

Forest Service's Response
To
Questions for Respondents

June 14, 2010

Exposure Draft: Proposed Statement of Federal Financial Accounting Standards entitled, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*.

Q1. The Board proposes adding "repairs" to the title and body of the revised definition in order to clarify that deferred "repairs" as well as deferred "maintenance" need to be reported.

Do you agree or disagree that the maintenance definition (title and body) should be changed to explicitly include "repairs" (refer to paragraphs A8 – A27 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Answer:

We agree that the term "normal" does not have much meaning or clarification in the current definition. However, it is unclear to us if the Board is defining "repairs" as operational cost or restoring an asset's functionality.

Based on the first sentence of A14, "The technical community at some agencies does not consider repairs a subset of maintenance and each is treated separately for operational purposes.

If "repairs" are restoring an asset's functionality then we agree to include "repairs".

We have commented on each of the paragraphs A8 – A27 where I either have questions or comments for consideration in our reply.

Q2. The second sentence of the existing standard provides (1) an illustrative list of activities which are not meant to be all inclusive and (2) the terms “acceptable services” and “expected life.” First, the Board proposes that the list of activities contained in the second sentence of the existing definition be updated to better reflect current federal and industry practices as well as encompass maintenance and repair (M&R) activities related to equipment and other personal property in addition to buildings, building components, or service systems. Second, the Board believes that the terms “acceptable services” and “expected life” should be eliminated from the definition. The second sentence would read as follows:

“Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.”¹

- a. **Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A17 for a list of changes and related explanations)? Please provide the rationale for your answer to each change.**

Answer:

Deleting the term “**normal repairs**” depends on how the Board responds to the question above of their definition of “repairs”.

Adding the term “**systems**” includes what we as an agency have already included our Complex Standard Condition Survey process. We already recognize these for maintenance & repair purposes and if it is not done as scheduled then it becomes deferred maintenance.

However, including things like IT systems in A17b clouds the example. Our engineers performing the condition surveys are not going to have access to or knowledge of this type of information. That kind of information is not collected and stored in the same database as the real property information. If an IT system is under a maintenance agreement and is being performed isn't this annual maintenance? So why is it being referred to here? In the example it isn't even talking about the backbone of the network being the system but the software itself. It is being lumped in a sentence with personal property and makes no sense here. When discussing a definition to cover PP&E I understand “Property” is Real, Stewardship and Personal, however this is mixing apples and oranges when telling a meaningful story about an agency. The Board should consider maybe modifying the

¹ Note: The current SFFAS 6 language states in part that maintenance is “...needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.”

definition based on the type of property being reported on. The continued references to Personal property need to be revisited.

Not sure we completely agree with deleting “**structural**” because it implies real property. Again, deferred maintenance should be reported on real and stewardship property. It is not cost effective to collect data to support deferred maintenance on all personal property. A definition of deferred maintenance for personal property would need to be separate from real and stewardship property.

Adding “maintain” in addition to “preserve” is acceptable. The Board is correct in their reason for the change.

- b. **Do you agree or disagree with the elimination of the phrase “so that it continues to provide acceptable services and achieves its expected life” (refer to paragraphs A18, A19, and A27 for detailed discussions and related explanations)? Please provide the rationale for your answer to each reference/phrase.**

Answer:

We agree with the elimination of the phrase. This definitely clears up the rest of the sentence. The detailed discussion and reasons are very valid.

Q3. The Board proposes changing the last sentence of the definition to exclude the reference to needs “originally intended” to be met by the asset. Instead, “*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*” is proposed (underscoring added for emphasis).

As such, the proposed revised last sentence would read as follows:

“Maintenance and repairs 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.”

Do you agree or disagree with the aforementioned change (refer to paragraph A20 for a detailed discussion and related explanation)? Please provide the rationale for your answer.

Answer:

We agree with this and the Boards logic behind the change.

Q4. The Board is not proposing a change at this time but rather, is seeking input on the impact that agency capitalization thresholds might have in the reporting of deferred maintenance and repairs. Because PP&E is subject to various capitalization thresholds and actual maintenance requirements are not, some believe it is more appropriate to report deferred maintenance and repairs (DM&R) in the broader context of fixed assets rather than only for capitalized PP&E.

Do you believe Deferred Maintenance and Repair (DM&R) reporting should be limited to DM&R related to capitalized PP&E or directed broadly to fixed assets? Please provide the rationale for your answer. Refer to paragraph A21(c) and A24 for a detailed discussion and related explanation.

