FASAB

Federal Accounting Standards Advisory Board

April 6, 2011

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Draft Exposure Draft: Reporting Changes Related to Deferred Maintenance and Repairs (DM&R) - Amending SFFAS 6, PP&E – Tab C**[1]

MEETING OBJECTIVE

The objective for the April meeting is to review a draft exposure draft on changes to the DM&R measurement and reporting requirements included in SFFAS 6.

BRIEFING MATERIALS

- ❑ **Attachment 1-** draft Exposure Draft on measurement & reporting based on Option C selected in February
    - o **Attachment 1a -** Existing SFFAS 6 Requirements – as amended by SFFAS 40
- ❑ **Attachment 2 -** DM&R: 7-Year Comprehensive Financial Report Analysis

STEPS

Today's meeting – Measurement & Reporting

- Review draft and note changes
- Finalize wording

Next month: May – Measurement & Reporting

- Provide pre-ballot draft (note: measurement and reporting will not be on the June 2011 agenda if approved before meeting and there are no outstanding issues)
- Provide ballot draft via email late May
- Proceed with ED for 45 to 60 -day comment period to be ready for August meeting

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

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June 2011 – Asset Impairment

- Review draft Exposure Draft and note changes
- Finalize wording

July 2011 – Asset Impairment

- Provide pre-ballot draft via email (note: asset impairment will not be on the August 2011 agenda if approved before meeting and there are no outstanding issues)
- Provide ballot draft via email late July
- Proceed with exposure draft for 30-day comment period

August 2011 – Measurement & Reporting

- Report & analyze measurement & reporting comments
- Receive Board "final comments"

September 2011 – Measurement & Reporting

- Provide draft SFFAS via email addressing all final comments
- Pre-ballot via email
- Proceed with final Ballot via email late September

October 2011 – Asset Impairment

- Report & analyze asset impairment comments
- Receive Board "final comments"

December 2011 / January 2012– Asset Impairment

- Provide draft SFFAS via email addressing all final comments
- Pre-ballot via email
- Proceed with final Ballot via email

BACKGROUND

At the February 24, 2011 Board meeting the Board provided further direction to staff concerning both measurement and reporting and asset impairment issues.

Measurement and Reporting

Staff began the presentation by stating that the recommendations contained in the two measurement and reporting options being proposed to the board were derived from a GAO October 2008 Federal Real Property (Report GAO-09-10), *Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear* and specific task force recommendations. The board broached two major questions: (1) whether or not DM&R information should be elevated to footnote status in the short-term and (2) what to do with condition reporting.

After the discussion, the board tentatively agreed that although DM&R is a complex area, the core issue for the board is that it is simply seeking more reliable and consistent DM&R information related to fiscal exposure. To that end, the board seems inclined to taking steps that might include (1) eliminating condition reporting on certain asset categories and (2) a more prescriptive standard relative to reporting requirements. The board would like to adopt an approach that provides some degree of measurement and reporting consistency from year to year without imposing any methodology but rather requiring agencies to follow the methodology it chooses for a certain set period. In order to encourage and allow agencies the ability to adopt new and improved methods or technologies that might be brought about in the area of asset management, the board discussed adopting a "preferred change" approach that would allow agencies to change if they could demonstrate that the change is preferred by industry for the purposes of calculating deferred maintenance.

Asset Impairment

Staff provided a brief overview of a sub-group's analysis that reviewed the impairment standards promulgated by the FASB, GASB, and IPSASB. The sub-group comprised a financial analyst, engineer, and budget analyst. Staff advised that concurrent with or shortly after the draft Exposure Draft on measurement and reporting, it would like to take the subgroup's analysis and test it with the broader community beyond the task force to get other points of view.

The subgroup has recommended following the GASB 42 approach with the difference being that any federal asset impairment standard would allow for the reversal of partial impairment losses in the event that an asset's functionality or use is restored. The reason for this adjustment is to recognize that Federal assets are usually used well beyond any measurable economic or physical life and that asset managers typically do whatever they can to maintain and/or preserve assets as part of their stewardship responsibilities. Staff stated that this part of the project would involve taking the subgroup's work and testing it with the broader community beyond the task force to get other points of view. The Board will receive a draft Exposure Draft addressing Asset Impairment in June.

EFFECTIVE DATE

The proposed standards would be effective for periods beginning after September 30, 2014 (beginning in fiscal year 2015). Earlier implementation is encouraged.

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If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.6841 or by e-mail at savinid@fasab.gov.

Attachments:

1. Draft Exposure Draft on measurement & reporting

1a. Existing SFFAS 6 Requirements – as amended by SFFAS 40

2. DM&R: 7-Year Comprehensive Financial Report Analysis

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Questions for the Board

Questions for the Board

Question 1 – In February the board discussed two options proposed by Staff and determined that it would like to adopt an approach (i.e., Mr. Jackson's Option C) that provides some degree of measurement and reporting consistency from year to year without imposing any methodology but rather requiring agencies to follow the methodology it chooses for a certain set period. To that end, the board discussed (1) requiring an annual DM&R reconciliation and (2) adopting a "preferred practices" approach.

Question 1. Is the draft Exposure Draft document consistent with the Board's expectations? If not, please identify technical concerns and note that editorial concerns may be directed to staff prior to the meeting.

Question 2 - In February the board discussed the role of condition reporting and ascertained that although condition reporting is important in fulfilling an entity's stewardship obligation, it is ancillary to the reporting of an entity's DM&R estimate. To that end, Staff advises that condition reporting become an optional reporting element should an agency so elect similar to deferred capital improvements.

Question 2. Does the Board agree with the Staff recommendation to make condition reporting optional?

Question 3 - The Task Force recommends elimination of critical/non-critical amounts as an optional reporting element because it has become an unnecessary burden to some agencies and has caused confusion and lack of comparability. Specifically, the Federal Real Property Guidelines define criticality at the asset level whereas the SFFAS 6 guidelines have been interpreted to apply to the discrete M&R activity. Furthermore, some agencies are following a third definition contained in the Treasury guidelines which seem to define criticality as a matter of consequence. Moreover, as the Task Force has specifically noted, such a distinction provides little, if any operational benefit.

Question 3. Does the Board agree with eliminating the critical and non-critical reporting element?

Questions for the Board

Question 4 - Permitting agencies 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 GAO noted in their October 2008 report, DM&R estimates do not necessarily reflect the cost that agencies expect to incur partly as a result of the amount of flexibility in 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. Staff advises that if there is to be (1) greater comparability among agencies and (2) more reliable DM&R estimates, a single DM&R estimate is all that an entity should be required to report.

Question 4. Does the Board agree with eliminating the reporting of low and high dollar DM&R estimates?

Question 5 - In February the board agreed to Mr. Jackson's Option C proposal that would require agencies to reconcile DM&R annually so that some degree of measurement and reporting consistency from year to year could be achieved.

