Federal Accounting Standards Advisory Board

February 12, 2010

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Draft Exposure Draft: Definitional Changes Related to Deferred Maintenance and Repairs - Amending SFFAS 6, PP&E [1] – Tab D**

MEETING OBJECTIVE

The purpose of this session is to review a draft exposure draft on changes to the maintenance definition included in SFFAS 6 as well as incorporate related Board recommendations. This will enable staff to issue a pre-ballot draft of the final standard by e-mail shortly after the February meeting and a ballot draft for the April meeting..

BRIEFING MATERIALS

- ❑ **Attachment 1 -** Current issues being addressed.
- ❑ **Attachment 2 -** Draft Exposure Draft document.

TODAY'S MEETING

- Review Staff draft and identify any Board concerns.
- Note changes and finalize wording so that a pre-ballot can be provided via email.

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[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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PROJECT GOALS

Enhance reporting of deferred maintenance and repairs information[2].

- ✓ Identify and resolve definitional issues (comparability) related to existing SFFAS 6 terminology.
- ✓ Develop criteria appropriately considered in establishing "acceptable condition."
- ✓ Consider whether fixed assets should be classified as critical/non-critical (or another alternative) for reporting purposes.
- ✓ Identify and resolve any measurement and reporting issues.
  - 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.
  - Identify current measurement techniques and emerging techniques for deferred maintenance and repair as well as desired measures or indicators.
    - Determine if techniques are desirable and permissible under existing standards
    - Determine if techniques are comparable (e.g., full cost vs. incremental cost; current cost vs. projected cost).
    - Consider any needed amendments to standards.
  - 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.
  - Review SFFAS 6 requirements for explanatory information and revise as needed.
- ✓ 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.

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

BACKGROUND

At the December meeting staff provided an overview of the task force work products that culminated in (a) a proposed re-definition of the term “maintenance,” (b) suggested definition for the term “repair,” and (c) a task force minority view point that in essence asked the Board to consider establishing an overall policy for deferred maintenance.

Staff posed three questions to the Board. First, staff inquired whether or not the Board believed that there were significant enough differences arising from the task force’s work that would warrant a change to the current SFFAS 6 definition of “maintenance.” Second, staff asked for Board comment on the suggested definition for the term “repair,” and third, in response to the task force minority viewpoint, staff asked whether SFFAS 6 should (a) explicitly state that management should establish policies regarding “acceptable condition” and (b) whether more robust guidance should be added to the standard that management could refer to when determining “acceptable condition.”

Concerning the first question, by majority vote the Board adopted the task force definition with certain revisions and caveats. First, it was agreed to eliminate the term “restoration” and not make any substitution for the term “repair.” Second, the term “fixed assets” was identified for additional staff review in order to be consistent with the SFFAS 6 commonly used term of “property, plant and equipment.” Third, any and all changes to definitions should be reviewed against other language in SFFAS 6 to ensure that there are no inconsistencies introduced by changing the definition.

Concerning the second question, the Board consensus was that the suggested repair definition as proposed by the task force be rewritten so that it would not include any reference to maintenance activities. As such, the Board would prefer the definition to read as follows: *“Repairs are generally directed towards putting assets back into an acceptable condition (restoration of function).”*

Concerning the third issue which comprised two questions, the Board consensus agreed that SFFAS 6 should (a) explicitly state that management should establish policies regarding “acceptable condition” and (b) that more robust guidance should be added to the standard that management could refer to when determining “acceptable condition.”

However, it was noted that the Board would proceed incrementally concerning this subject in an attempt to avoid being overly prescriptive or infringing upon matters that fall directly under agency management purview.

PROJECT TIMELINE

DATE	MILESTONE	TASKS
February 18, 2010	Task force: Conduct Kickoff Meeting.	Begin review of current DM measurement practices. Note potential changes to (i.e. additional measurement methods or data elements) SFFAS 6.
February 24, 2010	**Board meeting: Consider Draft ED – Maintenance definition.**	Review the staff draft and identify any board concerns so that a pre-ballot draft can be provided via e-mail.
March 15, 2010	**Board email: Pre-ballot draft ED – Maintenance Definition via email** (note: this definition issue will not be on April 2010 agenda if there are no issues and the ED is approved timely).	Request Board comments on the pre-ballot with the objective of a Ballot draft before the next meeting. **Comments due by March 26**
March 8 – 31, 2010	Task force: Break-out into the following groups: real property subgroup and equipment & personal property subgroup.	Conclude review of current DM measurement practices. Review DM&R acceptable condition (Refer to Issue 1 on page 11) measures and indicators to identify those candidates suitable for measurement and reporting. Develop recommendations.
April 2010	**Before or at Board Meeting (April 28-29): Ballot to approve and issue ED – Maintenance definition**	Ballot draft provided by April 9 with ballots required by April 29th to allow for member consideration of any alternative views. If none, the ED would be issued before the meeting. **Release ED.**
April 28-29, 2010	**Board meeting: Presentation of task force recommendations**	Review proposals regarding: criteria for acceptable condition (Refer to Issue 1 on page 11), requirement to disaggregate between critical/non-critical assets, and whether methods must be consistently applied from period to period (Refer to Issues 2 and 3 on pages 16 and 17, respectively).
April – early June	Task Force	Develop inventory of currently used and emerging measures and/or indicators (e.g., CI, BCI, ROI) and – if possible – a recommendation of whether the measure should be included in financial reports.

