



February 12, 2011

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Deferred Maintenance and Repairs – Measurement and Reporting¹ – Tab J**

MEETING OBJECTIVES AND MATERIALS

The primary objective for the February meeting is to agree on the scope of this project so that staff can begin drafting a draft Exposure Draft on measurement and reporting of deferred maintenance and repairs (DM&R). A secondary objective is to consider relative priorities between DM&R amendments and asset impairment and decide if staff should shift focus and resources to asset impairment.

Staff is asking board members to (1) review the two options listed below and discussed further in the attached memo and (2) be prepared to direct staff on which option should serve as the basis for a draft Exposure Draft document. The two options, which can be viewed as being at opposite ends of a spectrum, are as follows:

1. OPTION A - A comprehensive list of amendments to existing standards in Statement of Federal Financial Accounting Standard (SFFAS) 6 based on staff's work with the task force; or
2. OPTION B - An abbreviated list (selected changes) of amendments.

Please find four attachments for your review:

- Attachment 1 – **OPTION A - Comprehensive changes to SFFAS 6 – Chapter 3**
- Attachment 2 - **OPTION B - Selective changes to SFFAS 6 – Chapter 3**
- Attachment 3 – **Project Status**
- Attachment 4 – **DM&R FY2010 RSI Samples**

If you require additional information or wish to discuss matters contained in the staff paper, please contact me by telephone at 202.512.6841 or by e-mail at savinid@fasab.gov.

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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BACKGROUND

BACKGROUND

At the December 16, 2010 Board meeting, staff presented the following four major project goals concerning the measurement and reporting phase of the project:

1. Project Goal #2: Criteria appropriately considered in establishing “acceptable condition.”

Although the Board sees merit in providing the accounting guidance presented by staff, it acknowledges that this is a management function that is not easily guided by required supplementary information (RSI) reporting standards. The Board was advised that the Office of Management and Budget (OMB) was resuming active Federal Real Property Council (FRPC) meetings and that it should consider transferring this project objective to the council for study and implementation.

2. Project Goal #3: Consider whether fixed assets should be classified as critical/non-critical (or another classification such as active/inactive) for reporting purposes.

The task force recommended eliminating this option from SFFAS 6. Instead, they suggested adopting the current FRPC requirement to classify buildings as active/inactive. Regina Kearney noted that a number of options may be considered by the FRPC and wondered if it was necessary to create a static requirement in the standard. The Board members expressed concern about selecting a single classification scheme and some suggested focusing on meeting the needs of external users.

3. Project Goal #4: Identify relevant measures or indicators being used in practice (e.g., condition index, return on investment) and decide if any additional measures should be included in federal financial reports.

Similar to the discussion held concerning Project Goal #2, the Board was advised that OMB was resuming active FRPC meetings and that it should consider transferring this project objective to the council for study and implementation.

4. Project Goal #4b(i) - Determine if techniques are desirable and permissible under existing standards.

Although the Board acknowledged the value of consistent reporting, it asked staff to first consider options that would include relaxing or eliminating reporting requirements (i.e., condition reporting). The Board would like to study these options before considering requirements regarding consistency.

Because of members' concerns regarding the scope of the DM&R project and that management flexibility regarding classification is needed in many areas, the Board asked staff to consider and present options that might narrow the requirements of generally accepted accounting principles (GAAP) for DM&R information.

DISCUSSION

DISCUSSION – ANALYSIS OF OPTIONS

Before beginning a discussion concerning the two options prepared for your review, staff would like to remind the Board that two external reports served as a basis for the scope of the Task Force’s work. The first report² was a critique of the deferred maintenance definition in SFFAS 6. This report was prepared by the Federal Facilities Council under the auspices of The National Academies. The report was critically reviewed by the Task Force and provided a foundation for the amendment(s) contained in 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 second report was a Government Accountability Office (GAO) study³ specific to repair and maintenance backlog issues surrounding federal real property. In this study, GAO discussed the need for realistic estimates of DM&R so that the government’s (true) fiscal exposure could be captured. A review of the more pertinent GAO issues related to the measurement and reporting phase of our project follows:

Table 1.0: GAO Issues

Issue #	GAO Noted and Highlighted the following:
1.	Lack of comparability among agencies as a result of defining and estimating DM&R differently. Ref: Pages 3 and 11 of report.
2.	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 the FRPP and FASAB. Ref: Pages 3 and 24 of report.
3.	That DM&R collected consistently over several years can be useful within agencies. Ref: Page 11 of report.
4.	The requirement to report on all assets has resulted in agencies reporting DM&R that may not in fact be incurred. Ref: Pages 14 and 24.

² *Deferred Maintenance Reporting for Federal Facilities. Meeting the Requirements of Federal Accounting Standards Advisory Board Standard Number 6, as amended.* National Academy Press, ISBN 0-309-56-339-9, 1999.

³ GAO Report No. GAO-09-10 dated October 2008. *Federal Real Property. Government’s Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.*

DISCUSSION

It is important to note that because the Task Force’s work was not limited to or constrained by either of these external reports, some recommendations do not directly relate to issues or recommendations arising from said reports. Task Force members contributed agency specific data which also included input from internal and external audit communities. Below is a summary of the Task Force’s work related to the measurement and reporting phase of the project:

Table 2.0: Task Force/Staff Issues

Issue #	Task Force/Staff review noted the following issues:	Relates to GAO Issue #
1.	Measurement terms not adequately defined.	1 and 2
2.	Guidance needed for “Acceptable Condition” determinations.	1 and 2
3.	Reporting should be linked to Asset Management feeder systems – Per DoD: “auditable, repeatable and verifiable data”.	2 and 4
4.	Improve communication in the estimating, reporting and interpreting of DM&R amounts.	2, 3 and 4
5.	Assessing asset condition is not solely measured in financial terms.	N/A
6.	DM&R on funded M&R needs to be reported in addition to unfunded M&R activities.	1 and 2
7.	Since the FRPC requires the reporting of all assets into the FRPP database, agencies should be allowed to report DM&R on all such assets regardless of capital thresholds.	1, 2 and 4
8.	Agencies do not consistently measure and/or report DM&R from year-to-year.	1, 2, 3, and 4
9.	Different assessment methods have developed since SFFAS 6 was first issued.	1, 2 and 3
10.	Agencies do not always provide (sufficient) information related to condition.	N/A
11.	Since DM&R represents off-balance sheet risk, greater prominence in MD&A reporting may be needed.	N/A
12.	Agencies need to present a minimum amount of information so that DM&R can be properly contextualized and understood.	2 and 4
13.	Agencies do not always highlight changes made to DM&R measurements.	1 and 2
14.	Critical versus non-critical classifications provide little to no value and should be replaced by active versus inactive classifications.	1, 2 and 4
15.	Dollar ranges (1) are unnecessary as many agencies only provide single point estimates and (2) run contrary to GAO’s fiscal exposure concern; i.e., realistic estimates.	2
16.	General housekeeping: (1) clarifying that DM&R information is needed regardless of which assessment method is used, (2) allowing for “other” assessment methods, and (3) refreshing and modifying the illustration currently in Appendix C.	N/A

DISCUSSION

In essence, both GAO and Task Force issues have been used to develop the two options for your consideration. First, Option A would comprehensively re-write the current SFFAS 6 Chapter 3 requirements by addressing the issues staff identified through its work with the task force. Option B would enhance the current SFFAS 6 Chapter 3 requirements by addressing only selected changes. This second alternative is designed to address what staff considers being the required minimum amount of changes in a more expedient manner than Option A.

Yellow shading represents identical changes contained in both options whereas non-shaded rows reflect differences between options.

Table 3.0: Summary of Changes⁴ by Option

OPTION A Changes:	OPTION B Changes:
<p>1. Adding definitions for Condition Index and Replacement (Plant) Value.</p> <p><u>So that:</u> we enhance comparability among agencies, enhance agency measurement, and improve communication in the estimating, reporting and interpreting of DM&R amounts.</p>	<p>1. Clarifying the two goals of DM&R.</p> <p><u>So that:</u> agencies report both DM&R dollar amounts <u>and</u> information related to condition.</p>
<p>2. Requiring both qualitative and quantitative reporting.</p> <p><u>So that:</u> non-financial (i.e., asset condition ratings, performance metrics) information accompanies financial information for improved reporting.</p>	<p>2. Requiring both qualitative and quantitative reporting.</p> <p><u>So that:</u> non-financial (i.e., asset condition ratings, performance metrics) information accompanies financial information for improved reporting.</p>
<p>3. Clarifying (eliminating ambiguity) that regardless of which assessment method is used, DM&R reporting is required.</p> <p><u>So that:</u> we close a “loop-hole” in SFFAS 6. That is, if the life-cycle method or other assessment method is used, DM&R reporting requirements apply as if the condition assessment method were used.</p>	<p>3. Clarifying (eliminating ambiguity) that regardless of which assessment method is used, DM&R reporting is required.</p> <p><u>So that:</u> we close a “loop-hole” in SFFAS 6. That is, if the life-cycle method or other assessment method is used, DM&R reporting requirements apply as if the condition assessment method were used.</p>
<p>4. Requiring 8 elements for narrative discussion.</p>	<p>4. Requiring 7 elements (accounting for changes is excluded) for narrative</p>

⁴ Please note the exclusion of two current SFFAS 6 reporting elements: optional critical/non-critical classifications and dollar range estimates both of which have been determined by the task force/staff to provide little to no value.

DISCUSSION

OPTION A Changes:	OPTION B Changes:
<p><u>So that:</u> we enhance comparability and/or analysis among agencies, enhance agency narrative disclosures regarding acceptable condition, key performance measures, changes from prior year, funded versus unfunded M&R and identify to which assets DM&R applies.</p>	<p>discussion.⁵</p> <p><u>So that:</u> we enhance comparability and/or analysis among agencies, enhance agency narrative disclosures regarding acceptable condition, key performance measures, funded versus unfunded M&R and to identify to which assets DM&R applies.</p>
<p>5. Requiring consistent measurement and reporting from period to period with changes and re-statements being duly noted.</p> <p><u>So that:</u> we enhance comparability among agencies, enhance agency measurement and reporting, identify changes from prior year and facilitate analysis.</p>	<p>5. Requiring consistent measurement and reporting from period to period (accounting for changes and restatements are excluded).</p> <p><u>So that:</u> we enhance comparability among agencies, enhance agency measurement and reporting and facilitate analysis.</p>
<p>6. Encouraging discussion about DM&R backlog reductions, budgetary impacts, use of Rol in ranking/prioritizing (D)M&R.</p> <p><u>So that:</u> (1) we adopt an OMB request and (2) we enhance comparability and/or analysis among agencies, enhances agency narrative disclosures.</p>	<p>6. Encouraging discussion about DM&R backlog reductions, budgetary impacts, use of Rol in ranking/prioritizing (D)M&R.</p> <p><u>So that:</u> (1) we adopt an OMB request and (2) we enhance comparability and/or analysis among agencies, enhances agency narrative disclosures.</p>
<p>7. Eliminating dollar range estimates.</p> <p><u>So that:</u> we reduce agency burden, eliminate what is commonly referred to as the “false range”, encourage greater accuracy in DM&R dollar estimates and pre-position DM&R for future note disclosure.</p>	<p>7. Eliminating dollar range estimates.</p> <p><u>So that:</u> we reduce agency burden, eliminate what is commonly referred to as the “false range”, encourage greater accuracy in DM&R dollar estimates and pre-position DM&R for future note disclosure.</p>
<p>8. Eliminating optional critical/non-critical estimate and replace with active/inactive classifications.</p> <p><u>So that:</u> we eliminate definitional conflict and confusion with the FRPP definition (FRPP’s definition is asset-based while</p>	<p>8. Eliminating optional critical/non-critical estimate and replace with active/inactive classifications.</p> <p><u>So that:</u> we eliminate definitional conflict and confusion with the FRPP definition (FRPP’s definition is asset-based while</p>

⁵ Accounting for changes has been excluded in Option B to help minimize agency burden.

