abbreviations

DM&R	deferred maintenance and repairs
FASAB	Federal Accounting Standards Advisory Board
FCI	Facility Condition Index
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAO	Government Accountability Office
G-PP&E	general property, plant and equipment
M&R	maintenance and repair(s)
OMB	Office of Management and Budget
PP&E	property, plant, and equipment
RSI	required supplementary information
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

Appendix D: Glossary

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Appendix D: Glossary

Condition - 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. *Source: FASAB: Pronouncements as Amended, Appendix E: Consolidated Glossary.*

Deferred Maintenance and Asset Impairment (DM-AI) Task Force Members

U. S. Agencies

Department of Agriculture, U.S. Forest Service

Department of Commerce, National Oceanographic and Atmospheric Administration

Department of Defense, Office of the Secretary of Defense

Department of Defense, Acquisition, Technology, and Logistics

Department of Defense, Comptroller

Department of Energy, Office of Engineering and Construction Management

Department of Interior

Department of Labor, Office of the Inspector General

Department of State

Department of State, U.S. Agency for International Development

Department of State, International Boundary and Water Commission

Department of the Treasury, Financial Management Service

Department of Veterans Affairs

General Services Administration

General Services Administration, Public Buildings Service Central Office

National Aeronautics and Space Administration

Office of Management and Budget

Smithsonian Institution

Task Force Member Firms

American Institutes for Research

Duller Studios

Federal Facilities Council, Committee on Sustainable Operations and Maintenance

Institute for Responsible Infrastructure Stewardship

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