



April 15, 2010

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: Definitional Changes Related to Deferred Maintenance and Repairs,  
Amending Statement of Federal Financial Accounting Standards 6: Accounting  
for Property, Plant and Equipment. – **TAB D**<sup>1</sup>

## OBJECTIVES

The objective is to approve the issuance of *Definitional Changes Related to Deferred Maintenance and Repairs. Amending Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant and Equipment* as an exposure draft.

## BRIEFING MATERIALS

The following materials are attached to this memorandum.

1. Tracked changes version of the draft ED.
2. Smooth PDF Version of the draft ED.
3. Ballot

## BACKGROUND

The objective of this proposed ED is to amend SFFAS 6 to (1) clarify that deferred maintenance reporting includes deferred repairs, (2) revise the examples of

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<sup>1</sup> 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.

maintenance and repair (M&R) activities to better reflect current practices and encompass activities associated with equipment and (other) personal property, and (3) address issues related to the distinction between maintenance, repairs and new capital expenditures.

The proposed amendment represents a first step toward improving reporting on deferred maintenance. The Board is working, and will continue to work, closely with stakeholders interested in improving management of and reporting on federal PP&E and related deferred maintenance. By addressing definitional issues as a first step, the Board will facilitate continued cooperation toward improving financial reporting.

Staff provided Board members with a pre-ballot draft ED on March 29, 2010, and subsequently, members provided comments which are addressed in the attached “tracked changes” version (Attachment 1) of the ED.

Regarding the issue of whether or not deferred maintenance and repair reporting should encompass fixed assets as opposed to only those assets which are capitalized, we have introduced an additional question (Question 4) wherein the Board asks for input regarding this matter.

## **BALLOTS**

The attached Ballot includes submission instructions and is due by April 30, 2010. Members not responding by May 6, 2010 will be considered to have abstained. If you decide to write an alternative view, please notify staff immediately and provide your alternative view as soon as possible but no later than April 16, 2010. Any alternative views received will be circulated to other members for full Board consideration.

If you have questions or need additional information, please contact Dom at 202-512-6841 or email at [savinid@fasab.gov](mailto:savinid@fasab.gov) at your convenience.

### Attachments

1. Ballot Draft ED – Tracked Changes Version
2. Ballot Draft ED – Clean PDF Version
3. Ballot



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

**Comment:** Edits via cold-read conformance review.

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**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by June 30, 2010

May XX, 2010

Working Draft – Comments are Not Requested on This Draft

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## 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](http://www.fasab.gov).

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail stop 6K17V  
Washington, DC 20548  
Telephone 202-512-7350  
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[www.fasab.gov](http://www.fasab.gov)

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1 May XX, 2010

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

3 The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting  
4 comments on this exposure draft of a proposed Statement of Federal Financial  
5 Accounting Standards entitled, *Definitional Changes Related to Deferred Maintenance*  
6 *and Repairs: Amending Statement of Federal Financial Accounting Standards 6,*  
7 *Accounting for Property, Plant, and Equipment.* Specific questions for your  
8 consideration begin on page 7 but you are welcome to comment on any aspect of this  
9 proposal. Your response would be more helpful to the Board if you explain the reasons  
10 for your position and any alternative you propose. Responses are requested by  
11 June 30, 2010.

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

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

20 Wendy M. Payne, Executive Director  
21 Federal Accounting Standards Advisory Board  
22 Mailstop 6K17V  
23 441 G Street, NW, Suite 6814  
24 Washington, DC 20548  
25

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

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

30 Tom L. Allen

31 Chairman

## 1 Executive Summary

### 2 What is the Board proposing?

3 Deferred maintenance (DM) is maintenance that was not performed when it should  
4 have been or was scheduled to be and which, therefore, is put off or delayed for a  
5 future period.<sup>1</sup> Although DM is not sufficiently measurable to support recognition or  
6 disclosure as basic information, it is nonetheless a cost and has thereby been  
7 required to be reported as required supplementary information (RSI).<sup>2</sup> Information  
8 about deferred maintenance has been required because the information is important  
9 to financial statement users.<sup>3</sup>

**Comment:** Per Michael Granof email dated 4/6/10.

11 This Statement proposes amending Statement of Federal Financial Accounting  
12 Standards (SFFAS) 6, *Accounting for Property, Plant, & Equipment* (PP&E). The  
13 amendments (1) clarify that deferred maintenance reporting includes deferred  
14 repairs, (2) revise the examples of maintenance and repair (M&R) activities to better  
15 reflect current practices and encompass activities associated with equipment and  
16 (other) personal property, and (3) address issues related to the distinction between  
17 maintenance, repairs and new capital expenditures.