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OPTION A Changes:	OPTION B Changes:
<p>FASAB's can be interpreted to be activity-based), reduce agency burden arising from different requirements, eliminate what is known to be of little to no value, and develop better DM&R estimates that reveal the costs agencies expect to incur on active assets.</p>	<p>FASAB's can be interpreted to be activity-based), reduce agency burden, eliminate what is known to be of little to no value, and develop better DM&R estimates that reflect the costs agencies expect to incur.</p>
<p>9. Clarifying that scope includes (1) funded M&R as well as unfunded M&R, and (2) DM&R on PP&E with optional (i.e., non-capitalized assets) reporting permitted.</p> <p><u>So that:</u> we enhance comparability among agencies regarding scope; enhance agency measurement and analysis; improve communication in the estimating, reporting and interpreting of DM&R amounts; and allow agencies to align information for financial statements with internally used information.</p>	<p>9. Enhancing Appendix C Illustration to (1) shift from an asset-specific to agency specific example and (2) articulating to narrative requirements using actual DoD, VA and NASA RSI language.</p> <p><u>So that:</u> the Appendix C illustration is more meaningful and representative of what an agency is expected to report.</p> <p><u>NOTE:</u> Option A also incorporates this Appendix C enhancement.</p>
<p>10. Providing accountants and management with optional tools for assessing acceptable condition.</p> <p><u>So that:</u> we act on⁶ SFFAS 14, paragraph 23: <i>“At a minimum, the Board expects to develop guidance on determining acceptable condition. The Board plans to revise the standards based on experience gained during the experimentation period.”</i></p>	<p>N/A</p>
<p>11. Selecting a preferred method; physical/visual inspections.</p> <p><u>So that:</u> we best reflect current federal and industry practices, help to avoid “drive-by” or desk review assessments that may not be reflective of actual condition.</p>	<p>N/A</p>
<p>12. Clarifying that “other similar methods”</p>	<p>N/A</p>

⁶ As discussed at the December Board meeting, such guidance can be issued as part of the standard, its Basis For Conclusions or through another communication vehicle.

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OPTION A Changes:	OPTION B Changes:
<p>are permissible; (1) eliminating “periodic” to allow for the BCI⁷ method and (2) moving current footnote # 5 to paragraph 13c for prominence.</p> <p><u>So that:</u> other than expressing a preference for physical/visual inspections, all “similar” methods have equal standing.</p>	
<p>13. Encouraging that explanations highlight significant or material changes with possible discussion in notes or MD&A.</p> <p><u>So that:</u> we avoid “off-balance” sheet risk from becoming buried in RSI with no connection to fiscal sustainability or agency mission.</p>	N/A
<p>14. Encouraging intra-agency communication, systems integration, use of both financial and non-financial metrics, and providing for optional information (i.e., DM&R on non-capitalized assets and presenting deferred capital improvements in addition to DM&R) in the DM&R process.</p> <p><u>So that:</u> we help reduce agency burden by asking CFO offices to turn to asset managers for DM&R estimates as opposed to inefficient “data-call” procedures, ensure that reporting be linked to Asset Management feeder systems (Per DoD: “auditable, repeatable and verifiable data” should be used for RSI reporting), avoid different DM&R numbers from being reported, enhance agency measurement, and finally, improving communication in the estimating, reporting and interpreting of DM&R amounts.</p>	N/A

⁷ Building Condition Index (BCI). As presented and explained to the task force, although similar to the Facilities Condition Index (FCI), its distinct feature is that it captures data on distresses as opposed to deficiencies. Proponents of this method claim that it is more pro-active than the typical FCI method now used by agencies.

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OPTION A Changes:	OPTION B Changes:
<p>15. Requiring a <i>Schedule of DM&R</i>.</p> <p><u>So that:</u> we enhance agency consistency from period-to-period, enhance comparability among agencies, enhance agency measurement, improve communication in the estimating, reporting and interpreting of DM&R amounts.</p>	N/A
<p>16. Requiring a <i>Schedule of Asset Condition Information</i>.</p> <p><u>So that:</u> we help ensure that condition information is reported for each appropriate category/class of assets, enhance comparability among agencies, and enhance the identification of potentially impaired assets.</p>	N/A
<p>17. Requiring the build-up of a minimum 5 year trending analysis.</p> <p><u>So that:</u> we enhance agency consistency from period-to-period, enhance comparability among agencies, enhance agency measurement, improve communication in the estimating, reporting and interpreting of DM&R amounts.</p>	N/A

DISCUSSION

DISCUSSION – GAO REVIEW: OCTOBER 2008 REPORT⁸

Table 4.0: GAO Issues and How They Are Addressed

GAO Noted:	Addressed by OPTION A	Addressed by OPTION B	Key Differences OPTION A:
1. Lack of comparability among agencies as a result of defining and estimating DM&R differently. Ref: Pages 3 and 11 of report.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Defines Plant Replacement Value and Condition Index. 2. Highlights consistency. 3. Requires consistent methods with changes highlighted. 4. States preferred method. 5. Distinguishes condition reporting from dollar reporting.
2. 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 the FRPP and FASAB. Ref: Pages 3 and 24 of report.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Clarifying that scope includes funded M&R as well as unfunded M&R. 2. Encouraging intra-agency communication, systems and integration. 3. Requiring a <i>Schedule of Deferred Maintenance</i>. 4. Requiring the build-up of a minimum 5 year trending analysis.
3. That DM&R collected consistently over several years can be useful within agencies. Ref: Page 11 of report.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Requiring a <i>Schedule of Asset Condition Information</i>. 2. Requiring the build-up of a minimum 5 year trending analysis.
4. The requirement to report on all assets has resulted in agencies reporting DM&R that may not in fact be incurred. Ref: Pages 14 and 24.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Requiring a <i>Schedule of Deferred Maintenance</i> which classifies assets as either being Active or Inactive.

⁸ GAO-09-10 dated October 2008, *Federal Real Property. Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.*

DISCUSSION

DISCUSSION – TASK FORCE/STAFF REVIEW

Green shading represents those task force issues that are dealt with identically in each option.

Table 5.0: Task Force Issues and How They Are Addressed

Task Force/Staff Review Noted:	Addressed by OPTION A	Addressed by OPTION B	Key Differences Option A:
1. Measurement terms not adequately defined.	Yes	No	<ol style="list-style-type: none"> 1. Adding definitions for Condition Index (CI) and Replacement (Plant) Value (PRV). 2. Clarifying that scope includes (1) funded M&R as well as unfunded M&R. 3. Requiring a <i>Schedule of DM&R</i>.
2. Guidance needed for “Acceptable Condition” determinations.	Yes	No	<ol style="list-style-type: none"> 1. Providing accountants and management with optional tools for assessing acceptable condition.
3. Reporting should be linked to Asset Management feeder systems – Per DoD: “auditable, repeatable and verifiable data”.	Yes	No	<ol style="list-style-type: none"> 1. Encouraging intra-agency communication, systems integration and use of both financial and non-financial metrics.
4. Improve communication in the estimating, reporting and interpreting of DM&R amounts.	Yes	No	<ol style="list-style-type: none"> 1. Encouraging intra-agency communication, systems integration, using of both financial and non-financial metrics, and providing for optional information in the DM&R process. 2. Adding definitions for CI and PRV. 3. Clarifying that scope includes funded M&R as well as unfunded M&R. 4. Providing accountants and management with optional tools for assessing acceptable condition. 5. Requiring a <i>Schedule of DM&R</i>. 6. Requiring a <i>Schedule of Asset Condition Information</i>.
5. Assessing asset condition is not solely measured in financial terms.	Yes	No	<ol style="list-style-type: none"> 1. Encouraging intra-agency communication, systems and integration. 2. Requiring a <i>Schedule of Asset Condition</i>

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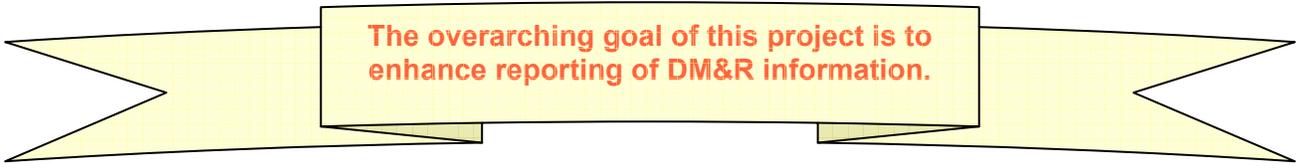
Task Force/Staff Review Noted:	Addressed by OPTION A	Addressed by OPTION B	Key Differences Option A:
			<i>Information.</i>
6. DM&R on funded M&R needs to be reported in addition to unfunded M&R activities.	Yes	Yes	
7. Since the FRPC requires that all assets be reported into the FRPP database, agencies should be allowed to report (1) DM&R on all such assets regardless of capital thresholds and (2) optional information such as deferred capital improvements.	Yes	Yes	
8. Agencies do not consistently measure and/or report DM&R from year-to-year.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Highlighting consistency. 2. Requiring consistent methods with changes highlighted. 3. Requiring a <i>Schedule of Deferred Maintenance</i>. 4. Requiring a <i>Schedule of Asset Condition Information</i>.
10. Different assessment methods have developed since SFFAS 6 was first issued.	Yes	Yes	
11. Agencies do not always provide (sufficient) information related to condition.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Requiring a <i>Schedule of Asset Condition Information</i>. 2. Encouraging that explanations highlight significant or material changes with possible discussion in notes or MD&A. 3. Requiring the build-up of a minimum 5 year trending analysis.
12. Since DM&R represents off-balance sheet risk, greater prominence in MD&A reporting may be needed.	Yes	No	<ol style="list-style-type: none"> 1. Encouraging that explanations highlight significant or material changes with possible discussion in notes or MD&A.