Answer:

What are we currently supposed to be collecting on? Only capitalized assets?

The agency already reports on all fixed assets regardless of depreciation or capitalization thresholds. We also report both Real and Stewardship assets. There is value in this. Only reporting on capitalized assets is not reflective of the agencies complete portfolio.

However, the processes should be modified for different groupings of assets using methods and level of efforts appropriate to the investment. For instance: in our case, increasing the frequency of a condition survey for "basic" buildings to 7 years instead of 5 would reduce the impact to the field without compromising the information. These "basic" buildings make up approximately 75% of our buildings and are approx 30% of our reported deferred maintenance. We are trying to work smarter not harder.

Linear assets such as Roads are currently pooled assets in the accounting records and continue to cause issues. If surface is capitalized is that all I report deferred maintenance on?

Also, are capitalization thresholds different depending on the agency? This methodology does not create a comparable story across agencies.

Q5. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes thus far discussed, but also other changes, points, issues and/or considerations which may not have been specifically addressed in this

exposure draft. In addition, the basis for conclusions explains the Board's goals for this project (see comments beginning at par.A8) and also discusses other issues raised by task force members (as an example, see paragraphs A11 through A13).

Please provide any comments or suggestions you have regarding the goals for this project, other issues identified in the basis for conclusions, or areas which have not been addressed.

Answer:

We have commented on each of the paragraphs A8 – A27 where we either have questions or comments for consideration in our reply.

enhances current federal practices. SFFAS 14 issued in April 1999 reclassified deferred maintenance (DM) to required supplementary information (RSI) primarily as a result of auditor concerns. Since then, asset assessment methodologies have matured and administration initiatives¹¹ have prompted agencies to develop condition assessment, measurement and reporting systems. However, these methodologies and systems are not uniform throughout government, resulting in, a lack of comparability.

Materiality

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

different operating standards as well as inspection requirements to best reflect the nature of the asset's use in supporting its mission.

- A7. Although the Board recognizes the need to retain some agency flexibility, the Board notes that management should establish and report its policies regarding acceptable condition criteria. For example, when management elects to use the condition assessment survey method, SFFAS 6, paragraph 83 requires management to report requirements or standards for acceptable condition reporting. In forthcoming guidance related to the measurement and reporting phase of this project, the Board intends to provide more guidance regarding factors that management may appropriately consider in determining acceptable condition as well as the appropriate degree of flexibility in measurement.

Resolving Definitional Concerns

- A8. Concerning the goal of DM&R reporting, the Board believes there is confusion regarding what is required in the financial reports under the current definitions. The Board's ultimate goal for DM&R information is that it serve as a useful tool for all decision makers, internal and external including Congress, oversight bodies, management, and citizens. **To be useful, it must provide information about needed M&R that has yet to be performed.** Therefore, management should present a reasonable estimate(s) of the cost of maintenance and repair activities that it would have performed in support of its mission if resources had been available in the past. In addition, management should provide explanatory material.
- A9. The Board believes that management should present (1) an explanation of how the agency determines acceptable condition by asset class, agree and (2) DM&R including the portion of **funded M&R** (and how are we suppose to know this?) that could not be performed during the reporting period which is now also deferred. The value of DM&R information is ensuring that management adequately reports consistently from period to period (a) how it defines DM&R in-practice, (b) its requirements for acceptable condition and related condition assessments, and (c) the asset maintenance policies and practices it intends to follow. agree
- A10. Clearly, achieving the goal of DM&R reporting requires many judgments regarding what was needed in each situation. These definitional changes are a first step in improving the usefulness of DM&R reporting. The Board recognizes that there will be further discussions on this topic. However, the Board strives not to be overly prescriptive. Several definitional issues were discussed by the task force. For some issues, changes were proposed and in others they were not. Each issue is discussed below and the Board's decision explained.

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Acceptable Condition and Judgment

A11. M&R planning requires decisions about the level of condition to which an asset should be maintained – for example, “as new” condition or “fair” condition. When management elects to use the condition assessment survey method, SFFAS 6 also requires that information concerning requirements or standards for acceptable condition be reported; assisting users in understanding what condition the agency judges to be “acceptable.” The Board acknowledges that a view exists among certain practitioners and users of DM&R information that because SFFAS 6 guidance allows decisions about acceptable levels of condition it is too flexible. Further, it requires agencies to rely heavily on unspecified human judgment in the area of “acceptable” condition. Agree. Not sure we as an agency have ever defined or documented the level of condition. That is why in 2008 the agency standardized the buildings condition survey process. We determined as an agency, there are 2 different levels of “acceptable” condition. A “basic” building is one that is not heated or plumbed, do not contain hazardous materials, and are not permanently occupied. This is approximately 30,000 of the agencies 41,500 buildings. We also provided training for both methods to the users to calibrate them (so to speak) to what “acceptable” was in our agency. We as an agency will still need to have that level of flexibility.