19 The proposed amendments represent a first step toward improving reporting on  
20 deferred maintenance. The Board is working, and will continue to work, closely with  
21 stakeholders interested in improving management of and reporting on federal PP&E  
22 and related deferred maintenance. By addressing definitional issues as a first step,  
23 the Board will facilitate continued cooperation toward improved financial reporting.

**Comment:** Per Scott Showalter's email dated 4/3/10.

Staff suggests retaining "cooperation" and adding Mr. Showalter's reference to financial reporting.

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**Inserted:** ing financial reporting

### 24 How would this proposal improve federal financial reporting and contribute to 25 meeting the federal financial reporting objectives?

26 Of the four objectives outlined in Statement of Federal Financial Accounting  
27 Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the operating  
28 performance objective is identified as being most important for DM reporting.<sup>4</sup> DM

<sup>1</sup> Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant and Equipment*, November 30, 1995, par. 77.

<sup>2</sup> SFFAS 6, par. 174

<sup>3</sup> 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.

<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, September 2, 1993, par. 9-10.

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1 reporting is important to meeting this objective because the federal government is  
2 accountable to citizens for the proper stewardship and administration of its federal  
3 assets. Reporting on DM assists users in ascertaining asset condition as well as  
4 evaluating the effectiveness of the asset maintenance practices that agencies  
5 employ in fulfilling their missions.

6 Issues with DM reporting have existed since the issuance of SFFAS 6 in 1995. The  
7 two most common issues noted are (1) the lack of comparability when assessing  
8 asset condition both within and among agencies and (2) measurement and reporting  
9 practices that vary greatly among agencies. These issues arise due to agencies  
10 having differing interpretations regarding the definition of "deferred maintenance" in  
11 SFFAS 6. This has led to confusion and ambiguity among interested users of DM  
12 information.

**Comment:** Per Scott Showalter's email dated 4/3/10.

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13 The Board is of the opinion that redefining the term "maintenance" as it currently  
14 exists in SFFAS 6 (paragraph 78) is an initial step in resolving the issues noted  
15 above. However, the Board also plans to address measurement and reporting  
16 issues through continued consultation with stakeholders which could lead to the  
17 issuance of additional guidance and/or standards.

18 This proposal does not alter financial reporting requirements but may result in  
19 changes in practice due to the enhanced definition. The ultimate benefits of revising  
20 the M&R definition include but are not limited to:

- 24 a. Developing FASAB terminology that is meaningful to federal agencies and users.
- 25
- 26 b. Helping reduce disparate and non-uniform definitions and/or terms.
- 27
- 28 c. Increasing comparability by reducing definitional variations among agencies.
- 29

**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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**Comment:** Per Scott Showalter's email dated 4/3/10. "Items in bold should be left justified, aligned with Resolving Definitional Concerns".

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1 **Questions for Respondents**

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

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

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

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

18 Wendy M. Payne, Executive Director  
19 Federal Accounting Standards Advisory Board  
20 Mailstop 6K17V  
21 441 G Street, NW, Suite 6814  
22 Washington, DC 20548  
23

24 All responses are requested by June 30, 2010.

The Board proposes redefining the term “maintenance” as it currently exists in SFFAS 6, paragraph 78, and repeated in the insert below:

**Comment:** Per Scott Showalter email dated 4/3/10.

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.

We ask that you refer to the proposed definition shown below as you read through the questions and formulate your responses.