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Task Force/Staff Review Noted:	Addressed by OPTION A	Addressed by OPTION B	Key Differences Option A:
13. Agencies need to present a minimum amount of information so that DM&R can be properly contextualized and understood.	Yes	Yes	
14. Agencies do not always highlight changes made to DM&R measurements.	Yes	No	<ol style="list-style-type: none"> 1. Highlighting consistency. 2. Requiring consistent methods with changes highlighted. 3. Requiring a <i>Schedule of Deferred Maintenance</i>. 4. Requires a <i>Schedule of Asset Condition Information</i>.
15. Critical versus non-critical classifications provide little to no value and should be replaced by active versus inactive classifications.	Yes	Yes	NOTE: Option A requires that assets be categorized as either being Active or Inactive so that related DM&R dollars can be better evaluated.
16. Dollar ranges (1) are unnecessary as many agencies only provide single point estimates and (2) run contrary to GAO's fiscal exposure concern; i.e., realistic estimates.	Yes	Yes	NOTE: In SFFAS 14, the Board raised concerns about the ability of preparers to disclose extremely large range estimate(s).
17. General housekeeping: (1) clarifying that DM&R information needed regardless of which assessment method is used, (2) allowing for "other" assessment methods, (3) refreshing and modifying illustration.	Yes – Greater degree	Yes – Lesser degree	<ol style="list-style-type: none"> 1. Clarifying that scope includes (1) funded M&R as well as unfunded M&R, and (2) DM&R on PP&E with optional reporting permitted. 2. Clarifying that "other similar methods" is permissible.

QUESTIONS FOR THE BOARD

QUESTIONS FOR THE BOARD



The overarching goal of this project is to enhance reporting of DM&R information.

Overall Project Questions Regarding Scope for Further Deliberations

Question 1 – Which option is the right starting point for Board deliberation?

The primary objective for this meeting is to agree on the scope of this project so that staff can begin drafting a draft Exposure Draft on measurement and reporting of deferred maintenance and repairs (DM&R).

Staff is asking Board members to review the two options presented and direct staff on which option should serve as the basis for a draft Exposure Draft document. The two options can be viewed as being at opposite ends of a spectrum where Option A represents a comprehensive list of amendments to SFFAS 6 and Option B is an abbreviated list (selected changes) of amendments designed to address what staff considers being the required minimum amount of changes in a more expedient manner than Option A.

Which option is the right starting point for Board deliberation?

Question 2 – What do we do with condition reporting?

The Board in SFFAS 6 (November 1995) stated that there are two goals relative to DM&R reporting: DM&R costs and information related to asset condition. The Board opined that federal financial reporting can fulfill the stewardship objective if the standards will result in reporting information on asset condition. In footnote 7 to paragraph 83 the Board states that such information can include (1) averages of standardized condition codes, (2) percentage of assets above, at, or below acceptable condition, or (3) narrative information.

Primarily due to the highly technical nature of asset condition information, the voluminous and complex nature of federal assets and loss of asset specificity in cases where assets are aggregated for summarized reporting, some question the need and benefit of continuing this requirement. For example, aggregating either a world-wide real estate portfolio or entire class of military assets and presenting an average condition rating or score could obscure or possibly even mislead a reader. However, some states who have adopted the GASB

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modified approach such as California have been able to overcome this aggregation issue by satisfactorily disaggregating the condition rating(s) and not the assets themselves⁹.

Staff does not advise eliminating the asset condition reporting requirement as long as DM&R is considered to be a financial reporting requirement. Condition information along with asset activity or usage data provides valuable contextual information necessary for a user to understand the nature of the DM&R estimates. As a result, neither option proposes the elimination of condition reporting.

Does the Board wish to discuss eliminating asset condition RSI reporting requirements? Why or why not?

Question 3 – Where do we best place “acceptable condition” guidance?

In SFFAS 14 (April 1999) the Board stated, *“At a minimum, the Board expects to develop guidance on determining acceptable condition.”*

The majority view of the Task Force is that since “acceptable condition” has been retained as part of the M&R definition (in accordance with both the original SFFAS 6 definition and then later as affirmed by the Federal Facilities Council critique), guidance concerning its interpretation should be made available to practitioners.

Primarily due to issues surrounding managerial and accounting boundaries, it has been suggested that any such guidance not be included as part of the accounting standard, but rather be included in the Basis for Conclusions. Presently, the text appears in Option A, pages 2 (bottom of) through 7 (top of).

Does the Board agree with the suggestion to place “acceptable condition” guidance in the Basis for Conclusions as opposed to keeping it within the body of the standard? Why or why not?

⁹ State of California, *FY2009 Comprehensive Annual Financial Report*. Pages 156-157.

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Question 4 – Does the Board wish to deliberate elevating DM&R to Notes status?

In SFFAS 6 (November 1995) the Board stated that it would revisit the accounting for DM&R and consider requiring recognition of DM&R as a liability and cost at a later date.

In SFFAS 14 (April 1999) as part of reclassifying DM&R from a line item (no-dollar) entry and note disclosure to RSI, the Board noted that while deferred maintenance information is very relevant, it might not be reliable or comparable. The Board stated that it was concerned that continued placement of this information in notes would be a disservice to users.

A minority view on the Task Force has proposed that the Board reconsider DM&R as a note disclosure. This view holds that the condition information can remain as part of RSI but that the dollar estimate should be given more prominence and moved to the notes. The primary reasons given include: (1) this off-balance sheet risk which is material at many agencies should be subject to audit scrutiny, (2) many within management do not consider DM&R to be important because of its placement within RSI, and (3) improvements to measurement and reporting will be gained by such a change.

The majority Task Force view does not agree with the above recommendation noting (1) that changes to policies and procedures as well as systems need to be considered and agencies need sufficient time to prepare, (2) the subjectivity in DM&R estimates could create significant differences arising from different interpretations that could result in material differences and (3) such placement would jeopardize agency “clean” opinions.

Does the Board believe that DM&R estimates should become part of agency note disclosures in the near future? If so, what steps, if any, would it like to take in that direction now?

QUESTIONS FOR THE BOARD

Conditional Questions

If the Board is unable to select either Option A or B to serve as a starting point for the draft Exposure Draft (ED) document, answering the following questions would aid staff in identifying discrete requirements to include in a future draft ED.

Question 1	Do members agree with the elimination of critical and non-critical stratifications and replacement with Active/Inactive status? Why or why not?
Question 2	Do members agree with the elimination of dollar ranges in estimating DM&R? Why or why not?
Question 3	Do members agree with clarifying that the scope includes (1) funded M&R as well as unfunded M&R, and (2) DM&R on PP&E with optional reporting (i.e., non-capitalized assets) permitted? Why or why not?
Question 4	Do members agree with requiring consistent measurement and reporting from period to period with changes and re-statements being duly noted? Why or why not?
Question 5	Do members take exception to any of 8 elements for narrative discussion found on Attachment 1, pages 9-10, Par.18 (a-h)? Why or why not?
Question 6	Do members agree with selecting a preferred condition assessment method, physical/visual? Why or why not?

QUESTIONS FOR THE BOARD

Question 7

Do members agree with requiring the build-up of a minimum 5 year trending analysis. Why or why not?

Question 8

Do members agree with enhancing the current Appendix C Illustration by (1) shifting from an asset-specific purview to an agency specific purview, (2) articulating to narrative requirements using actual DoD, VA and NASA RSI language, (2) adding additional reporting formats (using advice from DoD-Buildings and Forest Service) such as can be found in Option A pages 17 and 18.? Why or why not?

ASSET IMPAIRMENT BRIEFING

ASSET IMPAIRMENT BRIEFING

BACKGROUND

In May 2003 the Board issued Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*. In this statement, that Board addressed impairment as one of three areas (the other two being depreciation and deferred maintenance) that it desired to consider integrating into a comprehensive project.

Complete impairment was addressed in SFFAS 6 through the requirements that general PP&E *“be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess.”*

However, SFFAS 6 does not address partial impairment, although, it is feasible that the effects of partial impairment are captured through the routine evaluation of expected useful life (e.g., expectations may be modified in light of diminished capacity or condition).

INITIAL PROJECT SCOPE & STATUS

This portion of the overall project was designed to develop guidance for recognition, measurement and reporting of asset impairment with respect to property, plant and equipment (i.e., general PP&E, heritage assets, and stewardship land).

Project Approach:

1. Literature review and consultation - **COMPLETED**
2. Issue analysis and option identification - **COMPLETED**
3. Testing of options – **TO BE DONE**
4. Develop exposure draft (or preliminary views) – **TO BE DONE**

As part of the overall project to review and possibly expand FASAB guidance in the area of asset impairment, staff recommended that as a minimum, the following areas be researched for potential Board deliberations:

- a. Partial impairments.
- b. Proper accounting for insurance proceeds.

ASSET IMPAIRMENT BRIEFING

- c. Distinguishing between losses and/or declines in asset utility or service versus financial changes. That is, should cash-generating assets be identified as a separate category and then measured against cash flow assumptions?¹⁰
- d. Should reversals (i.e. asset write-ups in the case of a partial impairment being cured) be permitted and if so, under what conditions?

ISSUE ANALYSIS & OPTION IDENTIFICATION

Significant accounting guidance exists with FASB, GASB, and IPSASB concerning asset impairment.¹¹ As such, this guidance was used as a basis to draw some preliminary observations from a Task Force asset impairment working group. The working group accomplished its review by (1) studying and comparing each of the four standards, (2) synthesizing an actual impairment case through each method, and (3) interchanging GASB & IPSASB examples using the other's criteria. Highlights of the working group's observations follow:

1. GASB 42 fits most closely to Federal government environment. The primary reasons include:
 - a. "Fair value" hard to measure & not readily available.
 - b. Concepts of "significant" and "unexpected" are definable.
 - c. Acknowledges "temporary" impairments.
 - d. Addresses non-cash generating assets.
2. Federal data source considerations:
 - i. Federal Real Property Profile (FRPP) data elements.
 - ii. No single or even combination of absolute values will indicate impairment.
 - iii. Agencies would monitor their own inventory data elements for significant changes.
 - iv. Agencies could refine their tests with other readily available data sources; i.e., agency specific.

¹⁰ Distinguishing between cash-generating & non-cash generating assets will require guidance in the use of cash flows and possibly discounting methods versus a value in-use type approach.

¹¹ FASB 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance recoveries* and IPSASB 21 *Impairment of Non-Cash Generating Assets*, and IPSASB 26 *Impairment of Cash Generating Assets*.