PROJECT TIMELINE

DATE	MILESTONE	TASKS
		Coordinate with FFC on any "Blue Ribbon" panel input or results.
June 23, 2010	**Board meeting: Presentation of Comments on the ED and – if non-controversial, staff Proposed SFFAS - Maintenance Definition.**	Review respondent comments and discuss issues including staff recommendations. Provide any revisions to the draft SFFAS as a pre-ballot draft via email for comment between meetings. **Proceed with final ballot SFFAS for the August meeting.**
	Board meeting: Presentation of potential measures or indicators.	The Board will consider an inventory of currently used and emerging measures and indicators. Any task force recommendation regarding reporting these measures will be provided. If possible, a decision regarding whether potential measures or indicators should be considered further for financial reporting purposes is sought.
June - September	Task force	Considering Board input, summarize current and emerging techniques for measuring DM&R and other desired indicators. Identify any issues that would prevent current approaches from being suitable for financial reporting purposes. Consider any desired dis-aggregation of PP&E (e.g., by predominant use and/or asset category). Develop recommendations.
August 25-26, 2010	**Board meeting: Review and Approve SFFAS - Maintenance Definition for December issuance.**	Transmittal to Principals: begin 90 day review period and concurrent transmittal to Congress for 45 day review period.[3] REMINDER: The CFO Act requires a Congressional review of accounting standards addressing capital assets. **90 day Principal review period ends circa November 30.** 45 day Congressional review period is feasible during this session of Congress.

[3] The Congressional summer recess period for the 111th Congress, Second session is from August 9 – September 12, 2010. Source: Senate calendar: http://www.gpoaccess.gov/calendars/senate/browse.html and House calendar: http://majoritywhip.house.gov/index.cfm?p=HouseCalendar.

PROJECT TIMELINE

DATE	MILESTONE	TASKS
October 27-28, 2010	**Board meeting: Consider draft ED on measurement and reporting**	Review the staff draft and identify any board concerns.
December 15-16, 2010	**Board meeting: Consider revised draft ED on measurement and reporting.**	Review the staff draft and identify any board concerns so that a pre-ballot draft can be provided via e-mail.
January 2011	**Board email: Pre-ballot draft ED – on measurement and reporting.**	Request Board comments on the pre-ballot with the objective of a Ballot draft before the next meeting. **Comments due by January 15**
January - February 2011	**Before or at Board Meeting: Ballot to approve and issue ED** **Release ED - measurement and reporting for comment.**	Ballot draft provided by early February and ballots required by NLT February 28 to allow for member consideration of any alternative views. If none, the ED would be issued before the meeting. **Release ED.**
April 2011	**Board meeting: Consider comments and issues.**	Review respondent comments and discuss issues including staff recommendations. Provide any revisions to the draft SFFAS as a pre-ballot draft via email for comment between meetings. **Proceed with final ballot SFFAS for the August meeting.**
June 2011 – August 2011	**Board meetings: Review and Approve SFFAS on measurement and reporting.**	Transmittal to Principals: begin 90 day review period and concurrent transmittal to Congress for 45 day review period. REMINDER: The CFO Act requires a Congressional review of accounting standards addressing capital assets.
September, 2011	Task force: Asset Impairment.	Work with the task force would turn to asset impairment upon issuance of the ED on DM&R – circa September 2011.

COORDINATION WITH THE FEDERAL FACILTIES COUNCIL

Staff is coordinating closely with the Federal Facilities Council (FFC) regarding two new projects[4] directly related to our work:

1. ***National Research Council (NRC) Study on Predicting Outcomes of Investments in Maintenance and Repair for Federal Facilities.*** This study will be conducted by a "blue ribbon" panel of experts. The committee will meet 5 or 6 times in 2009/10 and finish its report by December 31, 2010. This effort will consume a large portion of FFC resources/funding for 2010. A report will be issued at the end of the project in approximately 18 months. As part of its task, the committee will address the following questions:

   - What risks do deteriorating facilities, deteriorating building systems (e.g., mechanical, electrical), or components (e.g., roofs, foundations) pose to the achievement of a federal agency's mission or to other organizational outcomes (e.g., physical security, operating costs, worker recruitment and retention, healthcare costs)?
   - Do such risks vary by facility type (e.g., offices, hospitals, industrial, laboratories), by system, or by function (e.g., research, administrative)? Can the risks be quantified?
   - Are there ways to predict or quantify the outcomes that can be expected from a given level of maintenance and repair investments in federal facilities or facilities' systems?
   - Are there effective communication strategies that federal facilities program managers and federal senior executives can use to better inform decision-makers regarding the cost-effectiveness of levels of investment in facilities' maintenance and repair?
   - What strategies, measures, and data should be in place to determine the actual outcomes of facilities maintenance and repair investments? How can these strategies, measures, and data be used to improve the outcomes of investments?

2. ***Work Classification and Accounting*.** As departments/agencies comply with the Government Performance and Results Act, the Federal Accounting Standards Advisory Board requirements, and strive for a "clean audit opinion," auditors and accountants posit questions. This activity would focus on gathering information about the rules, definitions and thresholds that are used by federal departments/agencies to guide proper work classification for "construction" projects for Maintenance and Minor Repair (normally one year O&M funds that are expensed by accounting), Revitalization or Capital Repair (normally multi-year funds that are capitalized/depreciated by accounting), and pure new construction (that is always capitalized/depreciated). This activity will also tie into the on-going FASAB work on improved definitions for accounting for deferred maintenance. One objective of this effort is to reach a common ground/understanding that will work for the agencies and for the auditors.