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 directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.*

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 – A28 for a detailed discussion and related explanations)? Please provide the rationale for your answer.**

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:

**Comment:** Per Scott Showalter's email dated 4/3/10.

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1 “Activities include preventive maintenance, replacement of parts,  
2 systems, or components, and other activities needed to preserve or  
3 maintain the asset.”<sup>5</sup>

4  
5 **a. Do you agree or disagree with each change to the list of activities**  
6 **(refer to paragraph A16 through A18 for a list of changes and related**  
7 **explanations)? Please provide the rationale for your answer to each**  
8 **change.**

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9  
10 **b. Do you agree or disagree with the elimination of the phrase “so that it**  
11 **continues to provide acceptable services and achieves its expected**  
12 **life” (refer to paragraphs A19, A20, and A28 for detailed discussions**  
13 **and related explanations)? Please provide the rationale for your**  
14 **answer to each reference/phrase.**

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15  
16  
17 Q3. The Board proposes changing the last sentence of the definition to  
18 exclude the reference to needs “originally intended” to be met by the asset.  
19 Instead, “*activities directed towards expanding the capacity of an asset or*  
20 *otherwise upgrading it to serve needs different from, or significantly greater*  
21 *than, its current use*” is proposed (underscoring added for emphasis).

**Comment:** Edits via cold-read conformance review.

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

23 “Maintenance and repairs exclude activities directed towards expanding the  
24 capacity of an asset or otherwise upgrading it to serve needs different from, or  
25 significantly greater than, its current use.”

26 **Do you agree or disagree with the aforementioned change (refer to**  
27 **paragraph A21 for a detailed discussion and related explanation)? Please**  
28 **provide the rationale for your answer.**

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

**Comment:** Edits via cold-read conformance review.

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**Comment:** Per Scott Showalter’s email dated 4/3/10.

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**Deleted:** whereas

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**Comment:** Per Woody Jackson on 4/9/10 telecon.

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<sup>5</sup> 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.”

1 Do you believe **Deferred Maintenance and Repair (DM&R) reporting**  
 2 **should be limited to DM&R related to capitalized PP&E or directed broadly**  
 3 **to fixed assets? Please provide the rationale for your answer. Refer to**  
 4 **paragraph A22(c) and A25 for a detailed discussion and related**  
 5 **explanation.**

6 Q5. The Board encourages respondents to not only provide input concerning  
 7 any and all aspects of the proposed changes thus far discussed, but also other  
 8 changes, points, issues and/or considerations which may not have been  
 9 specifically addressed in this exposure draft. In addition, the basis for  
 10 conclusions explains the Board’s goals for this project (see par. A8) and also  
 11 discusses other issues raised by task force members (as an example, see  
 12 paragraphs A11 through A13).

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

**Comment:** Per Michael Granof email dated 4/6/10, Scott Showalter’s email dated 4/3/10 and Alan Schumacher telecon on 4/8/10.

**Comment:** Per Scott Showalter’s email dated 4/3/10. Change “limited to” to “directed toward.”

Staff suggests instead retaining “limited to” to highlight that (1) SFFAS 6 requires DM reporting on PP&E and (2) that there is an acknowledged difference shifting to fixed assets. To make the two options parallel, staff added “directed broadly” for the fixed assets option.

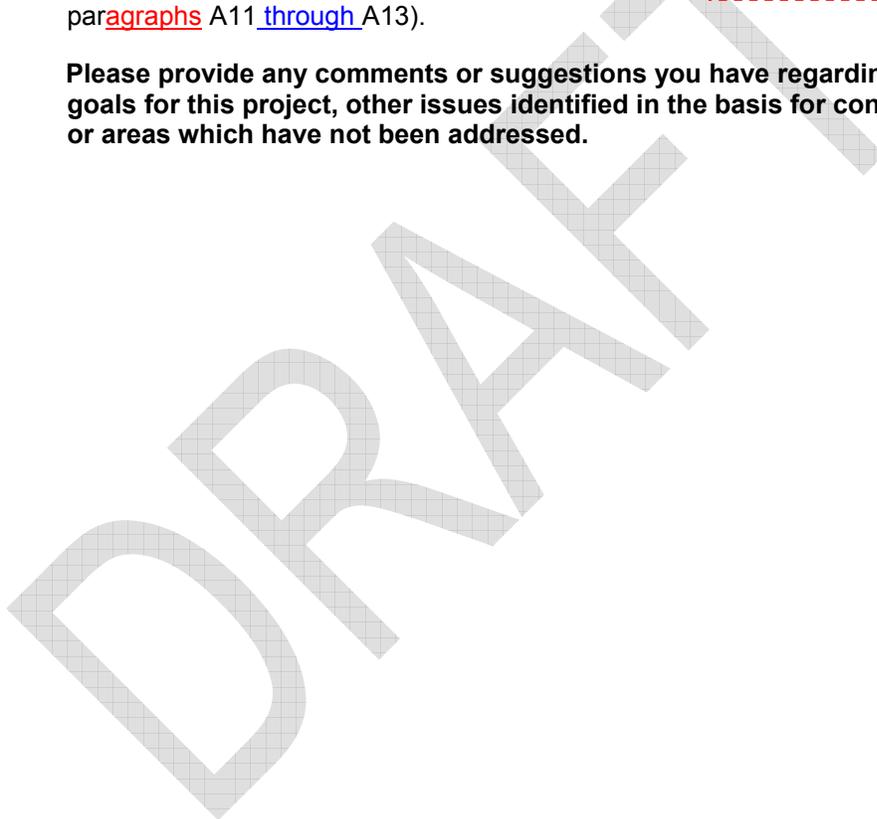
**Comment:** Per Woody Jackson on 4/9/10 telecon.

