

**AMENDMENTS TO DEFERRED MAINTENANCE
REPORTING**

Amending

**SFFAS No. 6 *Accounting for Property, Plant and Equipment*
and SFFAS No. 8 *Supplementary Stewardship Reporting***

Statement of Federal Financial Accounting Standards No. 14

April 1999

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established in October 1990 by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General. The nine-member Board was created to consider and recommend accounting principles for the Federal Government.

The Board communicates its recommendations by publishing recommended accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and other users of Federal financial information. The Board also considers comments from the public on its proposed recommendations, which are published for comments as "exposure drafts." The Board's sponsors then decide whether to adopt the recommendations. If they do, the standard becomes authoritative and is published by OMB and GAO.

The following documents related to the establishment and mission of the Board are available from the FASAB:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"
- "Mission Statement: Federal Accounting Standards Advisory Board"

TABLE OF CONTENTS

Executive Summary	i
Introduction	1
Accounting Standards	2
Appendix A: Basis for Conclusions	3
Appendix B: Amended Standards	7

I. Deferred maintenance reporting is a required disclosure per Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment* (SFFAS No. 6), and is referenced in SFFAS No. 8, *Supplementary Stewardship Reporting*. This amendment does not modify the information to be provided users of federal financial statements. It does, however, modify the status of that information and thus the level of its review by financial statement auditors.

II. When SFFAS No. 6 was issued, the Board indicated that deferred maintenance reporting would evolve as preparers gained experience. The Board provided maximum flexibility to preparers noting that management would determine “acceptable condition” against which deferred maintenance would be assessed. (see SFFAS No. 6, par. 78, footnote 58) In addition, the Board noted that acceptable condition might vary between entities **and** between sites within the same entity. To ensure that readers would understand the deferred maintenance disclosures, the Board required that management’s method of measuring deferred maintenance and management’s requirements for acceptable condition be disclosed with the estimated amounts.

III. After the statement became effective, questions arose about whether this flexibility was appropriate given the status of the information as basic information (i.e., an integral part of the financial statements). The Board agreed that a change in status was warranted.

IV. This statement amends SFFAS No. 6 and SFFAS No. 8 to define deferred *maintenance* information as required supplemental information (RSI) rather than within the financial statements and the notes thereto.

V. As required supplementary information, the deferred maintenance information will be subject to the audit procedures prescribed in AU Section 558.07, *Codification of Statements on Auditing Standards*. These procedures include inquiries to management and comparisons of the information for consistency. In addition, the auditor should consider whether the RSI should be covered in management’s representation letter. The auditor may need to apply additional procedures required by other guidance, and to make additional inquiries if necessary based on the outcome of the required procedures. Readers should refer to the most current auditing standards for relevant guidance.

Purpose

1. The purpose of this amendment is to change the status of deferred maintenance information required by Statement of Federal Financial Accounting Standard No. 6, *Accounting for Property, Plant, and Equipment*. Before amendment, this information would have been presented in association with the statement of net costs. As amended, the standards require that deferred maintenance information be included as required supplemental information (RSI). Thus, a line item for "deferred maintenance" would no longer be required on the statement of net costs with a reference to a note disclosure.
2. The Basis for Conclusions presents the reasons for these amendments.

Scope

3. The statement amends both SFFAS 6 and 8 with regard to information on deferred maintenance.

Effective Date

4. This amendment is effective for periods beginning after September 30, 1998 with earlier implementation encouraged.

Amendments to SFFAS No. 6

5. Paragraph 79 and the heading "RECOGNITION" that precedes it are deleted.
6. The section heading "DISCLOSURE REQUIREMENTS" which appears before paragraph 80 is deleted. Paragraph 80 is amended by replacing "disclosed" with "reported."
7. The section heading "Disclosures" before paragraph 83 is replaced with "Required Supplementary Information."
8. Paragraph 83 is amended by adding the phrase "as required supplementary information" between the phrases "shall be presented" and "for all PP&E." The requirement to report a range estimate when using the condition assessment survey method is modified by inserting "or a point" after the words "and a range."
9. The section heading "Optional Disclosures" before paragraph 84 is replaced with "Optional Information." In the second sentence, the word "disclose" is replaced with "report" and the word "disclosure" is replaced with "information."

Amendments to SFFAS No. 8

10. Bullet 4 of paragraphs 50, 68 and 81 are amended by replacing "a note to the financial statements in which case a reference to the note will suffice" with "with the deferred maintenance information included elsewhere in the report in which case a reference to the information will suffice."
11. Bullet 5 of paragraphs 50, 68 and 81 are amended by replacing "a note to the financial statements" with "the information." Footnote 15 is amended by adding "as amended by SFFAS No. 14" to the end of the footnote.