[4] Federal Facilities council website: http://sites.nationalacademies.org/DEPS/FFC/DEPS_054567

EFFECTIVE DATE

The proposed standard revising the definition would be effective for periods beginning after September 30, 2011 (beginning in fiscal year 2012). Earlier implementation is encouraged.

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

Thank you.

Attachments (2):

1. Attachment 1 - Current issues being addressed.
2. Attachment 2 - Draft Exposure Draft.

ATTACHMENT 1 – CURRENT ISSUES BEING ADDRESSED

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Issue 1: Acceptable condition.

Business Issue: Can our Task force help define criteria for determining "Acceptable Condition"?

At the December 2009 Board meeting, the Board agreed that SFFAS 6 should provide for more robust guidance regarding the factors management should consider in determining "acceptable condition."

Business Problem: The term "acceptable condition" is not defined in FASAB literature. This might contribute to different agency interpretations causing a lack of agency comparability. There are at least two aspects to determining acceptable condition – knowing what to consider in assessing "condition" and knowing what condition is "acceptable" for a particular asset (or system of assets).

Although comparability was an early issue that the task force was concerned about, after some discussion it was clarified that agency differences needed to be considered. The task force suggested the use of trend information since no "one-size-fits-all" approach seems plausible. Please note that this is consistent with both prior and current Board comments that allow for agency flexibility since the Board noted that the concepts of "acceptable services" and "acceptable condition" vary between and among entities.[5] Also, the FFC notes that *"what constitutes an acceptable level of condition will vary by agency, mission, by the importance of specific facilities (e.g. mission critical, mission supportive, mission neutral) and/or by types of facilities*."[6]

The task force should consider criteria or metrics that are useful for assessing "condition" as well as a framework for communicating what management finds "acceptable."

[5] FASAB, SFFAS 6 *Accounting for Property Plan & Equipment,* Paragraph 78 (footnote 1).
[6] Federal Facilities Council, *Key Performance Indicators for Federal Facilities Portfolio.* (The National Academies Press), 17.

The FASAB glossary defines "condition" as follows (bolding & underscoring added for emphasis):

> The physical state of an asset. **The condition** of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. **The condition** of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a tragic event), disasters (a sudden calamitous event bringing great damage, loss, or destruction), and obsolescence.[7]

In an attempt to try and relate the FASAB elements of condition to existing industry criteria or metrics, the following is proposed as a guide for your review, analysis and comment. Please feel free to suggest changes and/or additions/deletions.

FASAB Elements of Condition	In-use or Recommended Criteria / Metrics (Refer to "cheat-sheet")	Proponents or Source	Your "Vote" Yes or No	Does it make sense? Why? What would you use?
Physical status/state	Facilities Condition Index	FRPC / GSA		
Physical status/state	Building Condition Index	FFC		
Actual ability to perform	Service level standards	FRPC Repair Needs Goals Final Draft July 31, 2009		
Actual ability to perform	Code compliance	FRPC Repair Needs Goals Final Draft		

[7] Pronouncements as Amended, Version 8 (06/2009). FASAB Consolidated Glossary, Appendix E, 1716.

ATTACHMENT 1
CURRENT ISSUES BEING ADDRESSED

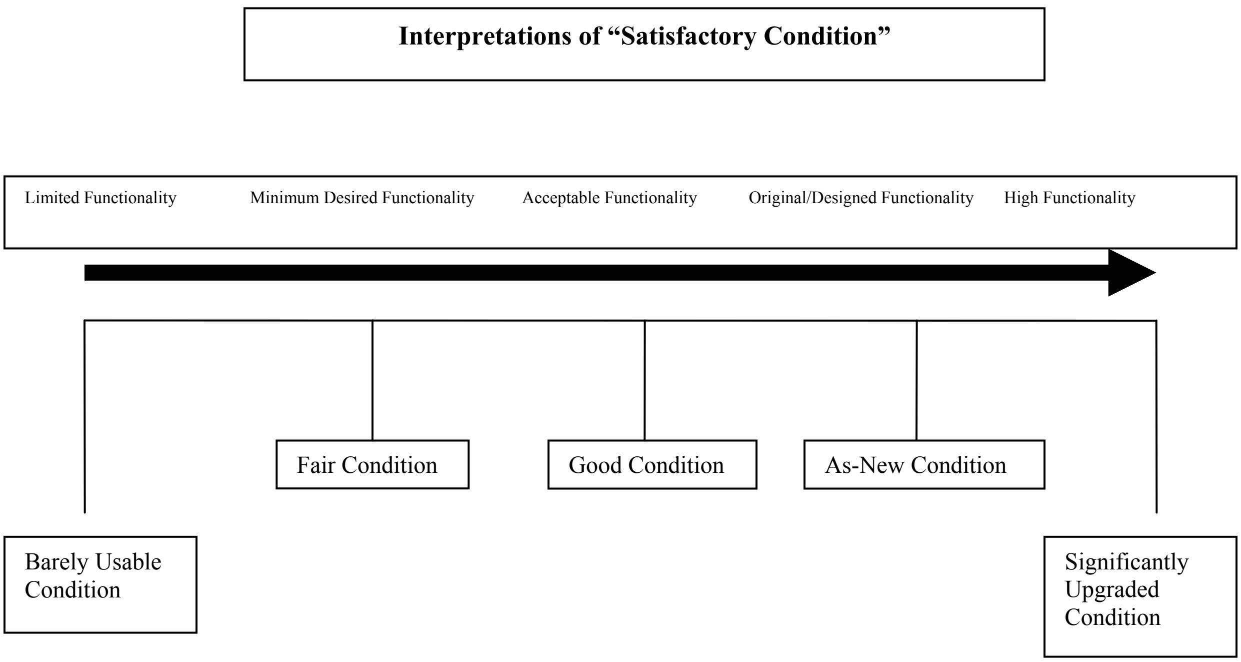
FASAB Elements of Condition	In-use or Recommended Criteria / Metrics (Refer to "cheat-sheet")	Proponents or Source	Your "Vote" Yes or No	Does it make sense? Why? What would you use?
		July 31, 2009		
Continued Usefulness	Return on investment	FRPC Repair Needs Goals Final Draft July 31, 2009		
Continued Usefulness	Sustainment rate	DOD & FFC		
Continued Usefulness	Facilities Revitalization Rate	NASA		
Continued Usefulness	National Research Council Guideline (2%-4% of CRV)	USDA & Smithsonian		
Continued Usefulness	Obsolescence/technical risk	GASB		
Continued Usefulness	Recapitilization Rate	DOD & FFC		
Adequacy of maintenance that has been performed	Deferred Maintenance Deferred Maintenance Reduction	FASAB DOE		
Other factors: Performance capacity	Asset age compared to useful life	Edmonton, Canada		
Other factors: Performance capacity	Demand divided by Capacity	Edmonton, Canada		
Utilization	Asset Utilization Index	GSA & DOE		
Utilization	Vacancy Rate	GSA / HUD		
Utilization	Installations Readiness Report	DOD		