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**Deleted: 8 through A13**

**Comment:** Per Scott Showalter’s email dated 4/3/10. “Why limit to A11?”

Staff concurs and notes that we would like to highlight the major issue concerning “flexibility” which is addressed specifically in A11. Since the full discussion carries through to A13, we have added that as well as noting that it is one example.



1 Introduction

2 Purpose

- 3 1. The Board recognizes that issues regarding both federal real property  
 4 management and deferred maintenance are currently being addressed by  
 5 stakeholders including members of Congress,<sup>6</sup> federal agencies<sup>7</sup> as well as  
 6 federal and non-federal councils.<sup>8</sup> As part of a coordinated effort among key  
 7 federal stakeholders, the Board is committed to providing timely guidance via  
 8 the standard-setting process that is responsive to the issues now being  
 9 addressed. To that end, and in consultation with stakeholders, the Board  
 10 believes careful consideration of the definition of maintenance is a critical first  
 11 step in improving the accounting and reporting of deferred maintenance.
- 12 2. The objective of this Statement is to incorporate changes in response to  
 13 concerns raised by the financial and technical<sup>9</sup> communities. The Board also  
 14 considered the findings of a Federal Facilities Council (FFC) Committee on  
 15 Operations & Maintenance review,<sup>10</sup> (conducted via an interagency effort led  
 16 by the Department of Defense (DoD)) of SFFAS 6. The major SFFAS 6  
 17 concerns identified by this review include: (a) different interpretations among  
 18 agencies and auditors regarding what to report and how to report, (b) its  
 19 introduction of terms not used in the technical community, (c) terms in the  
 20 maintenance definition loosely defined, and (d) terms in the maintenance  
 21 definition not reflective of actual practice.
- 22 3. Additionally, the Board desires to improve and, where needed, develop  
 23 accounting and reporting guidance relative to deferred maintenance and  
 24 repairs (DM&R) that best reflects or enhances current federal practices.  
 25 SFFAS 14 issued in April 1999 reclassified deferred maintenance (DM) to  
 26 required supplementary information (RSI) primarily as a result of auditor  
 27 concerns. Since then, asset assessment methodologies have matured and

**Comment:** Suggested edits by Michael Granof via email 4/6/10.

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**Comment:** Per Scott Showalter's email dated 4/3/10.

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**Comment:** Suggested edits by Michael Granof via email 4/6/10.

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**Comment:** Per Bob Dacey – he remains uncertain of the meaning of this phrase.

**Comment:** Per Scott Showalter's email dated 4/3/10.

**Deleted:** , where appropriate,

**Deleted:**

**Comment:** Edits via cold-read conformance review. Spell out first time use of DM.

<sup>6</sup> Federal Real Property Disposal Enhancement Act of 2009. H.R. 2495, 111<sup>th</sup> Congress, 1<sup>st</sup> Session. Federal Real Property Disposal Pilot Program. S. 1667, 110<sup>th</sup> Congress, 2<sup>nd</sup> Session.

<sup>7</sup> Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4<sup>th</sup>, 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."

<sup>8</sup> National Research Council (NRC) Study on Predicting Outcomes of Investments in Maintenance and Repair for Federal Facilities. This study will be conducted by a panel of experts. The committee plans to finish its report by December 31, 2010.

<sup>9</sup> This Statement uses the phrase "technical community" to refer to agency personnel responsible for the management of property, plant, and equipment including technical issues such as maintenance and repair.

<sup>10</sup> The review was initiated in response to a Chief Financial Officers Council request.