ASSET IMPAIRMENT BRIEFING

3. GASB Indicators of Impairment link to available data sources.

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

Legend: CI = Condition Index
 DM = Deferred maintenance & repairs.
 RN = Repair needs.

4. Suggested modifications to fit Federal government environment include:

- a. Define terms - significant, unexpected, and temporary.
- b. Adopt IPSASB “reversal” approach:
 - i. Just as circumstances could change unexpectedly, they might revert just as unexpectedly.
 - ii. Expectations for federal assets yield more “chances” for such a change.
 1. Do not require routine impairment tests.
 2. Program & asset managers would monitor for equally unexpected reversals; reversion of circumstances.

ASSET IMPAIRMENT BRIEFING

QUESTIONS FOR THE BOARD

1. Does the Board agree with the task force's recommendation to use GASB 42 (as modified) as a starting point for follow-on analysis and applicability?
2. Should the plan include other topics the Board would like to consider?
3. Does the Board wish to focus on any area/issue in particular?

RESERVED

RESERVED

ATTACHMENT 3 – PROJECT STATUS

ATTACHMENT 3 - PROJECT STATUS

Enhance reporting of deferred maintenance and repairs information.¹²

Project Goals	Disposition
<p>1. Identify and resolve definitional issues (comparability) related to existing SFFAS 6 terminology.</p>	<p>SFFAS 40 - Completed M&R definition.</p>
<p>2. Develop criteria appropriately considered in establishing “acceptable condition.”</p>	<p>Transfer to OMB/FRPC.</p>
<p>3. Consider whether fixed assets should be classified as critical/non-critical (or another alternative) for reporting purposes.</p> <ul style="list-style-type: none"> i) Determine if techniques are desirable and permissible under existing standards. ii) Determine if techniques are comparable (e.g., full cost vs. incremental cost; current cost vs. projected cost). iii) Consider any needed amendments to standards. 	<p>Task force analysis completed with recommendation.</p>
<p>4. Identify and resolve any measurement and reporting issues.</p> <ul style="list-style-type: none"> a. Identify relevant measures or indicators being used in practice (e.g., condition index, return on investment) and decide if any additional measures should be included in federal financial reports. b. Identify current measurement techniques and emerging techniques for deferred maintenance and repair as well as desired measures or indicators. 	<p>Task force analysis completed with recommendation.</p>

¹² FASAB Project Plan: TAB J-1, Asset Impairment and Deferred Maintenance, October 3, 2008.

ATTACHMENT 3 – PROJECT STATUS

Project Goals	Disposition
<p>c. Consider whether reporting should further disaggregate fixed assets by (1) categories such as buildings and equipment, (2) predominant use, or (3) some other recognized method.</p> <p>d. Review SFFAS 6 requirements for explanatory information and revise as needed</p>	<p>Task force analysis completed with recommendation.</p>
<p>5. Address recognition and measurement of asset impairment – at this time, research regarding asset impairment is being conducted but development of options is not. Consideration of options will be deferred until DM&R amendments are proposed.</p>	<p>Work-in-process.</p>

RESERVED

Preamble - Deferred Maintenance and Repairs

Information related to asset condition and the estimated costs to resolve deferred maintenance and repairs (DM&R) on PP&E is to be presented as required supplementary information (RSI). The two goals related to DM&R reporting include presentation of (1) information related to asset condition and (2) an agency's estimate of its fiscal exposure to DM&R on PP&E. DM&R may not in all cases be a sole indicator of either assessing asset condition or measuring related costs to remedy¹ an asset, however, it is information deemed critically important to both of these goals. The standards require that management (1) state how they define DM&R in-practice, (2) disclose their asset management policies and practices to include how they rank and prioritize maintenance and repair activities among other activities, (3) disclose how they measure and assess acceptable condition, and (4) apply disclosed practices consistently.

While the standards recognize that there are many variables in estimating DM&R amounts and that agencies continue to need flexibility to exercise managerial judgments, financial statement information including RSI should be relevant, reliable and consistent. In order for agency management to best meet the goals of DM&R reporting it is essential that agencies report both financial and non-financial information by using an interdisciplinary and holistic agency approach. Integrating agency systems, tools, and techniques used by diverse fields such as engineering, facilities management, finance, budget, social sciences (e.g., economics and public affairs) and accounting will help to ensure (1) the increased value and efficacy of the reported information, (2) help meet diverse needs of users who have multiple views and sometimes conflicting goals, and (3) foster system and process improvements via continual integration and interaction among an agency's executive information system modules. Accordingly, an agency 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 and/or asset condition; i.e., deferred capital improvements.

More robust reporting may be required since DM&R may not in all cases be a sole indicator of either asset condition or related costs to remedy an asset. As a result, the standards offer guidance concerning: assessing acceptable condition, asset condition indicators (financial and non-financial measures), clarification of DM&R and its relationship to PP&E and fixed assets, and clarifying that both unfunded and funded Maintenance & Repairs (M&R) which is deferred should be measured and reported as DM&R. Lastly, although the standards permit the use of different assessment methods, the standards establish a preference for the use of the condition assessment survey method.

¹ Costs to remedy an asset may include such capital improvements as upgrades and/or betterments. This standard recognizes that (D)M&R may represent only a portion of such remediation.

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

Definitions

1. “Deferred maintenance and repairs” (DM&R) are maintenance and repair activities 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.
2. For purposes of these standards,
 - i. maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.² 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.
 - ii. Replacement (Plant) Value is the cost of replacing the existing facility at today’s standards.
 - iii. Condition Index (CI) is a measure of an asset’s condition at a specific point in time or taken on a continual and systematic basis. This index is calculated as the ratio of DM&R to Replacement (Plant) value. For purposes of this standard, it is not required to measure CI at any particular time such as year-end, but rather that CI be consistently measured and reported period to period.

Acceptable Condition - Managerial Judgment Required

3. Because DM&R result from failing to perform activities when they “should have been” or “were scheduled to be” performed, management’s plan for maintenance and repair is a relevant consideration. In planning for maintenance and repairs, management determines what level of condition it wishes to be sustained – that is, what the target “acceptable condition” is for various items of property, plant, and equipment (PP&E). For certain assets such as buildings and infrastructure “acceptable condition” can be viewed using one of two methods. The first method³ employs a continuum that illustrates varying degrees of asset condition or functionality ranging from barely usable (limited functionality) to an as-new condition. That is, management might determine that under certain circumstances ‘acceptable condition’ is barely usable condition for certain PP&E whereas as-new condition would be required for other PP&E.⁴ The second method⁵ contends that an asset’s physical

² Acceptable condition may vary both between entities and among sites within the same entity. In planning its maintenance and repair activities, management determines what level of condition is acceptable.

³ Adapted from: *Options for Infrastructure Reporting*, 2000. Walker/Clarke/Dean. University of New South Wales.

⁴ For depot maintenance purposes the Department of Defense is required by statute to include equipment upgrades as part of its M&R definition. However, for purposes of complying with this standard, equipment

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

condition and its functionality are two distinct and independent states. Instead of falling along the same continuum, they fall along two, orthogonal (right-angles) continuums, and, physical condition and functionality should be measured separately. An asset's physical condition cannot be inferred from the measure of its functionality. Neither can an asset's functionality be inferred from the measure of its physical condition.

4. However, for other assets such as military equipment (i.e., weapons systems, "acceptable condition" may be more of a discrete state. That is, the asset is either capable or not of performing its mission. In such cases, management might have less discretion in determining "acceptable condition."

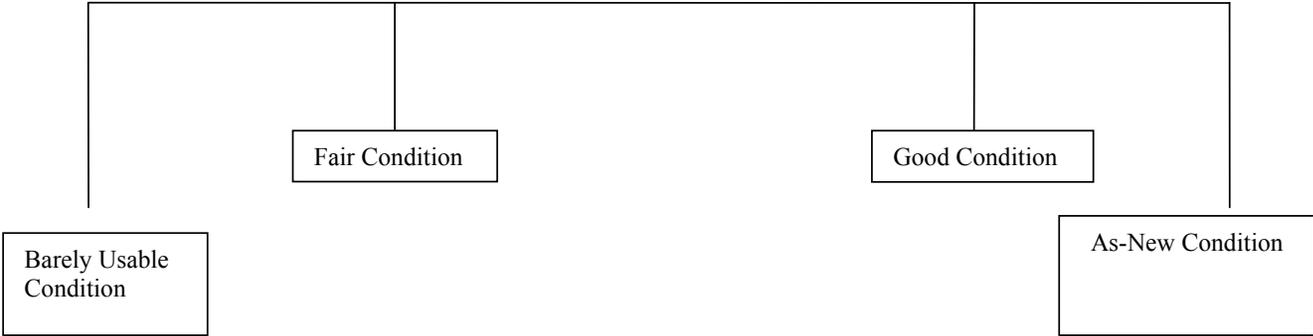
Below are illustrations of these concepts:

upgrades are excluded from the definition of M&R and should be reported separately. 10 USC 2460 does not apply to M&R of fixed plant assets such as buildings, structures, pavements, and trackage, even when such assets are physically located at a DOD maintenance depot and are used to support depot maintenance of equipment.

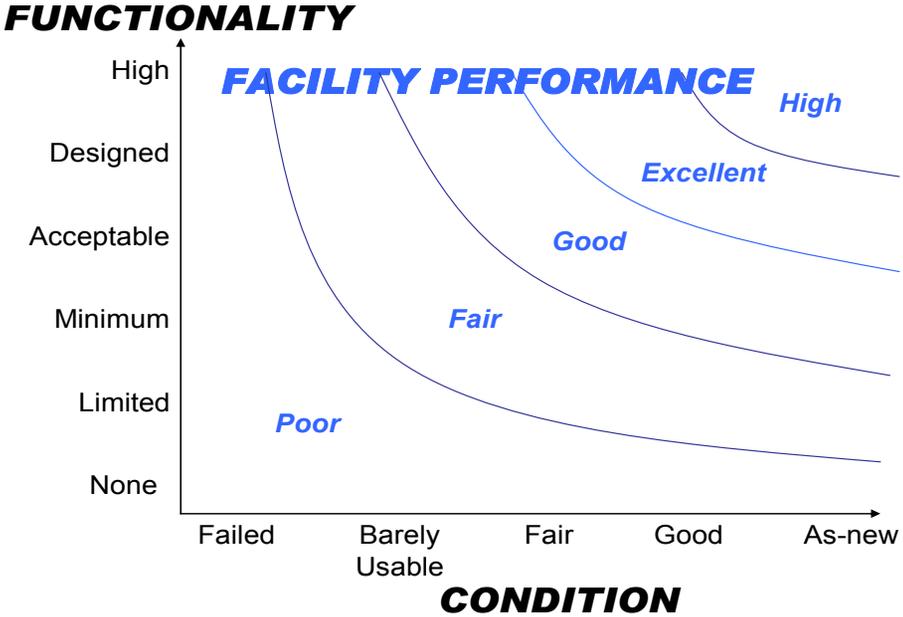
⁵ 2008 US Army Corps of Engineers Research Laboratory publication, Grussing, M.N., D.R. Uzarski, and L.R. Marrano, "Building Infrastructure Functional Capacity Measurement Framework", ASCE Journal of Infrastructure Systems, (American Society of Civil Engineers), December 2001, pp. 371-377.