Question 5. Does the Board believe that the *Reconciliation of DM&R* as shown on page 31 of Attachment 1 satisfies the board's intentions?

Attachment 1- Option C: Draft Exposure Draft Document.

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Attachment 1a - Existing SFFAS 6 Requirements – as amended by SFFAS 40.

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Attachment 2 - DM&R: 7-Year Comprehensive Financial Report Analysis.

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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

Exposure Draft

Written comments are requested by July 31, 2011

June X, 2011

Working Draft – Comments are Not Requested on This Draft

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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June X, 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 July 31, 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 fasab@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 SFFAS 6. The amendments would require that agencies (1) describe how the entity interprets and applies deferred maintenance and repairs (DM&R) in-practice, (2) report their asset management policies and practices to include how they rank and prioritize maintenance and repair (M&R) activities among other activities, (3) discuss factors the entity considers in determining acceptable condition standards, (4) report an estimate of the dollar amount of deferred maintenance and repairs to include unfunded and funded Maintenance & Repair (M&R) amounts which are deferred, (5) state whether DM&R relates solely to capitalized general PP&E and stewardship PP&E or also to amounts relating to non-capitalized general PP&E, (6) 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 general PP&E, (7) If applicable, any changes from the prior year policies, practices or amounts, and (8) for each major class of asset for which maintenance and repairs have been deferred: a. description of requirements or standards for acceptable condition, b. method of measuring DM&R, c. any changes in the condition standards or measurement methods, d. amounts of DM&R related to active and inactive PP&E e. an estimate of the dollar amount of DM&R at the beginning and end of the reporting period f. reconciliation of DM&R from the beginning to the end of the period. Additionally, the proposed amendments encourage using an interdisciplinary and holistic agency approach in compiling and reporting DM&R and permitting agencies to separately report additional information; i.e., deferred capital improvements and/or information related to asset condition.

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

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting,* the operating performance objective is identified as being most important for DM&R reporting.[1] DM&R reporting is important to meeting this objective because the federal government is accountable to citizens for the proper stewardship and administration of its assets. Reporting on DM&R assists users by providing an entity's realistic estimate relative to DM&R and in ascertaining the effectiveness of asset maintenance practices agencies employ in fulfilling their missions.

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[1] SFFAC 1, *Objectives of Federal Financial Reporting*, September 2, 1993, par. 9-10.

Issues with DM&R reporting have existed since the issuance of SFFAS 6. The two most common issues noted are (1) the lack of comparability in assessing asset condition both within and among agencies and (2) measurement and reporting practices and formats that vary greatly among agencies. As the Government Accountability Office (GAO) noted in a real property study,[2] these issues largely result from agencies defining and estimating DM&R differently and the degree of flexibility afforded by both SFFAS 6 and the Federal Real Property Profile Reporting Guidelines.[3] As a result, these issues have contributed to confusion and ambiguity among interested users of DM&R information.

The Board is of the opinion that the lack of comparability should not impede enhanced financial reporting of DM&R so that the government's realistic DM&R estimate can be revealed. To that end, the Board continues to recognize that flexibility is needed in regards to assessing and measuring asset condition (i.e., determining acceptable condition). However, in an attempt to achieve greater comparability and consistency 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 changes would include both the addition and elimination of certain reporting criteria or elements. Accordingly, the Board believes that this amendment improves financial reporting consistent with the operating performance objective and addresses principal concerns raised by both the GAO and Task Force.

<u>Operating Performance Objective</u>

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

[2] GAO Report No. GAO-09-10 dated October 2008. Federal Real Property. *Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.*
[3] 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 fasab@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 July 31, 2011.

Q1. That Board proposes to make reporting of condition information optional. Refer to paragraph 16 of the proposed standards and paragraph A7 in Appendix A - Basis for Conclusions for a detailed 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 agencies to provide additional narrative explanations, if applicable, identify any changes from the prior year policies, practices, amounts or balances, and reconcile DM&R yearly, and apply disclosed practices consistently. Refer to refer to paragraph 17, items a. through i. of the proposed standards and paragraph A8 and paragraph A15 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation.

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

Q3. The proposed standards (1) encourage using an interdisciplinary and holistic agency approach (refer to paragraph 14 of the proposed standards and paragraphs A10 and A11 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation) in compiling and reporting DM&R and (2) explicitly permit agencies to separately report additional information; i.e., deferred capital improvements and/or information related to asset condition (refer to paragraph 16 of the proposed standards and paragraph A14 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation).

a. **Do you agree or disagree with encouraging agencies to use an interdisciplinary and holistic entity approach in compiling and reporting DM&R? Please provide the rationale for your answer.**

b. **Do you agree or disagree with permitting agencies to separately report additional information; i.e., deferred capital improvements and/or information related to asset condition? Please provide the rationale for your answer.**

Q4. The proposed standards (1) establish a preference for the use of the condition assessment survey method (refer to paragraph 11a. of the proposed standards and paragraph A16 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation) and (2) require that changes should be to a "preferred practice" (refer to paragraph 14 of the proposed standards and paragraph A9 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation).

a. **Do you agree or disagree with establishing a preference for the use of the condition assessment survey method? Please provide the rationale for your answer.**

b. **Do you agree or disagree with permitting agencies to change only to preferred practices? Please provide the rationale for your answer.**

Q5. The proposed standards would eliminate the optional reporting of critical and non-critical DM&R estimates (refer to paragraph A12 in Appendix A - Basis for Conclusions for a detailed discussion and related explanations).

Do you agree or disagree with eliminating this portion of the standard? Please provide the rationale for your answer.

Q6. The proposed standards would eliminate the reporting of low and high dollar DM&R estimates (refer to paragraph A13 in Appendix A - Basis for Conclusions for a detailed discussion and related explanations).

Do you agree or disagree with eliminating the use of range estimates? Please provide the rationale for your answer.

Q7. The proposed standard would replace the current illustration in Appendix C and require that DM&R estimates be reconciled on a yearly basis (refer to paragraph A15 in Appendix A - Basis for Conclusions for a detailed discussion and related explanation).

a. **Do you agree or disagree that the current illustration in Appendix C is primarily asset-specific and not representative of an entity-wide DM&R presentation? Please provide the rationale for your answer.**

b. **Do you agree or disagree that DM&R estimates should be accounted for and reconciled on a yearly basis? Please provide the rationale for your answer.**

Introduction

Purpose

1. The objective of this Statement is to incorporate reporting changes responsive to concerns raised by the financial and functional 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. In this study, GAO discussed the lack of comparability and need for realistic estimates of DM&R so that the government's fiscal exposure could be captured. In addition, the report also noted (1) DM&R estimates do not necessarily reflect the costs agencies expect to incur primarily as a result of the degree of flexibility provided by both SFFAS 6 and the Federal Real Property Profile Reporting (FRPP) Guidelines,[5] (2) that DM&R collected consistently over several years can be useful within agencies, and (3) the requirement to report on all assets regardless of current or expected operational disposition has resulted in agencies reporting DM&R that may not in fact be incurred; i.e. unrealistic DM&R estimates.