ATTACHMENT 1
CURRENT ISSUES BEING ADDRESSED

FASAB Elements of Condition	In-use or Recommended Criteria / Metrics (Refer to "cheat-sheet")	Proponents or Source	Your "Vote" Yes or No	Does it make sense? Why? What would you use?
Restrictions	Narrative Disclosure	GSA FRPP Database		

In an Australian study[8] the authors addressed the issue of what is “acceptable” (“satisfactory” in their case) and found that “satisfactory condition” could be placed on a spectrum: minimally acceptable, fairly acceptable (fair condition), acceptable (good condition), as-new condition and upgraded condition. That is, management might determine that under certain circumstances satisfactory condition is achieved by a “fair” (minimum functionality) rating whereas in other circumstances an “as-new” level of functionality would be required.

Below is an illustration of the study results:



Proposed Business Solution: Incorporate suggested metrics/criteria and replicate the above illustration in SFFAS 6.

Incorporate those suggested metrics/criteria (after task force review) in SFFAS 6 which make sense and/or are currently in use. Also, consistent with determinations that the Board not be overly prescriptive, replicate the above illustrative spectrum reinforcing the notion that managerial judgment is needed consistent with (disclosed) agency policies concerning whether or not an asset’s condition is “acceptable.”

What do you think?

[8] *Options for Infrastructure Reporting*, 2000. Walker/Clarke/Dean. University of New South Wales.

Issue 2 - Critical or non-critical.

Business Issue: Should the task force recommend that the Board require classification of assets as either critical or non-critical?

SFFAS 6, paragraph 84 makes classifying assets as either critical or non-critical optional. Since agencies need to follow FRPP reporting guidelines that require classification into four (4) buckets (mission critical, mission dependent-not critical, not mission dependent, and not rated), they are already doing so. Does it stand to reason that FASAB require a similar classification as opposed to keeping it optional?

Business Problem: Keeping this classification as optional results in disparate reporting both within and among agencies.

Such reporting might adversely impact DM reporting and lessen its user value.

Proposed Business Solution: Eliminate the option and make it a requirement to report assets as either critical or non-critical.

In so doing we help achieve greater consistency in reporting across the government and keep abreast with industry/federal initiatives.

Side-point: What about the option of adopting the four buckets that the FRPP uses? Also, does the FRPP have definitions accepted by the federal community at-large? If so, these buckets might be the way to go. However, on the other hand it might not be wise to tie accounting standards to these definitions if for example, they are not universally accepted or if they are subject to change.

What do you think?

Issue 3 - Requiring consistency

Business Issue: Should the task force recommend that the Board require agency management to consistently follow condition assessment methods/practices?

SFFAS 6 paragraph 81 states that, *"It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied."*

Does it make sense for FASAB to require consistency from period to period and that any departures are specifically disclosed along with related impact(s)?

Business Problem: Not requiring consistency might lead to at best, non-comparable data and at worst, manipulation of results.

Allowing agencies to chose among competing methods/practices from year-to-year for example, could result in meaningless reporting.

Proposed Business Solution: Ensure greater comparability by requiring agencies to consistently follow assessment methods/practices.

In so doing we help achieve greater comparability of agency data results (i.e. more meaningful trending information) and greater consistency in reporting across the government.

Alternatively, does the requirement for consistency prevent management from improving its methodology over time? Is there an alternative that addresses both needs – consistency and improvement?

What do you think?

Quick "cheat-sheet" to Recommended Criteria / Metrics

Facility Condition Index (Asset Condition Index) – The FCI is the ratio of the total deficiency backlog cost to the building's current replacement value (CRV).