**Interpretations of “Acceptable Condition”
Facilities, Non-military equipment, personal
property.**

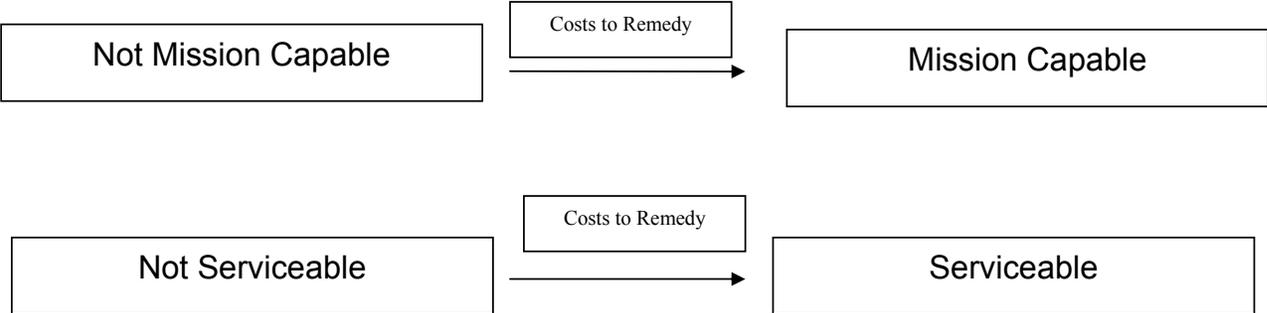
Limited Functionality Minimum Desired Functionality Acceptable Functionality Original/Designed Functionality High Functionality



Interpretations of "Acceptable Condition"
Facilities, Non-military equipment, personal
property.



**Interpretations of “Acceptable Condition”
Military Equipment, personal property.**



CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

Planning for Acceptable Condition

5. Management may consider a variety of factors in planning its target acceptable condition. Such factors might include (1) health and/or safety considerations, (2) potential environmental impacts, (3) the operational or mission consequences of asset malfunction or downtime, and (4) asset replacement challenges or difficulties (e.g., redundancy of assets).

Reporting DM&R - Interdisciplinary and Holistic Agency Approach

6. An interdisciplinary and holistic agency approach is needed to 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.
7. An agency 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 and/or asset condition; i.e., deferred capital improvements. However, reporting of additional information must be clearly distinguished from DM&R.

Financial and Non-financial Metrics Needed

8. There are many factors that may influence, relate to or reflect asset condition such as weather, funding levels and utilization. Since asset condition cannot be solely measured in financial terms or using a prescribed formulaic approach, management must exercise judgment in this regard. For example, management needs to consider the physical state or operational status of the asset, current mission requirements, and the asset's continued ability to perform (i.e., remaining service potential), in order to best address asset condition.

Scope

9. Management should measure and report DM&R on both unfunded and funded Maintenance & Repair (M&R) activities.
10. This Statement applies to DM&R on capitalized general PP&E as well as stewardship PP&E (e.g., heritage assets and stewardship land) which are not capitalized. Agencies may report DM&R on non-capitalized (expensed) general PP&E.

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

Consistency

11. Consistency in measurement and reporting significantly adds to the informational value of DM&R because trend information is useful to decision makers. Therefore, management should use consistent techniques and measurements and reporting methods from year-to-year. Changes in methods should be accompanied by an explanation of the changes along with a restatement of all presented years. Management should provide an explanation if for any period an amount or balance is not restated.
12. Management should determine which of the acceptable DM&R assessment methods (see paragraphs 11 through 13 below) it should apply to each asset category or class. However, once determined it is required that methods be applied consistently from period to period. Should changes in methodology later occur, agencies should report such changes in accordance with the criteria in paragraph 11 above.

Measurement Assessment Methods

13. Amounts reported for deferred maintenance and repairs may be measured using:
 - a. condition assessment surveys,
 - b. life-cycle cost forecasts, or
 - c. other similar methods.

Although other methods may be used which are similar to either the condition assessment survey or life-cycle cost forecast methods, this Statement encourages the use of the condition assessment survey method. Whichever of these methods is chosen, this Statement requires that agencies consistently use said method and should changes later occur, agencies are required to report and highlight such changes in accordance with the criteria in this Statement.

Preferred Method – Condition Assessment Survey: Physical and Visual Inspections

14. *Condition assessment* surveys are physical inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies. This is the preferred method and agencies are encouraged to use this method and apply it as consistently as practicable within its PP&E portfolio and from period to period.

Life Cycle Costing

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

15. *Life-cycle costing* is an acquisition or procurement technique which considers operating, maintenance, repairs, 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.

Required Supplementary Information

Reporting Goals

16. DM&R reporting goals require: (1) information related to asset condition and (2) DM&R costs to remedy PP&E.⁶ As such, agencies are required to report both qualitative and quantitative information in such a manner as to facilitate reaching these goals. Refer to paragraph 11 for a discussion of narrative requirements.

Related Requirements for MD&A and Disclosures

17. Management should ensure that changes to assessment methods be highlighted and reported in RSI with possible mention in the PP&E note disclosure(s) and agency's Management's Discussion and Analysis (MD&A). Any significant or material change to DM&R amounts and/or balances should be highlighted and reported in RSI with possible mention in the PP&E note disclosure(s) and agency's Management's Discussion and Analysis (MD&A).

Required Narrative

18. The following narrative information is required as required supplementary information for capitalized general PP&E, stewardship PP&E and may also be presented for non-capitalized (i.e., expensed or fully depreciated assets) general PP&E:⁷

- a. How the agency defines and implements M&R policies in-practice.
- b. Its policies for ranking and prioritizing M&R activities.⁸

⁶ Depending on an agency's assessment methodology, costs to remedy PP&E might include resolving DM&R related to deficiencies, inadequacies and/or distresses.

⁷ Unless appropriate, agencies need not provide narratives on individual assets.

⁸ Agencies 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

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

- c. Factors the agency considers in selecting acceptable condition targets.
- d. If applicable, any changes from the prior year policies, practices, amounts or balances.
- e. Identification of unfunded and funded Maintenance & Repair (M&R) activities which are deferred.
- f. Whether DM&R relates solely to PP&E or also includes amounts relating to non-capitalized general PP&E.
- g. Key performance measures such as target CI, target utilization or capacity levels or some other targeted operational (e.g., mission readiness) or supply condition codes.:
 - 1. Agency management will determine at what appropriate level of aggregation such information should be reported.
 - 2. Management should report appropriate variances between what was expected and the actual results and explain the difference(s).
- h. 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.

not the agency has used RoI analyses in its ranking and prioritizing of either M&R or DM&R.

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

Required Presentation - Schedule of Deferred Maintenance and Repairs

19. Information about the DM&R cost to remedy PP&E is required. The information should (1) include amounts and/or balances for each category and class of PP&E disclosed in the notes to the financial statements, (2) categorize PP&E by operational status (e.g., active/inactive, mission capable/non-mission capable, serviceable/non-serviceable) and (3) be presented (i.e., aggregated) in such detail to provide relevant, reliable and consistent information. If DM&R information is provided for non-capitalized general PP&E, agencies should treat this as a separate category of PP&E and separately report these amounts by classes within the category. Agencies also may report DM&R by other classification schemes such as predominant use. If so, the agency should also provide a reference key (i.e. cross-walk) to the categories and classes disclosed in the notes and any non-capitalized general PP&E.
20. The agency should provide the following information for each identified category and class (see Appendix C for the illustration entitled, “**Schedule of Deferred Maintenance and Repairs**”):
- a. If the condition assessment method is used the following minimum information:
 - 1) prior year balance of the cumulative DM&R amount,
 - 2) the dollar amount of M&R that was planned or scheduled as required M&R for the reporting period,
 - 3) the dollar amount of M&R actually performed during the period,
 - 4) the difference between the planned or scheduled M&R and actual M&R,
 - 5) any adjustments to the scheduled amounts deemed necessary by agency managers, and
 - 6) the ending cumulative balance for the reporting period for each major class of PP&E experiencing DM&R.
 - b. If the life-cycle costing method is used, the following minimum information for each identified category and class:
 - 1) the original date of the life-cycle maintenance forecast and an explanation for any changes to the forecast,
 - 2) prior year balance of the cumulative DM&R amount,

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

- 3) the dollar amount of M&R that was forecast as required M&R for the reporting period,
- 4) the dollar amount of M&R actually performed during the period,
- 5) the difference between the forecast and actual M&R,
- 6) any adjustments to the scheduled amounts deemed necessary by the managers of the class of PP&E, and
- 7) the ending cumulative balance for the reporting period for each major class of PP&E experiencing DM&R.

Required Presentation - Schedule of Asset Condition Information

21. Quantitative reporting of information related to asset condition is required. (See Appendix C for the illustration entitled, “**Schedule of Asset Condition Information.**”)

22. Management should report an indicator or a metric (as also discussed in paragraphs 4 and 6) related to asset condition for each asset category and class shown in the basic information (i.e. balance sheet or notes). Management should determine at what level of specificity such information should be presented; i.e. highly summarized level for an asset category or break-out by classes or component levels. Management should consider selecting one or more indicators from the following examples in subparagraph a. below.

- a. There are many factors that may influence, relate to or reflect asset condition such as weather, funding levels and utilization. Since assessing asset condition cannot be solely measured in financial terms or using a prescribed formulaic approach, management must exercise judgment in this regard. For example, management needs to consider the physical state or operational status of the asset, current mission requirements, and the asset’s continued ability to perform (i.e., remaining service potential), in order to best address asset condition.

The following are examples of indicators or metrics that management can consider when assessing asset condition. Not all of these indicators are conclusive or definitive measurements of asset condition. However, they represent information related to asset condition and should be considered as reportable elements for RSI reporting purposes:

Physical state or status of the asset.

1. Asset damage reports.

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

2. Condition assessment surveys.
3. Readiness Reports.
4. Equipment Condition codes (e.g., serviceable / unserviceable).
5. Operational Condition codes (e.g., mission capable / non-mission capable)
6. Asset Status codes (e.g., active / inactive).
7. Condition Index (CI) or ratio of DM&R to related plant replacement values as described in the Federal Real Property Council's (FRPC) User Guidance for Real Property Reporting.
8. Building Condition Index (BCI) as described in the Federal Facility Council Technical Report #147.

Ability to perform.