2. The Board desires to improve and, where needed, develop measurement and reporting guidance relative to DM&R that best reflects or enhances current federal practices. The Task Force confirmed that the two most common issues noted are (1) the lack of comparability in assessing asset condition both within and among agencies and (2) measurement and reporting practices and formats that vary greatly among agencies. These issues have contributed to confusion and ambiguity among interested users of DM&R information.

3. The Board believes the lack of comparability should not impede enhanced financial reporting of DM&R. To that end, the Board continues to recognize that management flexibility is needed in regards to determining acceptable condition. However, in an attempt to achieve greater comparability and consistency in the reporting of DM&R and to increase the reliability and relevance of DM&R estimates, the Board believes that certain refinements

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

[5] 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.*

and changes to DM&R requirements in SFFAS 6 are required. These changes would include both the addition and elimination of certain reporting requirements. Accordingly, the Board believes that this amendment improves financial reporting consistent with the operating performance objective and addresses principal concerns raised by both the GAO and the Task Force.

Materiality

4. 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

5. 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.

Proposed Standards

Scope

6. This Statement replaces deferred maintenance and repairs (DM&R) definitions, measurement and reporting requirements 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 40). SFFAS 6, *Chapter 3: Deferred Maintenance and Repairs*, paragraphs 77 through 84 are rescinded and *Appendix C, Deferred Maintenance and Repairs Illustration* is deleted.

7. 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. **Amend *SFFAS 29, Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land* to adopt terminology consistent with this Statement and to rescind existing requirements for condition information.**

   c. **Amend *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"* to adopt terminology consistent with this Statement and to rescind requirements addressed in this Statement.**

   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 rescinded.**

Effect on Existing Standards –

8. SFFAS 6, paragraphs 77 through 84 are rescinded.

Definition

9. "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, therefore, are put off or delayed for a future period.

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

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

    a. condition assessment surveys (This is the preferred method and entities are encouraged to use this method and apply it as consistently as practicable from period to period.),

    b. life-cycle cost forecasts, or

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

12. *Condition assessment surveys* are inspections of property, plant and equipment (PP&E) to determine their current condition and estimated cost to correct any deficiencies.

13. *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 a forecast of maintenance and repairs expense, these forecasts may serve as a basis against which to compare actual

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[6] 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.

[7] 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.

maintenance and repairs expense to arrive at an estimate of deferred maintenance and repairs.

14. Management should determine what methods to apply and what condition standards are acceptable. Once determined, methods and related condition standards should be applied consistently from period to period. Entities should not change methods unless it can be demonstrated that the change is to a preferred practice. Entities should consider using an interdisciplinary and holistic entity approach to best meet the goals of DM&R reporting.

15. DM&R should be measured for capitalized general PP&E and stewardship PP&E. DM&R also may be measured for non-capitalized general PP&E.

Required Supplementary Information

16. DM&R reporting goals require (1) narrative information related to DM&R costs to remedy[8] PP&E and (2) a schedule reconciling DM&R costs to remedy PP&E from period to period. As such, agencies are required to present both qualitative and quantitative information. An entity may separately report additional information if, in its judgment, such presentation would provide stakeholders better context for DM&R in terms of overall fiscal exposure; i.e., deferred capital improvements and/or information related to asset condition. However, such additional information must be clearly distinguished from DM&R amounts.

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

[8] Costs to remedy assets (PP&E or otherwise) may include capital improvements such as upgrades and/or betterments as well as cleanup costs. These standards address DM&R which is only a portion of such remediation.

a. A summary of the entity's M&R policies and brief description of how they are applied
b. Policies for ranking and prioritizing M&R activities[9]
c. Factors the entity considers in determining acceptable condition standards
d. An estimate of the dollar amount of deferred maintenance and repairs to include unfunded and funded Maintenance & Repair (M&R) amounts which are deferred
e. Whether DM&R relates solely to capitalized general PP&E and stewardship PP&E or also to amounts relating to non-capitalized general PP&E
f. PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized general PP&E
g. If applicable, any changes from the prior year policies, practices or amounts[10]
h. For each major class [11] of asset for which maintenance and repairs have been deferred:

    (1) description of requirements or standards for acceptable condition
    (2) method of measuring DM&R
    (3) any changes in the condition standards or measurement methods
    (4) amounts of DM&R related to active and inactive PP&E
    (5) an estimate of the dollar amount of DM&R at the beginning and end of the reporting period
    (6) reconciliation of DM&R from the beginning to the end of the period.

i. If the total life-cycle cost method is used the following additional information should be presented for each major class of PP&E:

    (1) the original date of the maintenance and repairs forecast and an explanation for any changes to the forecast,
    (2) prior period balance of the cumulative deferred maintenance and repairs amount,

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[9] Entities are encouraged but not required to disclose (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.
[10] Consistent with paragraph 14, entities should not change an assessment method unless it can be demonstrated that the change is to a preferred practice.
[11] "Major classes" of general PP&E should be determined by the entity. Examples of major class include, among others, buildings and structures, furniture and fixtures, equipment, vehicles, and land.

(3) the dollar amount of maintenance and repairs that was defined by the professionals who designed, built or manage the PP&E as required maintenance and repairs for the reporting period,
(4) the dollar amount of maintenance and repairs actually performed during the period,
(5) the difference between the forecast and actual maintenance and repairs,
(6) any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E, 12and
(7) the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.

18. The disclosure requirements listed at paragraphs 16 and 17 above are not applicable to the U.S. government-wide financial statements. The U. S. government-wide financial statements should include the following required supplementary information:

a. a broad description of DM&R,
b. amounts of DM&R for each major category of PP&E (i.e., general PP&E, heritage assets, and stewardship land) for which M&R have been deferred,
c. a general reference to component entity reports, and
d. optional reporting of other information such as condition information.

19. This Statement amends requirements in SFFAS 29 and 32 to adopt the term "DM&R," and to rescind requirements incorporated in this Statement and the requirement to report condition information.

20. Paragraphs 26 and 41 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 and repairs information[13] if reported elsewhere in the report containing the basic financial statements.

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[12] Adjustments may be necessary because the cost of maintenance and repairs foregone may not be cumulative. For example, if periodic painting is skipped twice it is not necessarily true that the cost would be double the scheduled amount.

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 and Repairs ~~(par. 77-84)~~ for information regarding definition, measurement and ~~disclosures~~ required supplementary information ~~specific to deferred maintenance~~.

~~[13] 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.~~

[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 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 and Repairs ~~(par. 77-84)~~ for information regarding definition, measurement and ~~disclosures~~ required supplementary information ~~specific to deferred maintenance~~.