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A12. Preparers and users who hold this view opine that unless FASAB includes guidance defining “acceptable condition” in the DM&R standards, agencies will continue to have disparate goals regarding DM&R. In their opinion, this could lead to (a) inaccurate DM&R reporting because asset assessment practices may not be consistent without a government-wide definition of “acceptable condition”, (b) flawed M&R planning, and (c) DM&R reporting that is not informative to readers. After careful consideration of this view, the Board believes that the resultant guidance these preparers/users have asked FASAB to articulate would be management policies and are not the appropriate role of FASAB. In essence, the more appropriate question for the Board is how prescriptive or principles-based DM&R standards should be. The board needs to be cautious that one size will not fit all, so some flexibility will need to reside with the individual agencies.

A13. The Board notes that “acceptable condition” is an area of DM&R reporting that many accounting standard-setters have struggled with over the years. As such, the Board wishes to clarify that the accounting standards should not be overly prescriptive in this area. Instead, the Board strives to be clear that the standards are general guidance to be coupled with managerial judgment considering such factors as agency mission and asset use. In the next phase of the project, the task force will be asked to consider factors that management might appropriately consider in

determining acceptable condition.

Repairs and Examples

A14. The technical community at some agencies does not consider repairs a subset of maintenance and each is treated separately for operational purposes. However, the Board notes that M&R are not treated separately for financial reporting purposes. Confirming the earlier CFO Council initiated review, the task force noted that there is much confusion regarding the proper treatment of repairs. Due to this confusion, some agencies may not be reporting deferred repairs. As a result, the Board believes that to eliminate confusion and improve financial reporting the term "deferred maintenance" should be revised to "deferred maintenance and repairs." While it is the Board's intention that for financial reporting purposes M&R not be treated separately, the Board acknowledges the view that maintenance generally retains an asset's functionality whereas repair generally restores an asset's functionality. So will the above be the basic definitions of "maintenance" and "repair" from the Board? Or based on the first sentence, do "repairs" really mean operational cost? Is the "asset's functionality" the same as defined in A11 "acceptable condition". Further conforming changes and additions are described and explained below.

A15. The second sentence of the existing definition provides an illustrative list of activities which are not meant to be all inclusive. The Board believes that the list of activities contained in the second sentence of the existing definition should be changed to better reflect current federal and industry practices as well as encompass M&R activities related to equipment and other personal property in addition to buildings. Personal property and real property are not kept in the same databases. The personal property is not linked to an asset in a way that it can be tracked and reported as one number.

A16. The current sentence would be changed as follows:

Activities ~~It includes preventive maintenance, normal repairs,~~
replacement of parts, ~~systems, or and structural~~ components,
and other activities needed to preserve or maintain the asset ~~so~~
~~that it continues to provide acceptable services and achieves its~~
~~expected life..~~

A clean reading of the sentence follows:

Activities include preventive maintenance, replacement of parts,
systems, or components, and other activities needed to preserve
or maintain the asset.

A17. In so doing, the Board notes the following changes:

a. Deleting the term "normal repairs" since, in technical terms, there are no "normal" repairs. Agree. Still question the definition of "repairs". Such a reference causes confusion and ambiguity inasmuch as it (1) could lead to the exclusion of repair activities (e.g. repairs brought about by injury or damage) that would ordinarily fall under deferred maintenance reporting and (2) implies that there are abnormal or extraordinary repairs.

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b. Adding the term "systems" - first, because complete system replacements can be part of a routine M&R program, they should not be excluded from the definition of M&R. For example, it is not uncommon for real property to be viewed in terms of building service systems such as electrical, plumbing, HVAC, fire protection, and elevators. This is fine, because the agency already considers these types of systems included in M&R. Second, like other assets, Information Technology (IT) systems also are subject to routine maintenance and repair (e.g. version releases commonly referred to as "maintenance fixes") and consequently, should be included in the list of M&R activities. The IT example would typically fall under a Maintenance Agreement with a vendor and could represent a significant investment among assets classified as personal property or equipment. This makes absolutely no sense to me. This is like adding up apples and oranges.

c. Deleting "structural" as it implies real property and because the FASAB definition covers all major asset classes to include equipment and other personal property, this change helps to ensure appropriate application. The bucket isn't well defined. The first sentence talks about "fixed" assets. I disagree that personal property should be combined with real property DM&R numbers How is an agency suppose to collect and roll up this information consistently, repeat ably and be able to defend this in an audit. See A15 above. Removing the word "structural" does not tell me anywhere in the new proposed definition to include personal property. If I didn't read A17b above I would never have understood that was the intent of this change.