12. The Board believes that the experience gained in implementing SFFAS Nos. 6 and 8 provides greater insight into the required deferred maintenance disclosures. In recommending the deferred maintenance standards, the Board recognized that experimentation would be needed before high quality information on deferred maintenance was available throughout the federal government. However, the implementation experience brought to light concerns regarding the degree of flexibility afforded during the experimentation period and audit issues.

13. In December 1998, the Board issued an exposure draft proposing amendments intended to address the concerns being raised. The concerns included:

- a) the ability of preparers to disclose an extremely large range estimate; and
- b) users perceptions regarding the nature of the information¹ being presented.

14. The exposure draft proposed that deferred maintenance information be moved from being associated with the Statement of Net Cost to Required Supplementary Stewardship Information (RSSI). The Board believed that this was consistent with the importance of the information as well as the experimental nature of the information. The Board explained in the exposure draft that the information would be audited as if it were required supplemental information (RSI).

¹ While deferred maintenance information as required under the SFFAS 6 provisions is very relevant, implementation demonstrated that it may not be reliable or comparable. The Board is concerned that placement of this information in notes would be a disservice to users.

15. There were 20 respondents to the exposure draft. The respondents were from the following groups:

	Federal	Nonfederal	Total
Users and others		2	2
Preparers	9		9
Auditors	9		9
Total	18	2	20

16. One respondent opposed the proposal and stated a preference for a delayed effective date. Seventeen respondents supported the proposal and two did not directly indicate support or opposition.

17. Respondents noted the need for more detailed guidance on preparing estimates as well as specific issues such as overseas facilities which have differing facilities standards. One respondent suggested that guidance be developed for small agencies for which deferred maintenance reporting may be unnecessarily burdensome. Many respondents acknowledged the importance of the disclosures and the need to address auditing standards for deferred maintenance as well as accounting standards.

18. A number of respondents suggested that moving deferred maintenance disclosures to stewardship reports would be appropriate because doing so would:

- a) lower the profile of the information,
- b) prevent distortion of *financial* data,
- c) reduce the resources needed to prepare and audit the data,
and
- d) resolve audit concerns.

19. The Board is concerned that stewardship reports – required for the first time for fiscal year 1998 reports – may be considered of

lesser significance than “financial statements” and the associated notes. In fact, stewardship reports were intended to facilitate presentation of highly important financial and non-financial information about complex aspects of federal government operations and responsibilities. Thus the Board plans a review of the results of the implementation of stewardship reporting requirements. That review is expected to take place during calendar year 1999.

20. The Board does not believe that adding deferred maintenance information to stewardship reports would be appropriate in light of the planned review. In addition, deferred maintenance information presents measurement issues not currently experienced in stewardship reports.

21. The Board believes that a period of experimentation is desirable for deferred maintenance information and that classifying it as RSI is appropriate during the experimentation period. The use of RSI for experimentation is consistent with the practices of other standard setting bodies. For example, the Financial Accounting Standards Board (FASB) conducted a five year experiment in reporting on changing prices through RSI. During the experimentation period, FASB permitted flexibility in measuring the effects of changing prices

22. The Board believes that experimenting with deferred maintenance reporting is vitally important to improving its usefulness. The current standards for estimating deferred maintenance are intentionally flexible in the following ways:

- a) either life cycle costing or condition assessment may serve as the basis for the estimates;
- b) management determines the “acceptable condition” of PP&E and may vary the acceptable condition by site and type of property; and
- c) engineering and/or maintenance standards are not referenced.

23. The Board intends that the Accounting and Auditing Policy Committee (AAPC) work with government-wide groups such as the Chief Financial Officers Council and the Presidents Council on Integrity and Efficiency to review the first year reports and identify areas requiring further guidance. 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.

Board Approval

24. This recommended statement was approved by the Board with a vote of seven members in favor of its issuance and one member opposing its issuance. (Only eight members voted on this recommendation due to a vacancy on the Board.)

AMENDMENTS TO SFFAS 6**DEFINITION**

77. "Deferred maintenance" is 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.

78. For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.⁵⁸ Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

RECOGNITION

~~79. A line item for "deferred maintenance amounts"⁵⁹ shall be presented on the statement of net cost with a note reference in lieu of a dollar amount.⁶⁰ No amounts shall be recognized for deferred maintenance.~~

DISCLOSURE REQUIREMENTS

Measurement

80. Amounts ~~disclosed~~ reported for deferred maintenance may be measured using:

- condition assessment surveys,
- or life-cycle cost forecasts.⁶¹

81. *Condition assessment surveys* are periodic inspections of PP&E to determine their current condition and estimated cost to correct any

⁵⁸ Acceptable services and condition may vary both between entities and among sites within the same entity. Management shall determine what level of service and condition is acceptable.