~~[24] 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.~~

21. Paragraphs 12 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.~~

Effective Date

22. 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.

A1. 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 working closely with stakeholders interested in improving management of and reporting on federal PP&E and related DM&R.

A2. Two external reports served as the initial basis for the scope of the Task Force's work. 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 Government Accountability Office (GAO) study specific to federal real property repair and maintenance backlog issues. In that study, GAO discussed the need for comparability and realistic estimates of deferred maintenance so that the government's fiscal exposure could be revealed.

A3. It is important to note that 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.

A4. 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 define deferred maintenance information as required supplemental information (RSI) rather than a disclosure linked to the financial statements.

A5. 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.

A6. 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.

Refining DM&R Goals

A7. Although the goals of DM&R include providing reliable information on the condition of PP&E and the estimate to remedy PP&E, it is the realistic estimate which is most germane to federal financial reporting. To that end, federal agencies should be encouraged but not required to report condition information if, in their opinion, such disclosure is essential to understanding the DM&R costs to remedy PP&E. Although condition reporting is important in fulfilling an entity's stewardship obligation, it is ancillary to the reporting of an entity's DM&R estimate. As a result, the Board proposes to no longer require condition reporting but rather, make it an optional reporting element. The Board's basis for this decision is that (1) condition assessment methods and reporting continue to evolve, (2) at this time, there are no federal-wide uniform assessment or measurement methods that would increase comparability, (3) diverse condition assessment methods for discrete asset classes could skew summarized results, (4) the wide variation among agencies in condition reporting (i.e., different condition ratings/rankings) would detract from user understanding of the government's fiscal exposure (realistic DM&R estimate), (5) DM&R costs may very well be incurred regardless of condition, and (6) this is an area where entity administrative burden can be alleviated.

Additional Information

A8. Although continued flexibility is still required in the areas of determining asset condition and defining acceptable condition, the Board believes that additional narrative disclosures are required in order to increase comparability, consistency, and the reliability and relevance of DM&R estimates. Specifically, agencies should explain:

a. their M&R policies and how they are applied in practice. For example, an entity should clearly disclose if it excludes deferred M&R activity from the reporting requirements because the entity defines these activities as meeting the exclusionary conditions specified in the last sentence of the revised DM&R definition at paragraph 78.[13]

b. its policies for ranking and prioritizing M&R activities. 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 (limited) resources. For example, maintenance and repair activities are commonly first prioritized via health, safety and regulatory considerations. Once this is accomplished, entity rankings may be adjusted for asset condition assessments, management considerations that include: capital improvement plans, asset disposal plans, and budgetary funding outlook.

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

c. factors the entity considers in selecting acceptable condition standards. Regardless of whether agencies 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 amount. For example, an entity might set different acceptable condition standards for identical assets because of geographical or environmental factors specific to each.

d. identification of unfunded and funded Maintenance & Repair (M&R) activities which are deferred. It has come to the Board's attention that some agencies have interpreted SFFAS 6 requirements to only apply to unfunded DM&R activities. As a result, inaccurate[14] 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 for a ship's dry-dock and overhaul but operational tempo or deployment status causes a schedule slippage and results in a delay to a future period, such costs should be reported as DM&R.

e. whether DM&R relates solely to capitalized general PP&E and Stewardship assets or also includes amounts relating to non-capitalized general PP&E. 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 stewardship PP&E, agencies track and report DM&R on expensed or fully depreciated general PP&E; i.e., all accountable (infrastructure) PP&E. Therefore, to minimize entity burden, the standard permits reporting of DM&R information on non-capitalized general PP&E if adequately explained.

f. identification of assets for which management does not measure and/or report DM&R. Management should clearly disclose this fact and provide rationale for the exclusion. For example, PP&E

[14] DoD Inspector General Report dated September 25, 2009, *Deferred Maintenance on the Air Force C-130 Aircraft (Report No. D-2009-112.)*

designated as excess and subject to disposal or considered unserviceable may not have any associated DM&R.

A9. Regarding the issue of consistency, the Board desires to follow a “preferred practice” concept. Agencies should not change an assessment method or practice unless it can be demonstrated that it is preferable to the existing method or practice. This is consistent with Task Force concerns that (1) agencies 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. Since 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 should use consistent techniques and measurements and reporting methods from year-to-year. However, if management decides to change to a preferred method, such changes should be accompanied by an explanation of the change(s) along with a restatement of all presented years. Management should provide an explanation if for any period an amount or balance is not restated.

Interdisciplinary and Holistic Approaches are Encouraged

A10. It has come to the Board’s attention that at some agencies DM&R information is not being obtained from asset management systems but rather, via data-calls. As a result, DM&R estimates are not always reflective of the underlying data contained in the entity’s asset management systems. Such conditions contribute to the perception that DM&R estimates are not reliable and therefore, not relevant. Additionally, information not consistently derived from the appropriate management information system leads to lack of consistency and comparability in addition to being an inefficient use of resources.

A11. Agencies should consider using an interdisciplinary and holistic entity approach to best meet the goals of DM&R reporting. This includes considering input from diverse fields such as engineering, facilities management, finance, budget, social sciences (i.e. economics, public affairs) 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.

Reducing Confusion and Increasing Relevance & Reliability

A12. 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 agencies. It has come to the Board's attention that the Federal Real Property Guidelines define criticality at the asset level whereas the SFFAS 6 guidelines have been interpreted to apply to the discrete M&R activity. Furthermore, some agencies are following Treasury guidelines which seem to define criticality as a matter of consequence[15] and not to either the asset (FRPP guidelines) or M&R activity (SFFAS 6) in question. 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 agencies expect to incur. Furthermore, as the Task Force has specifically noted, such a distinction provides little, if any operational benefit. As a result, the Board believes that in order to increase comparability and the relevance and reliability of the DM&R estimate, mitigate or avoid further confusion while

[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."*

easing administrative burdens, this portion of the standard should be eliminated.

A13. Permitting agencies 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 GAO noted in their October 2008 report, DM&R estimates do not necessarily reflect the cost that agencies expect to incur partly as a result of the amount of flexibility in 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. If there is to be (1) greater comparability among agencies and (2) more reliable DM&R estimates, a single DM&R estimate is all that an entity should be required to report. Moreover, an analysis of a seven-year (2004 through 2010) time span at the federal-wide level reveals that the difference between the two (low and high) estimates has narrowed from an 89.6% to a 4.7% variance. Simply put, 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 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. As a result, the Board believes that in order to increase comparability and the relevance and reliability of the DM&R estimate and ease administrative burdens, this portion of the standard should be eliminated.

A14. The Board recognizes that some agencies would like to voluntarily disclose additional information (i.e., deferred capital repairs, information related to asset condition, etc.) to its users. Since accounting standards can be viewed as setting minimum requirements, the Board believes that allowing additional voluntary disclosures is acceptable as long as the (1) requirements within the Statement are fully satisfied, (2) that the additional information is not commingled so that DM&R estimates are separately distinguishable and (3) presented in a manner that would enhance the basic presentation.