Real, Stewardship or Personal property; what are we going to collect DM&R on? It may be that the definition needs to be slightly different depending on what we are reporting on.

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d. Adding "maintain" in addition to "preserve" - not all assets are "preserved"; asset preservation such as one would find with a museum collection is different from asset maintenance. Asset preservation has a distinct meaning in the technical community as it implies a level of maintenance (e.g. museum collections) usually reserved for historical monuments/structures and synonymous with conservation techniques. No issues with this

Acceptable Services

A18. "Acceptable services" should be eliminated since (1) the Board desires to simplify the definition where possible by defining M&R in a crisp manner, and (2) asset preservation or maintenance to an "acceptable condition" standard inherently provides for "acceptable services." That is, asset and mission effectiveness (e.g. desired output of goods or services) is inherently understood to be the underlying motive behind M&R.

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A19. As a result, the second sentence of the proposed definition omits the following phrase: "acceptable services." The revised second sentence would read as follows (underscoring added for emphasis): Agree with the second sentence. This clears this up nicely.

"Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset."¹⁸

Original Intent or Current Use

A20. The task force discussed concerns regarding the phrase "originally intended use." Some members indicated that an asset's originally intended use in many cases cannot be ascertained. Also, original intentions are usually not a significant or germane asset maintenance consideration since assets must be deployed to meet current agency requirements. The Board believes that excluding "*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*" is better aligned with actual asset maintenance practices used in federal service. As such, the last sentence would read as follows (underscoring added for emphasis): Agree with this and the boards logic behind the change.

Maintenance and repairs 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.

Capital Improvements and Expected Life

A21. Members of the task force raised several concerns regarding the exclusion of capital improvements from DM&R reporting. The concerns include:

¹⁸ Note: The current SFFAS 6 language states in part that maintenance is "...needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life."

a. some special purpose reports include unfunded capital needs along with DM&R information and this is beneficial

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b. some repair activities may incidentally improve assets (e.g., scheduled replacement of a roof with a reflective roof improves energy efficiency) and there is uncertainty regarding treatment of such planned projects

c. there is uncertainty regarding planned M&R activities relating to fully depreciated fixed assets and fixed assets that are not recognized in the accounting records due to capitalization thresholds

What are we currently supposed to be collecting on? Only capitalized assets?

The agency already reports on all fixed assets regardless of depreciation or capitalization thresholds. We also report both Real and Stewardship assets. There is value in this. Only reporting on capitalized assets is not reflective of the agencies complete portfolios. However, the processes should be modified for different groupings of assets using methods and level of efforts appropriate to the investment. For instance: in our case, increasing the frequency of a condition survey for "basic" buildings to 7 years instead of 5. These "basic" buildings make up approximately 75% of our buildings and are approx 30% of our reported deferred maintenance. We are trying to work smarter not harder.

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Linear assets such as Roads are currently pooled assets in the accounting records and continues to cause issues. If surface is capitalized is that all I report deferred maintenance on? Also, are capitalization thresholds different depending on the agency? The methodology doesn't not create a level playing field across agencies.

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d. M&R activities affect the useful life of an asset because well maintained assets generally last longer than poorly maintained assets and there is uncertainty about exclusions needed when M&R extends the life of an asset beyond a potentially arbitrary expectation

A22. The Board believes that the existing goal of differentiating those activities that might be considered capital improvements (or new assets) from M&R should be maintained. DM&R reporting addresses concerns about management of existing assets. While unmet capital needs (i.e. capital improvements and new acquisitions) are relevant to decision makers, they do not as clearly relate to reporting on past transactions and events as DM&R does. As such, unmet capital needs should not be accounted for and included in the calculation of DM&R. DM&R arises because an asset exists and it is not maintained in accordance with an agency's established M&R policy; this is an event that has financial consequences for the entity and is relevant to decision makers. Agree.