FCI = M & R and Replacement Deficiencies of the Facility
÷
Current Replacement Value of the Facility (CRV)

Building Condition Index – An engineering-derived condition assessment approach, called the Building Condition Index (BCI) series, has been developed by the U.S. Army Engineer Research and Development Center, Construction Engineering Research Laboratory (ERDC-CERL) to measure building asset condition. A primary BCI research objective was to overcome the problems associated with deficiency-based inspections. This structured inspection approach is fast and repeatable and largely avoids the subjectivity associated with deficiency-type inspections.

Return on Investment – Usually associated with cash flow or earnings data, however, non-financial information can be also used. The numerator is usually what was gained (lost) divided by the denominator which represents the amount invested.

Sustainment Rate – Measures adequacy of funding for M&R over the useful/expected life of the asset.

SR = Sustainment funding
÷
Sustainment Requirements

Facilities Revitalization Rate - Accounts for repairs and upgrades due to obsolescence, modernization, aging materials and new requirements.

FRR = Current Replacement Value
÷
Annual Facility Revitalization Funding

National Research Council Guideline – An annual investment of 2-4 percent of CRV is recommended for M&R. Less than 2.0% represents potential underinvestment.

Quick "cheat-sheet" to Recommended Criteria / Metrics

Recapitalization Rate – Measures how the level of funding received is affecting asset expected/useful life.

$$RR = \frac{\text{Expected service life}}{\text{Funded service life}}$$

Asset Age compared to Useful Life – An asset's age compared to its expected useful life has a direct bearing on the remaining future benefits one can expect from the asset. Refer to Edmonton's statement, *"…the average age of Edmonton's infrastructure is over 30 years and the average life expectancy of infrastructure assets is 50 years. Having passed the halfway point, the City is approaching a critical period to ensure that its infrastructure assets continue to meet the needs of Edmontonians in the future."*

Demand divided by Capacity - The capacity of an infrastructure element to meet service requirements (e.g. the ability of a particular road to handle traffic flow).

Asset Utilization Index – Detects surplus space by measuring asset inventory against mission requirements.

$$AUI = \frac{\text{Utilized assets}}{\text{Total assets}}$$

Vacancy Rate - Detects unused, vacant space by measuring percentage of units off-line to the total units available.

$$VR = \frac{\text{Units off-line}}{\text{Total Available units}}$$

Installations Readiness Report – Facilities are classified into categories that provide for various readiness ratings. Serious deficiencies are separately flagged within the report.

ATTACHMENT 2- DRAFT EXPOSURE DRAFT DOCUMENT.

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Federal Accounting Standards Advisory Board

Definitional Changes Related to Deferred Maintenance and Repairs.

Amending Statement of Federal Financial Accounting Standards 6:

Accounting for Property, Plant, and Equipment.

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by May 31, 2010

February 26, 2010

Working Draft – Comments are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, and analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

February 26, 2010

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on this exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Definitional Changes Related to Deferred Maintenance and Repairs - Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*. Specific questions for your consideration begin on page 7 but you are welcome to comment on any aspect of this proposal. Your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by May 31, 2010.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen

Chairman

Executive Summary

What is the Board proposing?

Deferred maintenance (DM) 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. [1] Although DM is not sufficiently measurable to support recognition or disclosure as basic financial statement information, it is nonetheless a cost. [2] Information about deferred maintenance has been required because the information is important to financial statement users. [3]

This Statement proposes amending Statement of Federal Financial Accounting Standard (SFFAS) 6, *Accounting for Property, Plant, & Equipment (PP&E).* The amendments (1) acknowledge the distinction between maintenance and repair (M&R) activities by establishing "repair" as a separate term in the standards, (2) revise the examples of M&R activities accordingly, and (3) address issues related to the distinction between maintenance, repairs and new capital expenditures.

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

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting,* the operating performance objective is identified as being most important for deferred maintenance (DM) reporting. [4] DM reporting is important to meeting this objective because the federal government is accountable to citizens for the proper stewardship and administration of its federal assets. Reporting on DM assists users in ascertaining asset condition as well as the effectiveness of asset maintenance practices agencies employ in fulfilling their missions.

[1] Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant and Equipment,* November 30, 1995, par. 77.

[2] SFFAS 6, par. 174

[3] A report of the U.S. Advisory Commission on Intergovernmental Relations (ACIR), High Performance Public Works: A New Federal Infrastructure Investment Strategy for America, November 1993, notes that maintenance competes for funding with other government programs and is often underfunded leading to adverse consequences such as increased safety hazards, poor service to the public, higher future costs, and inefficient operations.

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

Longstanding issues with DM reporting have existed since the issuance of SFFAS 6. The two most common issues noted are (1) the lack of comparability in assessing asset condition both within and among agencies and (2) measurement and reporting practices and formats that vary greatly among agencies. These issues largely result from agencies have differing interpretations regarding the definition of “deferred maintenance” in SFFAS 6. This has led to confusion and ambiguity among interested users of DM information.

Shortly after SFFAS 6 was implemented, the Chief Financial Officers (CFO) Council reviewed the resulting DM reporting practices. The review was brought about by: (a) differing interpretations among agencies and auditors regarding how to report DM information, and (b) terms in the maintenance definition that were not reflective of actual practice and that were loosely defined.

The Board is of the opinion that redefining the term “maintenance” as it currently exists in SFFAS 6 (paragraph 78) is an initial step in solving the issues noted above. The Board believes that this amendment improves financial reporting consistent with the operating performance objective.