Reconciliation and Reporting of DM&R Estimates

A15. As previously stated, the Board believes that realistic agency estimates or fiscal exposure of DM&R is most germane to federal financial reporting. To that end, federal agencies will be required to reconcile and report their DM&R estimates between years. As illustrated in Appendix C, agencies should disclose the changes between years. The Board believes that this will not only increase comparability and the relevance and reliability of the DM&R estimate, it will significantly enhance entity-specific consistency from year to year.

Increasing Comparability & Consistency via a Preferred Method

A16. Although agencies are free to choose assessment methods as prescribed in this Statement, in order to obtain greater comparability and consistency the Board prefers the use of condition assessment surveys which are physical inspections of PP&E to determine asset condition and estimated DM&R costs. This is the preferred method and agencies are encouraged to use this method and apply it as consistently as practicable throughout its PP&E portfolio and from period to period.

Appendix B: New Illustration

Appendix B

Deferred Maintenance and Repairs Illustration

This appendix illustrates paragraphs 16 -17. The example shown here is for illustrative purposes only. Different entities may develop different asset categories and descriptive terminology. The following illustration presents text meeting the minimum requirements of the standard.

XYZ Entity

Deferred Maintenance and Repairs for Fiscal Years 20xx – 20x1

The XYZ entity operates over 1300 facilities throughout the world. Most of the facilities are predominantly used for office space and warehousing. Additionally, the entity also operates a hospital facility at one of its remote sites. 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 does not arise. 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.

Defining and Implementing M&R Policies in Practice.

In accordance with FASAB SFFAS XX, the entity employs a parametric estimating method for the largest portion of its portfolio (office and warehouse space) and the condition assessment method for its hospital facility. With the exception of the hospital facility which is inspected on a yearly basis, the entity's 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. Specific to the parametric estimating method, it 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.

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 is generally not applicable to equipment as any (D)M&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 due to management considerations that include: 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. Acceptable condition for the hospital facility is in accordance with federal statutory requirements and requirements adopted by the health care facilities industry.

Identification of Funded and Unfunded M&R.

The entity's FY20x1 M&R requirements were $7.5 billion and it received $6.5 billion to fund these requirements leaving an unfunded DM&R of $1.0 billion this year.

Changes from Prior Year.

There were no significant changes made to M&R policies or practices during the fiscal year. Changes in amounts and balances represent the consistent application of entity methodologies.

The following chart presents information on all deferred maintenance and repairs on major categories of fixed assets experiencing material amounts of deferred maintenance and repairs:

Appendix B: New Illustration

The following example presents information related to the cost to remedy federal PP&E:

Reconciliation of Deferred Maintenance and Repairs	(a)	(b)	(c)	d = b minus c	e	f = a + d -e
	30 SEPT 2010 Ending DM&R	**2011**	**2011**	**2011**	**2011 Agency**	**30 SEPT 2011 Ending DM&R**
Asset Class: PP&E or Fixed Assets	**Balance**	**Budgeted M&R**	**Executed M&R**	**Difference**	**Adjustments**[1]	**Balance**
Active:						
Heritage Assets						
Stewardship Land						
Land Structures Buildings						
Equipment						
Capitalized Leases						
Software						
Other						
subtotal						
Inactive:						
Heritage Assets						
Stewardship Land						
Land Structures Buildings						
Equipment						
Capitalized Leases						
Software						
Other						
subtotal						
Total						

[1] Unfunded M&R, corrections, closures of DM&R projects, demolitions, and other dispositions.

Appendix C: Abbreviations

DoD	Department of Defense
DM&R	deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	generally accepted accounting principles
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
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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Attachment 1a: Existing SFFAS 6 Requirements – as amended by SFFAS 40.

Definition

77. "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, therefore, are put off or delayed for a future period.

78. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.[16] Activities include preventive maintenance; replacement of parts, systems,[17] 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

80. Amounts reported for deferred maintenance and repairs may be measured using:

a. condition assessment surveys, or

b. life-cycle cost forecasts.[18]

Ref: Pg. 13; Par 11.

Draft ED proposes making this (a) the preferred method.

81. Condition assessment surveys are periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies. It is desirable that

Ref: Pg. 13; Par. 12.

Draft ED proposes deleting "periodic" to allow for other assessment methods; Army Corps of Engineers research; i.e., BUILDER.

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[16] 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.

[17] 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.

[18] Other methods may be used which are similar or identical to condition assessment survey or life-cycle costing. These methods would also be acceptable sources of information on deferred maintenance and repairs.

Ref: Pg. 13; Par 11.

Draft ED proposes: (1) making this Item c. as part of paragraph 80 and (2) deleting "identical".

condition assessment surveys be based on generally accepted methods and standards consistently applied.[19]

82. 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 a forecast of maintenance and repairs expense, these forecasts may serve as a basis against which to compare actual maintenance and repairs expense and estimate deferred maintenance and repairs.

Ref: Pg. 14; Par 14.

Draft ED proposes to allow changes only if to a preferred practice.

Required Supplementary Information

83. At a minimum, the following information shall be presented as required supplementary information for all PP&E (each ~~of the four categories~~ category established in SFFAS 6 ~~the PP&E standard~~ should be included).

•Identification of each major class[20] of asset for which maintenance and repairs has been deferred.

•Method of measuring deferred maintenance and repairs for each major class of PP&E.

•If the condition assessment survey method of measuring deferred maintenance and repairs is used, the following should be presented for each major class of PP&E:

−description of requirements or standards for acceptable operating condition,

−any changes in the condition requirements or standards, and

Ref: Pg. 15; Par 17h.

Retained.

−**asset condition**[21] and a **range** or a point estimate of the dollar amount of maintenance and repairs needed to return assets to their ~~it to its~~ acceptable operating condition.

•If the total life-cycle cost method is used the following should be presented for each major class of PP&E:

−the original date of the maintenance and repairs forecast and an explanation for any changes to the forecast,

−prior year balance of the cumulative deferred maintenance and repairs amount,

Ref: Pg. 15; Par 17h.

Removed condition reporting and (dollar) range.

Refer to BFC A7 & A13, respectively

[19] Management shall determine what methods and standards to apply. Once determined, it is desirable but not required that methods and standards be applied consistently from period to period.

[20] "Major classes" of general PP&E shall be determined by the entity. Examples of major class include, among others, buildings and structures, furniture and fixtures, equipment, vehicles, and land.

[21] 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.

−the dollar amount of maintenance and repairs that was defined by the professionals who designed, built or manage the PP&E as required maintenance and repairs for the reporting period,

−the dollar amount of maintenance and repairs actually performed during the period,

−the difference between the forecast and actual maintenance and repairs,

−any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E,[22] and

−the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.