9. Shortened-life estimates due to DM&R.
10. Deferred depot events divided by Total depot events.
11. Current or design intent.
12. Service level standards.
13. Code Compliance.

Continued usefulness.

14. Remaining future-life estimates.
15. DM&R divided by Total M&R.
16. Return on Investment or Cost versus Benefit analyses
17. Sustainment Rate.
18. Readiness Reports.

Performance capacity/Utilization.

19. Missions excluded due to asset condition.
20. Space used to space available.
21. Demanded services to available capacity.
22. Asset Utilization Index.

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Other potential indicators.

23. Asset age.
24. Asset Restrictions.
25. Adequacy of performed M&R.
26. DM&R backlog amount.
27. DM&R Reductions/Increases.

- b. In this schedule agencies should ensure that for each asset category or class shown in the body of the financial statements (i.e. balance sheet or notes) that a corresponding indicator or metric reflecting asset condition be presented. Management should determine at what level of specificity such information should be presented; i.e. highly summarized level for an asset category or break-out by subcategories or component levels.
- c. Key performance measures such as target CI, target utilization or capacity levels or some other targeted operational (e.g., mission readiness) or supply condition codes.:
 1. Agency management will determine at what appropriate level of aggregation such information should be reported.
 2. Management should report appropriate variances between what was expected and the actual results and explain the difference(s).
- d. Management should ensure that DM&R (sub)totals articulate and correspond at least to the same level of detail as contained in the body of the financial statements (i.e. balance sheet notes). Appropriate reference keys (i.e. cross-walks) may be required especially if DM&R breakout is either in greater detail or classified differently such as by functional use, than the asset categories contained in the body of the financial statements.

Government-wide RSI

23. The above listed requirements are 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.

Implementation Guidance and Effective Date

24. At implementation agencies will begin establishing a minimum five year trending analysis for the RSI contained in this Statement. Trend analysis for optional information is also encouraged. In the fifth year of reporting, agencies will have sufficient data for the full five year period and present the trend information at that time. As a minimum, the trending analysis will include the year-end balance or comparable dollar amount of DM&R for each

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

fiscal year. Other data points that could be plotted along with the DM&R amounts include: current or plant replacement values, amount of total M&R expenditures, funded and/or non-funded M&R, asset condition indices, etc.

25. This Statement is effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.

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

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

Reference page 621 -Appendix C:

Deferred Maintenance and Repairs Reporting Illustrations

27. The two goals of DM&R reporting directly relate to providing information (1) related to asset condition and (2) the cost to remedy PP&E. As agencies are required to report both qualitative and quantitative information to facilitate reaching these goals, this appendix includes quantitative reporting examples for illustrative purposes only. The Board intends that while this standard provides flexibility in reporting relevant information on the condition of Federal assets and related costs to remedy said assets, that such information should be relevant, reliable and consistent.

28. The following example on the next page presents information related to asset condition:

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**Schedule of Asset Condition Information
Maintenance and Repairs**

<u>Asset Category or Class</u>	<u>Replacement Value</u>	<u>Facility Physical Status Indicator</u>	<u>Equipment Mission Capability: Service Level Standards</u>	<u>Personal Property Serviceability and/or Supply Condition Codes</u>	<u>Other: Age, Mission, Dependence Restrictions, etc.</u>
<u>Active:</u>					
Land					
Structures/ Facilities					
Equipment					
Capitalized Leases					
Software					
Other					
subtotal					
<u>Inactive:</u>					
Land					
Structures/ Facilities					
Equipment					
Capitalized Leases					
Software					
Other					
subtotal					
Total					

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

29. The following example presents information related to the cost to remedy federal assets:

Schedule of Deferred Maintenance	(a)	(b)	(c)	d = b minus c 2011	e	f = a + d - e
	2010 Ending Balance	2011 Total	2011 Executed	Difference	2011 Agency Adjustments: <u>Corrections, closures of DM&R projects, Demolitions, and other dispositions</u>	2011 Ending Balance
<u>Asset Category or Class: PP&E or Fixed Assets</u>	<u>DM&R</u>	<u>M&R</u>	<u>M&R</u>			<u>DM&R</u>
<u>Active:</u>						
Land						
Structures/ Facilities						
Equipment						
Capitalized Leases						
Software						
Other						
subtotal						
<u>Inactive:</u>						
Land						
Structures/ Facilities						
Equipment						
Capitalized Leases						
Software						
Other						
subtotal						
Total						

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Appendix C:

Deferred Maintenance Illustration

233. This appendix illustrates ...[Selected text was deleted as a result of SFFAS 14] paragraphs 77-84. The example shown here is for illustrative purposes only. Different entities may develop different asset categories, condition codes and descriptive terminology. The Board intends that this standard provide flexibility while providing relevant information on the condition of Federal assets. The following illustration presents text from a footnote meeting the requirements of the standard.

XYZ Agency

Deferred Maintenance for Fiscal Years 20xx – 20x1

Comment: Staff Notes: This narrative has been adapted from NASA, DoD and VA RSI presentations.

...[Selected text was deleted as a result of SFFAS 14] Deferred Maintenance

The XYZ agency operates over 1300 facilities throughout the world. Most of the facilities are predominantly used for office space and warehousing. Additionally, the agency also operates a hospital facility at one of its remote sites. It is agency 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. Additionally, since (1) it is agency policy to maintain and preserve all fixed assets regardless of booked values and (2) accounting and asset management systems do not differentiate M&R between those assets capitalized versus those expensed, DM&R estimates reported herein relate to all fixed assets capitalized or not.

Defining and Implementing M&R in Practice.

In accordance with FASAB SFFAS XX, the agency employs both a parametric estimating method to 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 agency'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.

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 agency'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,

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

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 agency'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.

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 agency 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.

Changes From Prior Year.

There have been no significant changes in our policies or practices relative to deferred maintenance and repairs this year.

The FCI values for the majority of individual Centers and sites varied less than 0.5, validating the relative stability of the sites despite the continued aging and deterioration of older facilities. Evaluation of the facility conditions by building type (Real Property Classification Code/DM Category) indicates that the agency continues to focus maintenance and repair on direct mission-related facilities.

Identification of Funded and Unfunded M&R.

The agency'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.

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

CHAPTER 3: Deferred Maintenance- OPTION A COMPREHENSIVE CHANGES

CATEGORY	METHOD	Key Performance Target	Key Performance Actual Measure	DM&R Estimate (\$000)
Buildings and Structures (See Note 1)	Parametric Estimating Method	2	3	\$100,000
Hospital Building (See Note 1)	Condition Assessment Survey	1	1	\$5,000
Communication Equipment/Systems (See Note 2)	Condition Assessment Survey	N/A	N/A	\$10,000
Office & Warehouse Equipment (See Note 2)	Condition Assessments	N/A	N/A	\$5,000
Vehicular Equipment (non-medical). (See Note 2)	Mission capable or serviceability determination	3	5	\$40,000
Total DM&R (funded)				\$160,000

Note 1: Facility Condition Rating Scale (Condition Index):

Excellent	1
Good	2
Fair	3
Poor	4
Very Poor	5

Note 2: For most of its personal property and equipment with the exception of vehicular equipment (i.e., automobiles, shuttle buses, etc), the agency does not (1) set key performance (condition) targets or (2) conduct formal condition assessment surveys. Vehicular equipment is generally categorized as either being mission capable/serviceable or not. Condition codes have been extrapolated from asset management records.

**Proposed Measurement & Reporting Changes to
Statement of Federal Financial Accounting Standards 6:
Accounting for Property, Plant, and Equipment**

Definition

77. "Deferred maintenance and repairs" 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.⁴ Activities include preventive maintenance; replacement of parts, systems⁵, 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.

79. [This paragraph was rescinded by SFFAS 14, par. 5]^{3 4}

Measurement

80. Amounts ... [Selected text was revised by SFFAS 14, par. 6] [reported] for deferred maintenance and repairs may be measured using:
- a. condition assessment surveys, or
 - b. life-cycle cost forecasts.⁵

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.

³ [This footnote was rescinded by SFFAS 14, par. 5]

⁴ [This footnote was rescinded by SFFAS 14, par. 5]

⁵ 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.

CHAPTER 3: Deferred Maintenance- OPTION B SELECTIVE CHANGES

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 condition assessment surveys be based on generally accepted methods and standards consistently applied.
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 estimated deferred maintenance and repairs.

Required Supplementary Information

83. DM&R reporting goals require: (1) information related to asset condition and (2) DM&R costs to remedy⁶ PP&E. As such, agencies are required to present both qualitative and quantitative information in such a manner as to facilitate reaching these goals. An agency 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 and/or asset condition; i.e., deferred capital improvements. However, reporting of additional information must be clearly distinguished from DM&R.

84. At a minimum, the following information shall 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.⁷

1. How the agency defines and implements M&R policies in-practice.
2. Its policies for ranking and prioritizing M&R activities⁸.
3. Factors the agency considers in selecting acceptable condition targets.
4. Identification of unfunded and funded Maintenance & Repair (M&R) activities which are deferred.
5. Whether DM&R relates solely to PP&E or also includes amounts relating to non-capitalized general PP&E.

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Inserted: assessment method

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⁶ Costs to remedy an asset may include such capital improvements as upgrades and/or betterments. This standard recognizes that (D)M&R may represent only a portion of such remediation.

⁷ Management shall determine what methods and standards to apply. Once determined, it is required that methods and standards be applied consistently from period to period.

⁸ Agencies 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 agency has used RoI analyses in its ranking and prioritizing of either M&R or DM&R.

CHAPTER 3: Deferred Maintenance- OPTION B SELECTIVE CHANGES

6. Key performance measures such as target CI, target utilization or capacity levels or some other targeted operational (e.g., mission readiness) or supply condition codes
 7. 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.
 8. Identification of each major class⁹ of asset for which maintenance and repairs have been deferred.
 9. Method of measuring deferred maintenance and repairs for each major class of PP&E along with 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
 - asset condition¹⁰ and a an estimate of the dollar amount of maintenance and repairs needed to return assets to their acceptable operating condition.
 10. 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 year balance of the cumulative deferred maintenance and repairs amount,
 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&E¹¹ and
 7. the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.
- 85.** The above listed disclosure requirements are 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.

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If the condition assessment survey method of measuring deferred maintenance and repairs is used,

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⁹ “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.

¹⁰ 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.

¹¹ 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.

Deleted: 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.¶

Appendix C:

Deferred Maintenance Illustration

233. This appendix illustrates ...[Selected text was deleted as a result of SFFAS 14] paragraphs 77-84. The example shown here is for illustrative purposes only. Different entities may develop different asset categories, condition codes and descriptive terminology. The Board intends that this standard provide flexibility while providing relevant information on the condition of Federal assets. The following illustration presents text from a footnote meeting the requirements of the standard.