This proposal does not alter financial reporting requirements. The ultimate benefits of revising the M&R definition include but are not limited to:

a. Developing FASAB terminology that is meaningful to federal agencies and users.

b. Helping reduce disparate and non-uniform definitions and/or terms.

c. Increasing comparability by reducing definitional variations among agencies.

Finally, the Board believes that this amendment will (1) assist agency users in the application and implementation of asset maintenance policies and practices, (2) better align divergent agency practices, and (3) assist financial statement users by increasing the comparability of DM information.

Operating Performance Objective

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities. Federal financial reporting should provide information that helps the reader to determine

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government’s management of its assets and liabilities.

Source: SFFAC 1

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by May 31, 2010.

Q1. The Board proposes redefining the term “maintenance” as it currently exists in SFFAS 6, paragraph 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. 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.”*

The proposed definition is:

"Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities aimed at 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 redefined definition as shown above (refer to paragraphs A8–A24 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q2. The Board proposes specifying both in the title and body of the revised definition that "repairs" and "maintenance" be treated as separate and distinct terms.

Do you agree or disagree that the maintenance definition should be changed to include "repairs" as a separate and distinct activity (refer to paragraphs A8 – A24 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q3. The term "repair" either in its original SFFAS 6 context or currently, is not defined in FASAB literature. The Board proposes that the term "repair" as used in the proposed definition be defined as follows:

"Repairs are generally directed towards putting fixed assets back into an acceptable condition (restoration of function)."

Do you agree or disagree with the aforementioned repair definition (refer to paragraphs A13, A14 and A15a for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q4. The second sentence of the existing standard provides an illustrative list of activities which are not meant to be all inclusive. The Board proposes that the list of activities contained in the second sentence of the existing definition be changed to better reflect current federal and industry practices as well as encompass M&R activities related to equipment and personal (other) property in addition to buildings, building components, or service systems. 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."

Do you agree or disagree with each change to the list of activities (refer to paragraph A15 a through d for a list of changes and related explanations)? Please provide the rationale for your answer to each change.

Q5. The Board believes that the terms "acceptable services" and "expected life" should be eliminated from the definition. As a result, the Board proposes that the second sentence read as follows (underscoring added for emphasis):

"Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed <u>to preserve or maintain the asset</u>." [5]

Do you agree or disagree with the two noted changes (refer to paragraph A16, A18, and A24 for a detailed discussion and related explanations)? Please provide the rationale for your answer to each reference/phrase.

Q6. The Board proposes changing the last sentence to exclude the reference to needs "originally intended" to be met by the asset. Instead, *"activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs*

[5] Note: The current SFFAS 6 language states in part that maintenance is "…*needed to preserve the asset <u>so that it continues to provide acceptable services and achieves its expected life</u>.*"

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 aimed at 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 A17 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Introduction

Purpose

1. The objective of this Statement is to incorporate changes responsive to concerns raised by the financial and functional communities. The task force also considered, where appropriate, a Federal Facilities Council (FFC) Committee on Operations & Maintenance review [6] (conducted via an interagency effort led by the Department of Defense (DoD)) of SFFAS 6. The major SFFAS 6 concerns identified by this review include: (a) different interpretations among agencies and auditors regarding what to report and how to report, (b) the introduction of terms not used in the functional community/field, (c) terms in the maintenance definition loosely defined, and (d) terms in the maintenance definition not reflective of actual practice.

2. Additionally, the Board desires to improve and, where needed, develop accounting and reporting guidance relative to DM&R that best reflects or enhances current federal practices. SFFAS 14 issued in April 1999 reclassified DM to required supplementary information (RSI) primarily as a result of auditor concerns. Since then, asset assessment methodologies have matured and administration initiatives[7] have prompted agencies to develop condition assessment, measurement and reporting systems. However, these methodologies and systems are not uniform throughout government and as a result a lack of comparability now exists.

Materiality

3. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the

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[6] The review was initiated in response to a Chief Financial Officers Council request.

[7] Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4, 2004 established the following policy in Section 1,*" It is the policy of the United States to promote the efficient and economical use of America's real property assets and to assure management accountability for implementing Federal real property management reforms. Based on this policy, executive branch departments and agencies shall recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action."*

judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

4. When finalized, the requirements in this Statement will be effective beginning in fiscal year 2012. The Board believes the standards will be finalized in fiscal year 2011 and a one year implementation period is sufficient.

Proposed Standard

Scope

5. This Statement defines maintenance and repair (M&R) activities to facilitate deferred maintenance and repair (DM&R) reporting requirements in SFFAS 6, as amended.

Effect on Existing Standards

6. Statement of Federal Financial Accounting Standard (SFFAS) 6, paragraph 78 is amended as follows:

"~~For purposes of this standard,~~ M~~m~~aintenance and repairs ~~is~~ are activities directed toward ~~described as the act of~~ keeping fixed assets in an acceptable condition. Activities ~~It~~ include ~~s~~ 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~~. Maintenance and repairs exclude ~~s~~ activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use~~, those originally intended~~."

A clean reading of the proposed definition is:

"Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use."

Effective Date

7. These standards are effective for periods beginning after September 30, 2011. Earlier implementation is encouraged.

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

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards provided in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

A1. In 1995 in its release of Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant and Equipment,* the Board officially defined DM 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."* SFFAS 6, as later amended, established that information about DM would be required supplementary information (RSI) rather than disclosed (in basic information) as required originally in SFFAS 6. The Board opined that DM reporting was in an evolutionary phase with agencies in the process of developing a variety of systems to assess DM and as a result, measurement of DM information could not be described as being consistent or comparable. [8] The Board identified a need to (a) develop guidance on determining acceptable condition and (b) revise standards based on experience gained during the experimentation period.