Ref: Pages 15 & 16; Par 17i.

All above requirements retained.

Ref: Page 16; Par 18.

Language retained. Draft ED proposes to add 4 CFR reporting elements.

- The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. 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,"* provides for required supplementary information applicable to the U.S. government-wide financial statements for these activities.

[22] Adjustments may be necessary because the cost of maintenance and repairs foregone may not be cumulative. For example, if periodic painting is skipped twice it is not necessarily true that the cost would be double the scheduled amount.

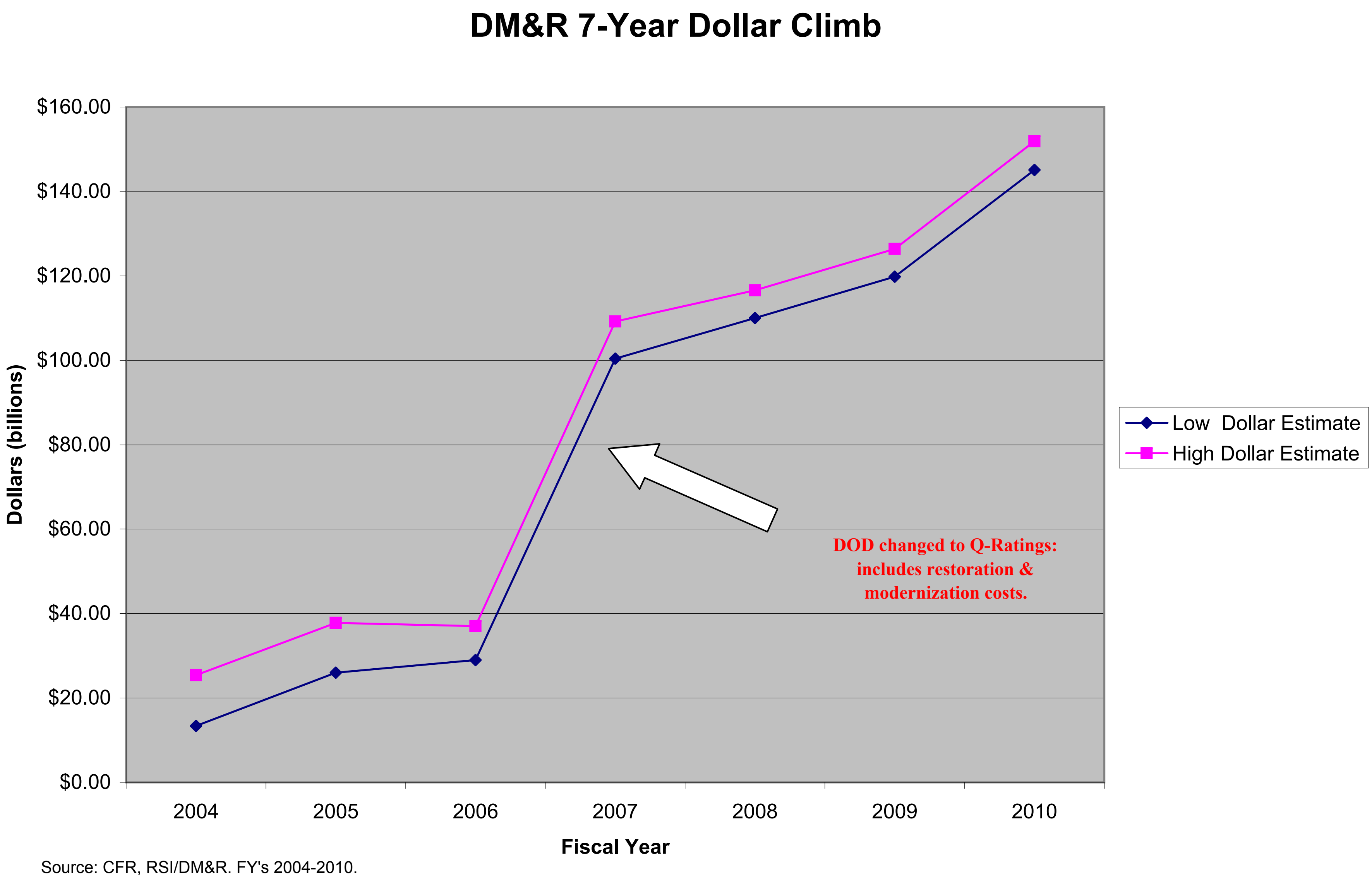
Optional Information

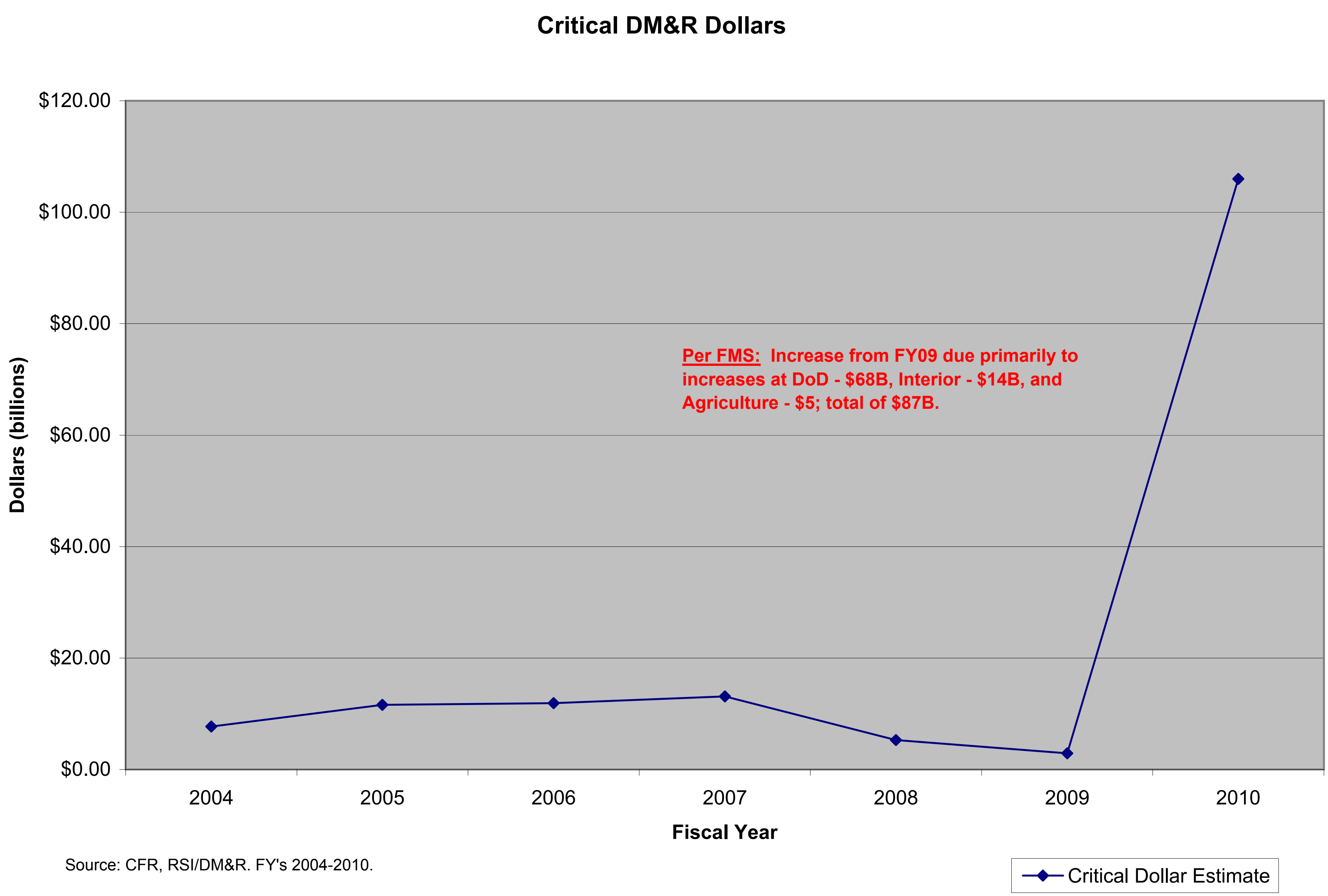
84. Stratification between critical and noncritical amounts of maintenance and repairs needed to return each major class of asset to its acceptable operating condition. If management elects to report critical and noncritical amounts, the information shall include management's definition of these categories. The U.S. government-wide financial statements need not separately report stratification between critical and non-critical amounts of maintenance and repairs 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.