Deleted: 83

XYZ Agency

Deleted: Hospital Facility

Deferred Maintenance for Fiscal Years 20xx – 20x1

Comment: Staff Notes: This narrative has been adapted from NASA, DoD and VA RSI presentations.

...[Selected text was deleted as a result of SFFAS 14] Deferred Maintenance

The XYZ agency operates over 1300 facilities throughout the world. Most of the facilities are predominantly used for office space and warehousing. Additionally, the agency also operates a hospital facility at one of its remote sites. It is agency 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. Additionally, since (1) it is agency policy to maintain and preserve all fixed assets regardless of booked values and (2) accounting and asset management systems do not differentiate M&R between those assets capitalized versus those expensed, DM&R estimates reported herein relate to all fixed assets capitalized or not.

Deleted: During the period maintenance and repairs expense is recognized as incurred. However, maintenance and repairs was insufficient over the past several years and resulted in deferred maintenance and repairs.

Defining and Implementing M&R in Practice.

In accordance with FASAB SFFAS XX, the agency employs both a parametric estimating method to 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 agency'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.

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 agency'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

CHAPTER 3: Deferred Maintenance- OPTION B SELECTIVE CHANGES

small populations of facilities. The agency'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.

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 agency 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 agency'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.

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

Deleted: Information on deferred maintenance and repairs is based on an annual inspection of facilities. Standards are provided for evaluating facility condition. These standards include:¶

- . minimum and desirable condition descriptions for facilities¶
- . suggested maintenance and repairs schedules¶
- . standard costs for maintenance and repairs actions¶
- . standardized condition codes¶

¶ There have not been material changes in the standards in recent years.¶

Deleted: PP&E

CHAPTER 3: Deferred Maintenance- OPTION B SELECTIVE CHANGES

CATEGORY	METHOD	Key Performance Target	Key Performance Actual Measure	DM&R Estimate (\$000)		
Buildings and Structures (See Note 1)	Parametric Estimating Method	2	3	\$100,000		
Hospital Building (See Note 1)	Condition Assessment Survey	1	1	\$5,000		
Communication Equipment/Systems (See Note 2)	Condition Assessment Survey	N/A	N/A	\$10,000		
Office & Warehouse Equipment (See Note 2)	Condition Assessments	N/A	N/A	\$5,000		
Vehicular Equipment (non-medical). (See Note 2)	Mission capable or serviceability determination.	3	5	\$40,000		
Total DM&R (funded)				\$160,000		

- Deleted: CRITICAL
- Deleted: NONCRITICAL
- Deleted: COST TO RETURN TO ACCEPTABLE CONDITION
- Deleted: ASSET CONDITION
- Deleted: (See Note 2)
- Deleted: (See Note 1)
- Deleted: 4
- Deleted: -125,000
- Deleted: \$75,000-
- Deleted: \$25,000-50,000
- Deleted: -15,000
- Deleted: \$2,000
- Deleted: \$8,000-13,000
- Deleted: 4.5
- Deleted: 00
- Deleted: -550,000
- Deleted: \$300,000
- Deleted: \$200,000-250,000
- Deleted: Laboratory
- Deleted: Survey
- Deleted: 5
- Deleted: -42,000
- Deleted: \$5,000
- Deleted: \$35,000-37,000
- Deleted: Heating & Air Cond. Eqp
- Deleted: Condition Assessment Survey

Note 1: Facility Condition Rating Scale (Condition Index):

Excellent	1
Good	2
Fair	3
Poor	4
Very Poor	5

Note 2: For most of its personal property and equipment with the exception of vehicular equipment (i.e., automobiles, shuttle buses, etc), the agency does not (1) set key performance (condition) targets or (2) conduct formal condition assessment surveys. Vehicular equipment is generally categorized as either being mission capable/serviceable or not. Condition codes have been extrapolated from asset management records.

Deleted: Acceptable condition is "fair" or "3."

Deferred Maintenance

Deferred maintenance is the estimated cost to bring Government-owned property, plant, and equipment to an acceptable condition, resulting from not performing maintenance on a timely basis. Deferred maintenance excludes the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance could include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. Estimated deferred maintenance costs are not accrued in the Statements of Net Cost or recognized as a liability on the Balance Sheets.

The amounts disclosed for deferred maintenance are allowed to be measured using one of the following three methods:

- Condition assessment surveys are periodic inspections of the Government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast is an acquisition or procurement technique that considers operation, maintenance, and other costs in addition to the acquisition cost of assets.
- Management analysis method is founded on inflation-adjusted reductions in maintenance funding since the base year.

The amounts disclosed in the table below have all been measured using the condition assessment survey method. The standards for acceptable operating condition and the changes in these standards and changes in asset condition vary widely between the Federal entities.

Some deferred maintenance has been deemed critical. Such amounts and conditions are defined by the individual agencies with responsibility for the safekeeping of these assets. The critical maintenance amount is not included in the low or high estimates amounts and is reported separately. Low and high estimates are based on the materiality of the estimated cost of returning the asset to the acceptable condition versus the total value of the corresponding asset.

	Deferred Maintenance as of September 30					
	Deferred Maintenance Cost Range				Critical Maintenance	
	Low Estimate		High Estimate			
(In billions of dollars)	2010	2009	2010	2009	2010	2009
Asset category:						
Buildings, structures and facilities	129.7	93.5	134.8	98.7	95.0	2.4
Furniture, fixtures and equipment	4.7	0.3	4.7	0.3	4.5	0.2
Other general property, plant, and equipment	5.3	12.9	5.3	12.9	4.9	0.2
Heritage assets.....	1.9	10.0	1.9	10.0	1.6	0.1
Stewardship land	3.5	3.1	5.2	4.5		-
Total deferred maintenance	145.1	119.8	151.9	126.4	106.0	2.9

The agencies material to property, plant, and equipment are the DOD, DOE, DOI, DHS, GSA, TVA, and USPS. These agencies comprise 91 percent of the Government’s total reported property, plant, and equipment cost of \$1,640.5 billion as of September 30, 2010.

Required Supplementary Information

REAL PROPERTY DEFERRED MAINTENANCE

This section includes the deferred maintenance information and Statement of Disaggregated Budgetary Resources.

Real Property Deferred Maintenance and Repair			
For Fiscal Year Ended September 30, 2010			
<i>Dollars in Millions</i>			
Property Type	Current Fiscal Year (CFY)		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage
1. Category 1	\$490,578	\$92,502	19%
2. Category 2	\$40,564	\$11,801	29%
3. Category 3	\$10,727	\$1,031	10%

The deferred maintenance amount is based on facility Q-ratings found in the Department's real property inventory. Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. The reported deferred maintenance is the difference between the facility Q-rating and the target Q-rating that represents the acceptable operating condition established by each Component within the Department. The percentage column reflects the percent of total plant replacement value for each category represented by deferred maintenance.

Facility Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.
- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets.

MILITARY EQUIPMENT DEFERRED MAINTENANCE

Depot maintenance requirements for military equipment are developed during the annual budget process. The table below shows the deferred unfunded requirements for the depot maintenance program.

Military Equipment Deferred Maintenance	
For Fiscal Year Ended September 30, 2010	
<i>Dollars in Million</i>	
Major Categories	Amounts
1. Aircraft	\$2,032.1
2. Automotive Equipment	\$226.9
3. Combat Vehicles	\$410.0
4. Construction Equipment	\$65.9
5. Electronics and Communications Systems	\$927.7
6. Missiles	\$279.4
7. Ships	\$85.2
8. Ordnance Weapons and Munitions	\$153.2
9. General Purpose Equipment	\$93.8
10. All Other Items Not Identified to above Categories	\$151.4
Total	\$4,425.6

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

UNAUDITED — See Accompanying Auditors’ Report

This section of the report provides required supplementary information for the Department on deferred maintenance and budgetary resources by major budget account.

Deferred Maintenance

Deferred maintenance information is a requirement under SFFAS No.6, Accounting for Property, Plant and Equipment, and SFFAS No.14, Amendments to Deferred Maintenance, which requires deferred maintenance to be disclosed as of the end of each FY. Deferred maintenance is defined in SFFAS No.6 as “maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.” Estimates were developed for:

Buildings and Other Structures and Facilities	\$4,098 million
Capital Equipment	138 million
Total	<u>\$4,236 million</u>

Buildings and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods.

As of September 30, 2010, an amount of \$4,098 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 70 percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) are not applicable to property items with an acquisition cost of less than \$100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department’s capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of \$138 million of deferred maintenance was estimated to be needed as of September 30, 2010, to return capital equipment assets to acceptable operating condition.

Deferred Maintenance

Interior owns, builds, purchases, and contracts services for assets such as schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets are utilized and maintained in support of Interior’s mission and the missions of its bureaus. When maintenance is not completed on assets as needed or scheduled and is delayed into the future, it is defined as deferred maintenance.

Deferred maintenance can have an adverse affect on Interior’s ability to carry out its mission. For example, a lack of maintenance on windows, heating, ventilation, and air conditioning (HVAC) systems, or other components of a constructed asset, typically results in increased energy costs. Excess energy usage needlessly expends limited resources that could otherwise be focused towards mission delivery. If the deferred maintenance is on windows or a HVAC system in a visitor center, for example, this can lead to a less than optimal visitor experience, which has a direct effect on a bureau’s mission.

Similarly, deteriorated offices, laboratories, and schools result in an inefficient and potentially unsafe working environment and a poor learning environment that negatively impacts morale, the ability to attract and retain talented employees, educate Native American students, and satisfy visitors to Interior’s facilities. In addition, since one mission of Interior bureaus is to maintain facilities for recreational use by the public, assets that pose a health and safety threat cannot be made available for public use until repairs can be made. Undue wear on facilities may not be immediately noticeable to users, but over time inadequate maintenance can require that a facility be replaced or undergo major reconstruction before reaching the end of its expected useful life.

Planning to Reduce Deferred Maintenance

Interior has a 5-year planning process that provides a framework for improved planning and management of maintenance and construction programs. Interior’s 5-year plan is updated annually to reflect a 5-year picture of the Interior’s deferred maintenance and capital improvement needs. The annual update presents the opportunity for Interior to adjust project priorities based on newly identified needs or previously identified needs that have become more critical during the past year. The 5-year planning process emphasizes projects that eliminate deferred maintenance by addressing health and safety issues, ensuring resource protection, and addressing mission critical assets.

In preparing the plan, Interior follows uniform criteria including health and safety, resource protection, mission criticality, and energy efficiency/building sustainability. These criteria are reviewed annually for alignment with strategic plans, OMB guidance, recent laws, and Executive Orders.

The 5-year planning process is a critical element in the implementation of the Interior Asset Management Plan, bureau asset management plans, and site-specific asset business plans.