A2. In June 1996 the Board again addressed the issue of DM in its release of SFFAS 8, *Supplementary Stewardship Reporting.* The Board stated that one way the government demonstrates accountability over assets is by reporting on both their existence and condition with references to DM reported in the financial reports.

A3. In 1999 the Chief Financial Officers (CFO) Council initiated a review of SFFAS 6 as it pertained to DM reporting. The Federal Facilities Council (FFC) conducted the review as an inter-agency effort. The review addressed concerns over (a) different interpretations among agencies and auditors regarding what and how to report DM information, (b) the introduction of terms not used in the functional community/field, (c) terms in the maintenance definition that were loosely defined, and (d) terms in the maintenance definition that were not reflective of actual practice

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[8] SFFAS 6, par. 180.

A4. In May 2003 when issuing SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment,* the Board again addressed DM. During the ensuing deliberations the Board stated that it expected to undertake a project in the future to integrate depreciation, impairment and DM reporting.

A5. In late 2008 the Board initiated a DM project based on its last agenda setting decisions. The DM project was highly rated by constituents providing input regarding priorities for the Board's technical agenda. A FASAB task force was convened to study the findings brought about by past reviews. The task force also plans to address recent federal and industry developments primarily in the area of real property accountability and asset condition assessments. The task force is addressing issues in three phases – definitions, measurement, and reporting. This exposure draft is the result of the definitions phase.

A6. Not only has the Board considered this matter important in most deliberations concerning the government's capital assets, DM in connection with federal real property continues to be a Government Accountability Office (GAO) high risk area.[9] Due to the development of different asset maintenance practices at many of the agencies, the Board has tentatively concluded that some degree of flexibility[10] should continue. For example, cases concerning the use of similar or even identical assets placed in service for different purposes necessitate flexibility. One example is an X-ray machine used in a hospital emergency room as compared to an X-ray machine used in a museum's conservation laboratory. Each may have 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

[9] GAO-09-801T, *Federal Real Property: An Update on High Risk Issues.* July 15, 2009 and GAO-09-10, *Federal Real Property: Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear.* October 2008.

[10] SFFAS 6, par. 78, note 1 reads, "*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*." Regarding condition assessment surveys, par. 81, note 5 reads, *"Management shall determine what methods and standards to apply. Once determined, it is desirable but not required that methods and standards be applied consistently from period to period*."

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 phases 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 serves as a useful tool to 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 (1) present a sufficiently detailed explanation by asset class and criticality as to the agency’s requirements and standards that are used for determining acceptable condition, (2) what M&R are past due, even if not scheduled, have not yet been funded and are therefore deferred (DM&R), and (3) the portion of funded M&R that cannot be performed during the reporting period which is also deferred. The value of DM&R information is ensuring that management (a) reports how it defines DM&R in-practice, (b) reports its requirements for acceptable condition and related condition assessments, (c) adequately reports both asset maintenance policy and practices it intends to follow (d) applies policies and practices consistently from period to period.

Clearly, achieving the goal of DM&R reporting requires a great 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 is mindful of the need to avoid the unintended consequences of being 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.

Acceptable Condition and Judgment

A10. 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, although SFFAS 6 allows for judgment when referring to "acceptable condition", it also requires that information concerning requirements or standards for acceptable condition be reported; assisting users in understanding what condition the agency finds "acceptable." The Board acknowledges that a view exists among certain practitioners and users of DM&R information that SFFAS 6 guidance is too flexible; requiring agencies to "*rely heavily on unspecified human judgment*."

A11. Although the majority of the Board does not concur with the above perspective, this view raises an interesting point. Preparers and users who hold this view opine that unless FASAB includes a policy regarding "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 reporting since asset assessment practices may not be consistent without a government-wide policy in place, (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 policies these preparers/users have asked FASAB to articulate are in fact management policies and 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.

A12. The Board notes that this area of DM&R reporting is an area that many accounting standard-setters have struggled with over the years. As such, the Board wishes to clarify that this is an area where the accounting standards should not be overly prescriptive. 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 later phases of the project, the task force will be asked to consider factors that management might appropriately consider in determining acceptable condition.

Repairs and Examples

A13. At some agencies repairs are not considered a subset of maintenance. Confirming the earlier CFO Council initiated review, the task force noted that there is much confusion regarding the proper treatment of repairs resulting in disparate accounting and reporting of repair work. Since M&R is best described as a set of multi-disciplinary activities involving often complex technical and scheduling requirements that may cut-across an organization, SFFAS 6 should be revised accordingly. As a result, the Board believes that "repairs" and "maintenance" should be treated as separate and distinct terms to mirror the activities in practice. To accomplish this, the term "deferred maintenance" is revised to "deferred maintenance and repairs." Further conforming changes and additions are described and explained below.

A14. The term "repair" either in its original SFFAS 6 context or currently, is not defined in FASAB literature. Consequently, various interpretations have been made over time that often create confusion or ambiguity concerning how best to classify an M&R activity. It is the Board's opinion that maintenance activities retain an asset's functionality whereas repair activities restore an asset's functionality. Accordingly, the Board notes that the term "repair" should be defined as, *"Repairs are generally directed towards putting fixed assets back into an acceptable condition (restoration of function)."* The term will be added to the glossary of terms for ease of reference.