⁵⁹ ~~This requirement applies to all four categories of PP&E.~~

⁶⁰ ~~If management determines that there are no material amounts of deferred maintenance, this line item need not appear.~~

⁶¹ 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.

deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied.⁶²

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

Disclosures Required Supplementary Information

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

- Identification of each major class⁶³ of asset for which maintenance has been deferred.
- Method of measuring deferred maintenance for each major class of PP&E.
- If the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each major class of PP&E:
 - description of requirements or standards for acceptable operating condition,
 - any changes in the condition requirements or standards, and
 - asset condition⁶⁴ and a range or a point estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

⁶²Management shall determine what methods and standards to apply. Once determined, it is desirable but not required that methods and standards be applied consistently from period to period.

⁶³"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.

⁶⁴Examples 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.

- If the total life-cycle cost method is used the following should be presented for each major class of PP&E:
 - the original date of the maintenance forecast and an explanation for any changes to the forecast,
 - prior year balance of the cumulative deferred maintenance amount,
 - the dollar amount of maintenance that was defined by the professionals who designed, built or manage the PP&E as required maintenance for the reporting period,
 - the dollar amount of maintenance actually performed during the period,
 - the difference between the forecast and actual maintenance,
 - any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E,⁶⁵ and
 - the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.

Optional Information Disclosures

84. Stratification between critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition. If management elects to report ~~disclose~~ critical and noncritical amounts, the information disclosure shall include management's definition of these categories.

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

⁶⁵Adjustments may be necessary because the cost of maintenance 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.

AMENDMENTS TO SFFAS 8

Paragraphs 50, 68 and 81 of SFFAS 8 as amended with respect to condition reporting are shown below:

Heritage Assets

50. (fourth bullet) Condition of the assets¹⁴ unless it is already reported in ~~required supplementary information deferred maintenance information included elsewhere in the report in which case a reference to the information will suffice. a note to the financial statements in which case a reference to the note will suffice.~~

(fifth bullet) A reference to the information ~~a note to the financial statements~~ if deferred maintenance is reported for the assets.¹⁵

National Defense PP&E

68. (fourth bullet) Condition of the assets²¹ unless it is already reported ~~required supplementary information deferred maintenance information included elsewhere in the report in which case a reference to the information will suffice a note to the financial statements in which case a reference to the note will suffice.~~

(fifth bullet) A reference to the information ~~the applicable note to the financial statements~~ if deferred maintenance is reported for the assets.

Stewardship Land

81. (fourth bullet) Condition²⁶ of the stewardship land, unless it is already reported in ~~required supplementary information deferred~~

¹⁴ Examples of condition information include, among others, (1) averages of standardized condition rating codes; (2) percentage of assets at, or below acceptable condition; or (3) narrative information.

¹⁵ For guidance relating to deferred maintenance reporting, see the Deferred Maintenance standard in *Accounting for Property, Plant, and Equipment*, SFFAS No. 6.

²¹ Examples of condition information include, among others, (1) averages of standardized condition rating codes; (2) percentage of assets at, or below acceptable condition; or (3) narrative information.

²⁶ Examples of condition information include, among others, (1) averages of standardized condition rating codes; (2) percentage of assets at, or below acceptable condition; or (3) narrative information.

maintenance information included elsewhere in the report in which case a reference to the information will suffice. ~~a note to the financial statements in which case a reference to the note will suffice.~~

(fifth bullet) A reference to the information ~~a note to the financial statements~~ if deferred maintenance is reported for the assets.²⁷

²⁷For guidance on deferred maintenance reporting, see the Deferred Maintenance standard Accounting for Property, Plant, and Equipment, SFFAS No. 6.

FASAB Board Members

David Mosso, Chairman

Barry Andersen (from February 25, 1999)

Linda Blessing (through February 26, 1999)

Jim Blum (through January 31, 1999)

Philip T. Calder

Donald H. Chapin

Norwood Jackson

Donald Hammond

James Reid (through December 31, 1998)

Nelson Toyne

Kenneth Winter (from February 25, 1999)

FASAB Staff

Wendy M. Comes, Executive Director

Federal Accounting Standards Advisory Board

441 G Street NW
Suite 3B18
Washington, DC 20548

Telephone (202) 512-7350
FAX (202) 512-7366

FASAB

Federal Accounting Standards Advisory Board

**U.S. General Accounting Office
441 G Street, NW, Suite 3B18
Washington, DC 20548**

**Official Business
Penalty for Private Use \$300**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Bulk Mail
..... Postage & Fees Paid
GAO
Permit No. G100**