Condition Assessment Surveys

Interior uses performance measures to help managers improve the condition of assets. The maintenance needs of Interior’s real property assets are identified primarily through the annual and comprehensive condition assessment processes required of all bureaus. Interior maintains a cyclic/recurring condition assessment process to monitor the condition of buildings and other facilities at least once every 5 years.

Interior uses condition assessment surveys to determine deferred maintenance for each class of assets. A condition assessment survey is the periodic inspection of real property to determine its current condition and to provide a cost estimate for necessary repairs. Annual condition assessments are performed on all standard constructed assets with a current replacement value of \$5,000 or more and are performed by field operating unit staff.

Comprehensive condition assessments are performed on all constructed assets with a current replacement value of \$50,000 or more once every 5 years. Comprehensive assessments are usually performed under contract; the contract includes an inspection of the facility and all component systems, a summary of deficiencies found, cost estimates for the deficiencies, and a recalculation of the Facility Condition Index.

Interior’s current estimate for deferred maintenance includes the following real property categories: nonheritage and heritage buildings and structures including multiuse assets, road assets, dams, water distribution systems, and power assets, etc. Due to the scope, nature, and variety of the assets entrusted to Interior, as well as the nature of deferred maintenance itself, exact estimates are very difficult to determine. Therefore, estimates are reported as a range to an accuracy level of minus 15 percent to plus 25 percent of initial estimate.

FY 2010 Deferred Maintenance Estimates						
Type of Deferred Maintenance <i>(dollars in thousands)</i>	General PP&E		Stewardship PP&E		Total	
	Low End of Range	High End of Range	Low End of Range	High End of Range	Low End of Range	High End of Range
Roads Bridges and Trails	\$ 5,373,130	\$ 7,903,961	\$ 1,158,566	\$ 1,642,478	\$ 6,531,696	\$ 9,546,439
Irrigation, Dams, and Other Water Structures	1,205,688	1,840,271	741,412	1,087,356	1,947,100	2,927,627
Buildings (e.g. Administration, Education, Housing, Historic Buildings, etc.)	1,797,872	2,631,207	1,159,638	1,705,351	2,957,510	4,336,558
Other Structures (e.g. Recreation sites, Hatcheries, etc.)	1,589,700	2,327,732	495,060	728,029	2,084,760	3,055,761
Total	\$ 9,966,390	\$ 14,703,171	\$ 3,554,676	\$ 5,163,214	\$ 13,521,066	\$ 19,866,385

BOEMRE Compliance Assessments and Pre-assessment Work in Process

Management’s best estimate of additional revenues that may potentially be collected from compliance assessments and pre-assessment work in process as of September 30, 2010, is \$26,391 thousand. This estimate is comprised of approximately \$5,186 thousand in Royalty In Kind (RIK) imbalance pre-assessment work in process, approximately \$6,467 thousand in Audit and Compliance Management (ACM), and approximately \$14,738 in State and Tribal Audit compliance assessments and pre-assessment work in process.

The amounts disclosed are subject to significant variability upon final resolution of the compliance work, due to numerous factors such as the receipt of additional third party documentation including volume revisions from pipeline or gas plant statements, pricing changes from purchaser statements, revised transportation invoices, interim imbalance statements with retroactive adjustments, ongoing reconciliations, and other information subsequently received.

Condition of Stewardship Lands and Heritage Assets

Condition of Stewardship Lands

Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable resources and renewable resources) related to the land. Based on this definition, stewardship land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s).

Information regarding the financial liabilities identified as probable or reasonably possible and that potentially affect the condition of Stewardship Land are located in Note 13, *Contingent Liabilities and Environmental and Disposal Liabilities*.

Primary Land Management Categories	As of 9/30/2010	Condition	
		Acceptable	Needs Intervention
IA - Regional Offices	12	100%	
BLM - Geographic Management Areas	134	100%	
BOR - Federal Water and Related Projects	140	98%	2%
FWS - National Wildlife Refuges	552	99%	1%
FWS - Coordination Areas	49	100%	
FWS - Wetland Management Districts	37	100%	
FWS - National Fish Hatcheries	67	100%	
FWS - Fish Technology Centers	6	100%	
FWS - Associated Fish Facilities	16	100%	
NPS - Park Units	378	100%	
OS - Commision Land	1	100%	
Total Number of Units	1,392	99%	1%

Condition of Heritage Assets

Non-Collectible Heritage Assets

The condition of land based noncollectible heritage assets is based on the condition of the land, as described above. The condition of structure based noncollectible heritage assets is based on the requirements described in the deferred

maintenance section. The condition of Interior’s noncollectible heritage assets are shown in the following table.

Primary Non-Collectible Heritage Asset Categories	As of 9/30/10	Land Based		Structurally Based		
		Acceptable	Needs Intervention	Acceptable	Unacceptable	Unknown
Cooperative Management and Protection Area	1	100%				
Headwaters Forest Reserve	1	100%				
Lake Todatonten Special Management Area	1	100%				
National Battlefield Parks	3			100%		
National Battlefield Site	1	100%				
National Battlefields	11	100%		100%		
National Conservation/Conservation Areas	17	100%				
National Historic Landmarks (NHL)	204	100%		86%	9%	5%
National Historic Sites	77	100%		98%	2%	
National Historic Trails	11	100%				
National Historical Parks	45	100%		100%		
National Lakeshores	4			100%		
National Memorials	28	100%		100%		
National Military Parks	9	100%		100%		
National Monuments	96	100%		94%	6%	
National Natural Landmarks (NNL)	107	100%				
National Parks	58	100%		98%	2%	
National Parkways	4	100%		100%		
National Preserves	18	100%		94%	6%	
National Recreation Areas	20	100%		100%		
National Recreation Trails	97	100%		100%		
National Reserves	2	100%		100%		
National Rivers	5	100%		100%		
National Scenic Trails	8	100%				
National Seashores	10			100%		
National Wild and Scenic Rivers	92	100%		100%		
National Wildlife Refuges	552	99%	1%			
Outstanding Natural Area	3	100%				
International Historic Site	1			100%		

Primary Non-Collectible Heritage Asset Categories	As of 9/30/10	Land Based		Structurally Based		
		Acceptable	Needs Intervention	Acceptable	Unacceptable	Unknown
Research Natural Area	1	100%				
Wilderness Areas	355	100%				
Other	11	100%		100%		
Total	1,853	100%	0%	94%	4%	2%

Collectible Heritage Assets

Interior Library Collections	As of 9/30/10	Condition of Library Collections		
		Good	Fair	Poor
Library Collections	7	14%	72%	14%

Library Collections

Condition assessment standards are in agreement with national standards (The National Information Standards Organization publication on the Environmental Guidelines for the Storage of Paper Records) and are based on temperature and humidity, exposure to light, gaseous contaminants, and particulates. Library collection ratings of Good, Fair, Poor, and/or Unknown are based on the following:

Good – Achieves a good or fair rating for all four criteria.

Fair – Achieves a good or fair rating for at least two criteria.

Poor – Achieves a good or fair rating for less than two criteria.

Unknown – Assessment not conducted.

As with the museum collections, the goal of safeguarding is to preserve the items in library collections for as long as possible and to manage their condition in accordance with the intended use and to not unduly hasten their deterioration.

Museum Collections

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination, and conservation treatment, storage, and exhibit space standards, as described in Chapter 3 of Departmental Manual Section 411. These standards require facilities that house collections to maintain their stewardship responsibilities by adhering to best practices as defined by industry standards. Facilities that meet at least 70 percent of the Department’s standards for managing museum collections are judged to be in “good” condition, those that meet between 50 percent and 70 percent of the standards are in “fair” condition and those that meet less than 50 percent of applicable standards are in “poor” condition.

The primary focus within museum collections is preservation. Great attention is given to stabilizing objects in the condition in which they were received and preventing further deterioration. Museum objects are generally expected to be preserved indefinitely. The goal of safeguarding is to preserve the heritage asset for as long as possible and to manage the condition in accordance with the intended use and not to unduly hasten their deterioration.

Interior Museum Collections	As of 9/30/10	Condition of Museum Collections			
		Good	Fair	Poor	Unknown
Held at Interior Bureau Facilities	587	49%	31%	19%	1%
Held at Non-Interior Bureau Facilities	482	51%	26%	16%	7%
Total	1,069	50%	29%	17%	4%



Required Supplementary Information (Unaudited)

1. *Deferred Maintenance*

The Department Components use condition assessment to determine the deferred maintenance for each class of asset. The procedure includes reviewing equipment, building, and other structure logistic reports. Component logistic personnel identify maintenance not performed as scheduled and establish future performance dates. Logistic personnel use a condition assessment survey to determine the status of referenced assets according to the range of conditions shown below.

Good. Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no deferred maintenance on buildings or equipment in good condition.

Fair. Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, to increase operating efficiency, and to achieve normal life expectancy.

Poor. Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and to provide a minimal level of operating function. In some cases, this includes condemned or failed facilities.

Based on periodic condition assessments, an indicator of condition is the percentage of facilities and items of equipment in each of the good, fair, or poor categories.

Deferred maintenance as of September 30, 2010, on general property, plant, and equipment and heritage assets was estimated to range from \$995 million (unaudited) to \$1,222 million (unaudited), and the condition of these assets ranges from poor to good. These amounts represent maintenance on vehicles, vessels, and buildings and structures owned by the Department that was not performed when it should have been, or was scheduled to be performed but was delayed for a future period.

In FY 2009, the Department reported estimated deferred maintenance ranging from \$1,065 million (unaudited) to \$1,295 million (unaudited) on general property, plant, and equipment and heritage assets with a range of poor to good condition. These amounts represent maintenance on vehicles, vessels, and buildings and structures owned by the Department that was not performed when it should have been, or was scheduled to be performed but was delayed for a future period.



A summary of deferred maintenance, by asset class, at September 30, 2010, follows (in millions) (unaudited):

	Low estimate	High estimate	Asset Condition
Building & Structures	\$828	\$1,012	Good to Poor
Equipment (vehicles and vessels)	92	112	Good to Fair
Equipment (Other)	69	84	Good to Fair
Heritage assets	6	14	Good to Poor
Total	\$995	\$1,222	

2. Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department’s budgetary resources during FY 2010 and FY 2009. Presented on the following pages is the disaggregation of this combined information by DHS Components, which represent the responsibility segments that carry out the Department’s missions. As discussed in Note 1, Summary of Significant Accounting Policies, the FY 2009 financial statements have been reclassified to conform with the FY 2010 presentation.

REQUIRED SUPPLEMENTARY INFORMATION



DEFERRED MAINTENANCE

As of the end of FY 2010, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act (GPRA) of 1993.

GSA expenses normal repair and maintenance costs as incurred. GSA has no substantive backlog of deferred maintenance costs as defined by FASAB SFFAS No. 6, Accounting for Property, Plant, and Equipment, which is intended to report only maintenance items that would be expensed through the normal course of business.