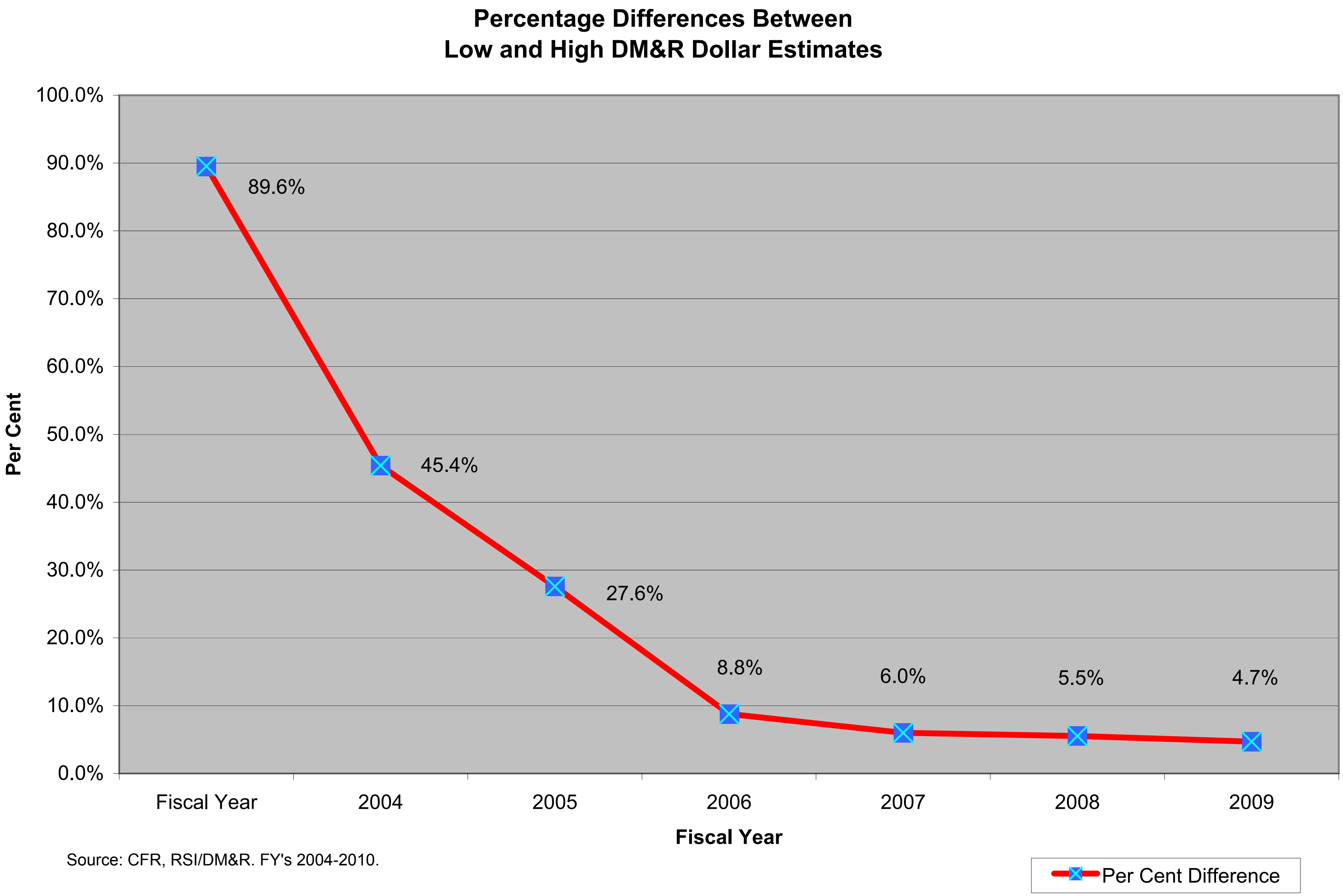
Ref: Page 16; Par 18.