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 personal (other) property in addition to buildings.

The current sentence would be changed as follows:

"Activities ~~It~~ include ~~s~~ 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.”

In so doing, the Board notes the following changes:

a. Deleting the term “normal repairs” since, in technical terms, there are no “normal” repairs. Such a reference causes confusion and ambiguity inasmuch as it implies that there are abnormal or extraordinary repairs.

b. Adding the term “systems” - first, since 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. 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.

c. Deleting “structural” since it implies real property and since the FASAB definition covers all major asset classes to include equipment and other personal property, this change helps to ensure appropriate application.

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 functional community as it implies a level of maintenance (e.g. museum collections) usually reserved for historical monuments/structures and synonymous with conservation techniques.

Acceptable Services

A16. “Acceptable services” should be eliminated since (1) the Board desires to simplify the definition where possible by defining M&R in a crisp and succinct 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.

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):

"Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed <u>to preserve or maintain the asset</u>."[11]

Original Intent or Current Use

A17. 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 *"activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly <u>greater than its current use"</u>* 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):

> *"Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly <u>greater than its current use</u>."*

Capital Improvements and Expected Life

A18. Members of the task force raised several concerns regarding the exclusion of capital improvements from DM&R reporting. The concerns include:

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[11] Note: The current SFFAS 6 language states in part that maintenance is "…*needed to preserve the asset <u>so that it continues to provide acceptable services and achieves its expected life</u>.*"

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

- 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

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

- M&R activities affect the useful life of an asset since 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

A19. 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.

A20. 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.

A21. Some have noted that the definition refers to M&R of fixed assets rather than M&R of PP&E. [12] In practice, PP&E comprises 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.[13] 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 PP&E or expense does not determine its future maintenance requirements or schedule. For example, fire suppression equipment purchased and installed well after the initial construction of a facility 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 will need to be maintained in order to meet health/safety requirements such as local fire codes and ordinances. In those cases where the required maintenance on non-capitalized assets could not be performed, DM&R may exist. Therefore, since PP&E is subject to various capitalization thresholds whereas actual maintenance requirements are not, it is more 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. Therefore, the Board has not changed the term "fixed asset" to "PP&E."

A22. By reaffirming that M&R excludes capital improvements, the Board hopes to better align DM&R with the condition index[14] calculation used for the Federal Real Property Profile (FRPP). This should result in agencies only having to develop one estimate of DM&R for both purposes.

A23. 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, since asset maintenance plans can

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[12] SFFAS 6, par 78.

[13] This approach matches the asset's costs with the goods or services it produces.

[14] ***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.

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.

A24. Additionally, the Board believes that when trying to apply SFFAS 6 to specific asset classes linking DM&R to “expected life” is problematic inasmuch as M&R retains or restores functionality without regard to any expectations about “useful life.” In practice, useful life or expected life may change over time due to operating conditions, actual maintenance practices, or technical changes. With experience, as expected life changes the useful life assigned in the accounting records should be updated. This presents practical problems if M&R is tied to meeting an expected life – for example, which expected life and what happens if the expected life is exceeded. The Board believes that linking M&R to attainment of an expected life is confusing and unnecessary. Therefore, the reference to expected life has been omitted in the revised definition.

Appendix B: Abbreviations

CFO	Chief Financial Officers (Council)
DoD	Department of Defense
DM	deferred maintenance
DM&R	deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FFC	Federal Facilities Council
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
M&R	maintenance and repair
MD&A	management's discussion and analysis
OMB	Office of Management and Budget
PP&E	property, plant and equipment
RSI	required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix C: Glossary

Fixed Assets. For deferred maintenance & repair accounting and reporting, fixed assets are defined as those tangible assets intended for continued use or possession, held for services in the production of goods and services over relatively long periods of time.[15] Fixed assets (a) include but are not limited to land, buildings, plant, equipment, and leaseholds[16] and (b) may or may not be capitalized in an agency's financial books and records.[17]

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[15] Adapted from Eric L. Kohler, *A Dictionary for Accountants* (Prentice Hall, 4th Ed), 72-73, 189.

[16] SFFAS 3, *Accounting for Inventory and Related Property* provides accounting standards that apply to several types of tangible property, other than long term fixed assets, held by federal government agencies which include: inventory (i.e., items held for sale); operating materials and supplies; stockpile materials; seized and forfeited property; foreclosed property; and goods held under price support and stabilization programs (including non-recourse loans and purchase agreements).

[17] Some have noted that the definition refers to M&R of fixed assets rather than PP&E. In practice, PP&E comprises 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. For practical reasons, some fixed assets are not capitalized and their costs are treated as expense. From an asset management/maintenance point of view, the accounting classification of a fixed asset at acquisition as either PPE& or expense does not determine its future maintenance requirements or schedule. For example, fire suppression equipment purchased and installed well after the initial construction of a facility may fall under an agency's dollar capitalization threshold and be treated as an expense. However, from a facility management/maintenance point of view, such equipment will need to be maintained in order to meet health/safety requirements such as local fire codes and ordinances. In those cases where the required maintenance on non-capitalized assets could not be performed, DM&R may exist. Therefore, since PP&E is subject to various capitalization thresholds whereas actual maintenance requirements are not, it is more 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. Therefore, the Board has not changed the term "fixed asset" to "PP&E."

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