A23. The Board is mindful that the distinction between M&R activities and improvements to existing assets is often grey. Some M&R activities that could enhance an asset may not generally be considered by accountants as "capital improvements" that are recognized as additions to the agency's assets. In addition, there will be uncertainty regarding the unit of analysis

– whether an entire facility is “the asset” or its individual components are “assets.” Therefore, depending on the unit of analysis, an activity might be considered M&R or replacement of an old asset with a new one. It is not the Board’s intention that a precise distinction be attained in every case. Rather, that agencies should not include new asset, capital improvement and/or enhancement needs in DM&R and should treat like circumstances similarly over time since a consistently followed practice that is well described will assist decision makers. Agree.

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A24. Some have noted that the definition refers to M&R of fixed assets rather than M&R of PP&E.¹⁹ They question whether DM&R reporting includes fully depreciated PP&E and PP&E not capitalized due to capitalization thresholds. **In practice, PP&E accounting records comprise only those fixed assets whose costs have been recorded as assets and carried forward (i.e. capitalized) into one or more future periods when the benefits associated with those assets will be realized.**²⁰

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For practical reasons, some fixed assets are not capitalized and their costs are treated as expense. From an asset maintenance point of view, the accounting classification of a fixed asset at acquisition as either capitalized PP&E or expense does not determine its future maintenance requirements or schedule. For example, a single communication tower may fall under an agency’s dollar capitalization threshold and be treated as an expense. However, from a facility maintenance point of view, such equipment needs to be maintained in order to meet agency objectives. In cases where the required maintenance on non-capitalized assets is not performed, DM&R may exist. Therefore, because PP&E is subject to various capitalization thresholds whereas actual maintenance requirements are not, it may be appropriate to define M&R in the broader context of fixed assets as opposed to PP&E which is subject to balance sheet recording criteria. However, the Board acknowledges that reporting practices reflect management’s use of judgment in whether or not to report DM&R for capitalized assets or for fixed assets. For example, some agencies may not consider DM&R on non-capitalized assets as critical to agency programs and report DM&R only on capitalized assets; whereas, other agencies may consider certain identified non-capitalized assets as critical and, accordingly, elect to report DM&R for both capitalized and identified non-capitalized assets. Therefore, the Board is seeking input on this issue and plans to address it in the next phase of the project. As stated above there is value in both. A combination of both is going to be most reflective of an agencies true deferred maintenance. The key to being successful is a documented process that clearly defines what is being reported and why. Modifications to agencies existing processes need to be allowed to accomplish this.

A25. By reaffirming that M&R excludes capital improvements, the Board strives to better align DM&R with the condition index²¹ calculation used for the

¹⁹ SFFAS 6, par 78.

²⁰ This approach matches the asset’s costs with the goods or services it produces.

²¹ **Condition Index (CI)** is a general measure of the constructed asset's condition at a specific point in time. *CI* is calculated as the ratio of Repair Needs to Plant Replacement Value (PRV). *Formula: CI = (1 - \$repair needs/\$PRV) x 100*. Source: 2009 GSA's Guidance For Real Property Inventory Reporting dated July 14, 2009.

Federal Real Property Profile (FRPP). This should result in agencies only having to develop one estimate of DM&R for both purposes.

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A26. In addition to eliminating confusion that could arise from having two DM&R amounts, revising the maintenance definition is also expected to (a) simplify implementation requirements in the field and (b) improve the effectiveness of financial reporting. For example, because asset maintenance plans can commingle capital improvements with M&R activities distinguishing activities should foster greater linkage between asset maintenance systems and accounting systems. Expected changes arising from clarifying the M&R definition may require changes of some agency practices. However, the Board believes that the benefits outweigh the resultant costs while helping to reduce ambiguity, increase comparability and enhance financial reporting.

A27. Additionally, the Board believes that linking DM&R to an "expected life" estimate is not appropriate for the following reasons. First, federal assets are usually maintained and managed well beyond any initial estimate of useful or expected life in order to secure a maximum return or service benefit from the asset. Second, from an operational perspective, M&R activities may not solely be performed for the purpose of extending an "asset's useful life" since health and safety considerations may be paramount. Furthermore, in practice useful life or expected life may change over time due to operating conditions, actual maintenance practices, or technical changes. As an asset's expected life changes, the useful life assigned in the accounting records should be appropriately updated. However, this presents practical problems if M&R is tied to meeting an expected life – for example, which expected life is to be used and what happens when the expected life is exceeded. Therefore, the Board believes that linking M&R to attainment of an expected life is not appropriate. This is very true. We agree.