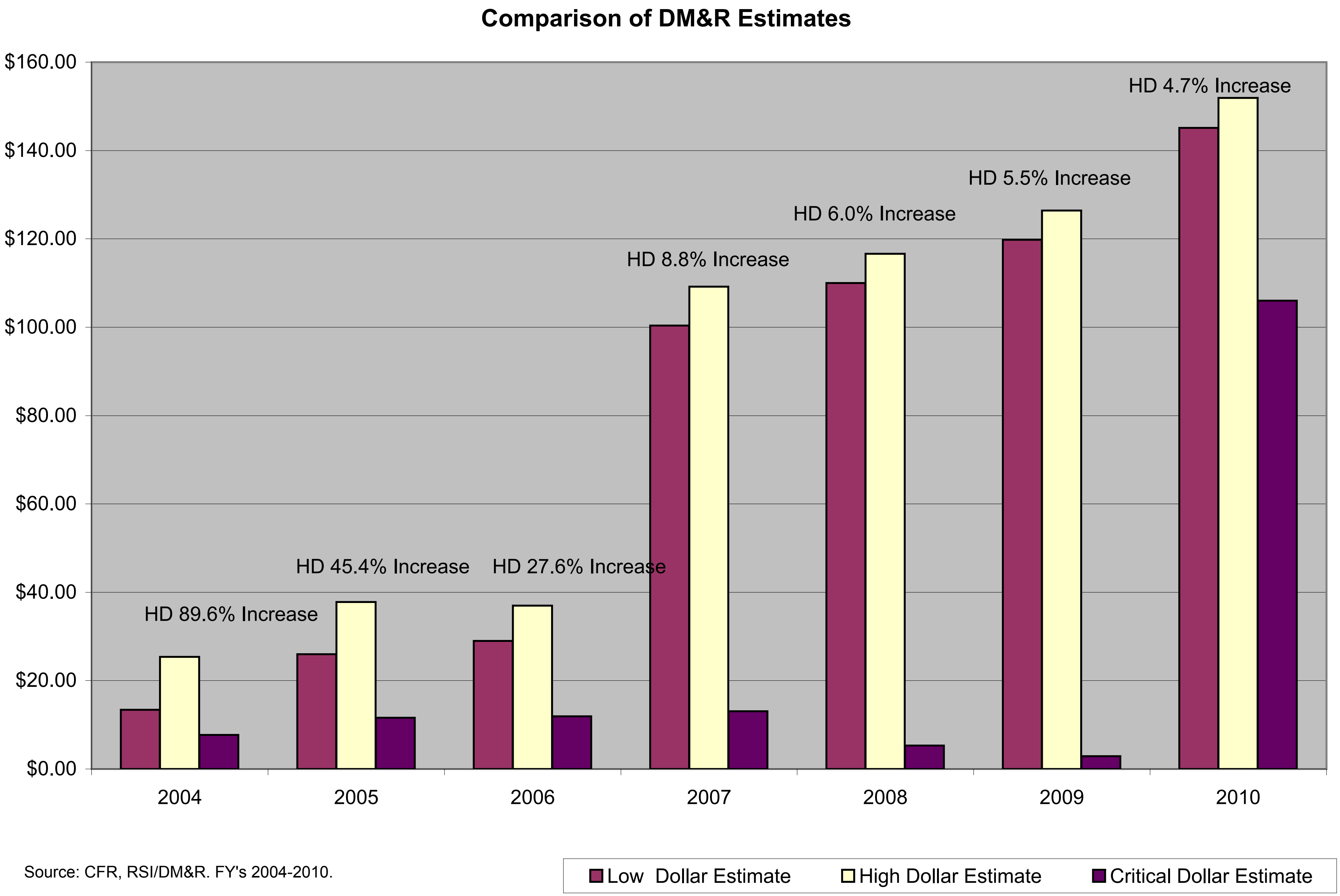
Language deleted.

Refer to BFC A12.


DM&R 7-Year Dollar Climb
$160.00
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
Dollars (billions)
2004
2005
2006
2007
2008
2009
2010
Fiscal Year
Low Dollar Estimate
High Dollar Estimate
DOD changed to Q-Ratings: includes restoration & modernization costs.
Source: CFR, RSI/DM&R. FY's 2004-2010.


Critical DM&R Dollars
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
Dollars (billions)
2004
2005
2006
2007
2008
2009
2010
Fiscal Year
Per FMS: Increase from FY09 due primarily to increases at DoD - $68B, Interior - $14B, and Agriculture - $5; total of $87B.
Critical Dollar Estimate
Source: CFR, RSI/DM&R. FY's 2004-2010.


Percentage Differences Between
Low and High DM&R Dollar Estimates
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Per Cent
89.6%
45.4%
27.6%
8.8%
6.0%
5.5%
4.7%
Fiscal Year
2004
2005
2006
2007
2008
2009
Fiscal Year
Source: CFR, RSI/DM&R. FY's 2004-2010.
Per Cent Difference


Comparison of DM&R Estimates
$160.00
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
HD 89.6% Increase
HD 45.4% Increase
HD 27.6% Increase
HD 8.8% Increase
HD 6.0% Increase
HD 5.5% Increase
HD 4.7% Increase
2004
2005
2006
2007
2008
2009
2010
Source: CFR, RSI/DM&R. FY's 2004-2010.
Low Dollar Estimate
High Dollar Estimate
Critical Dollar Estimate

RSI - DM&R
Scale: Billions of Dollars

Fiscal Year	Low Dollar Estimate	High Dollar Estimate	Per Cent Difference	Critical Dollar Estimate
2004	$13.40	$25.40	89.6%	$7.70
2005	$26.00	$37.80	45.4%	$11.60
2006	$29.00	$37.00	27.6%	$11.90
2007	$100.40	$109.20	8.8%	$13.10
2008	$110.00	$116.60	6.0%	$5.30
2009	$119.80	$126.40	5.5%	$2.90
2010	$145.10	$151.90	4.7%	$106.00

Fiscal Year	Per Cent Difference
2004	89.6%
2005	45.4%
2006	27.6%
2007	8.8%
2008	6.0%
2009	5.5%
2010	4.7%

Fiscal Year	Critical Dollar Estimate
2004	$7.70
2005	$11.60
2006	$11.90
2007	$13.10
2008	$5.30
2009	$2.90
2010	$106.00

Fiscal Year	Total PP&E Cost	Accumulated Deprecaition	Net Book Value
2004	$1,780.60	$1,127.90	$652.70
2005	$1,881.50	$1,203.10	$678.40
2006	$1,340.30	$651.80	$688.50
2007	$1,353.80	$662.70	$691.10
2008	$1,442.10	$704.40	$737.70
2009	$1,559.00	$774.90	$784.10
2010	$1,640.50	$811.60	$828.90

	Net Book Value	Critical DM&R	Per Cent Critical to NBV
2004	$652.70	$7.70	1.18%
2005	$678.40	$11.60	1.71%
2006	$688.50	$11.90	1.73%
2007	$691.10	$13.10	1.90%
2008	$737.70	$5.30	0.72%
2009	$784.10	$2.90	0.37%
2010	$828.90	$106.00	12.79%

	Net Book Value	Low Dollar Estimate	High Dollar Estimate	Critical DM&R
2004	$652.70	$13.40	$25.40	$7.70
2005	$678.40	$26.00	$37.80	$11.60
2006	$688.50	$29.00	$37.00	$11.90
2007	$691.10	$100.40	$109.20	$13.10
2008	$737.70	$110.00	$116.60	$5.30
2009	$784.10	$119.80	$126.40	$2.90
2010	$828.90	$145.10	$151.90	$106.00

	Critical DM&R	Critical DM&R % Change	Net Book Value	Net Book Value % Change
2004	$7.70	0.00%	$652.70	0.00%
2005	$11.60	50.65%	$678.40	3.94%
2006	$11.90	2.59%	$688.50	1.49%
2007	$13.10	10.08%	$691.10	0.38%
2008	$5.30	-59.54%	$737.70	6.74%
2009	$2.90	-45.28%	$784.10	6.29%
2010	$106.00	3555.17%	$828.90	5.71%