1 administration initiatives<sup>11</sup> have prompted agencies to develop condition  
2 assessment, measurement and reporting systems. However, these  
3 methodologies and systems are not uniform throughout government, resulting  
4 in, a lack of comparability.

5 **Materiality**

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

DRAFT

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<sup>11</sup> Presidential Executive Order 13327.

1 **Proposed Standards**

2 **Scope**

3 5. This Statement revises maintenance and repair (M&R) terminology in  
4 Statement of Federal Financial Accounting Standards (SFFAS) 6, as  
5 amended, by modifying the definition of maintenance and by replacing the  
6 term “deferred maintenance” with “deferred maintenance and repairs.”

**Comment:** Suggested edit by Michael Granof via email 4/6/10.

7  
8 **Effect on Existing Standards - SFFAS 6**

9 6. SFFAS 6, paragraph 78 is amended as follows:

10 ~~For purposes of this standard, Maintenance and repairs is are~~  
11 ~~activities directed toward~~ described as the act of keeping fixed  
12 assets in an acceptable condition. ~~Activities~~ It includes preventive  
13 maintenance, ~~normal repairs,~~ replacement of parts, ~~systems, or and~~  
14 ~~structural~~ components, and other activities needed to preserve ~~or~~  
15 ~~maintain~~ the asset so that it continues to provide acceptable  
16 services and achieves its expected life. Maintenance ~~and repairs~~  
17 excludes activities ~~directed towards~~ expanding the capacity of an  
18 asset or otherwise upgrading it to serve needs different from, or  
19 significantly greater than, ~~its current use, those originally intended.~~

**Comment:** Edits via cold-read conformance review.

20  
21 Such that the revised definition is:

22  
23 Maintenance and repairs are activities directed toward keeping  
24 fixed assets in an acceptable condition. Activities include preventive  
25 maintenance, replacement of parts, systems, or components, and  
26 other activities needed to preserve or maintain the asset.  
27 Maintenance and repairs exclude activities directed towards  
28 expanding the capacity of an asset or otherwise upgrading it to  
29 serve needs different from, or significantly greater than, its current  
30 use.

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31  
32 7. The term “maintenance” is replaced with “maintenance and repairs” and  
33 conforming grammatical changes are made in the following paragraphs of  
34 SFFAS 6:

- 35 a. Paragraph 77 – “Deferred maintenance ~~and repairs” are is~~  
36 maintenance ~~and repairs~~...
- 37 b. Paragraph 80 – ...for deferred maintenance ~~and repairs~~ may...
- 38 c. Paragraph 82 – ...in a forecast of maintenance ~~and repairs~~ expense,  
39 these forecasts may serve as a basis against which to compare

1 actual maintenance and repairs expense and estimate deferred  
 2 maintenance and repairs.

3 d. Paragraph 83<sup>12</sup> |

**Comment:** Per Scott Showalter's email dated 4/3/10; "Will this wording change based on the answer to Q4? Should this be footnoted?"  
 Staff concurs with footnoting.

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

7 • Identification of each major class <sup>[footnote 6 omitted]</sup> of asset for which  
 8 maintenance and repairs haves been deferred.

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

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

14 - description of requirements or standards for acceptable operating  
 15 condition,

16 - any changes in the condition requirements or standards, and asset  
 17 condition<sup>[footnote 7 omitted]</sup> and a range or a point estimate of the dollar amount  
 18 of maintenance and repairs needed to return assets to their # to its  
 19 acceptable operating condition.

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

22 - the original date of the maintenance and repairs forecast and an  
 23 explanation for any changes to the forecast,

24 - prior year balance of the cumulative deferred maintenance and  
 25 repairs amount,

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

29 - the dollar amount of maintenance and repairs actually performed  
 30 during the period,

<sup>12</sup> Please note that this section may be further modified as a result of the outcome of subsequent work related to the measurement and reporting phase of this project.

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- 1                   – the difference between the forecast and actual maintenance and  
2                   repairs,
- 3                   – any adjustments to the scheduled amounts deemed necessary by  
4                   the managers of the PP&E, <sup>[footnote 8 revised]</sup> and
- 5                   – the ending cumulative balance for the reporting period for each major  
6                   class of asset experiencing deferred maintenance and repairs.

7 [Footnote 8 - <sup>8</sup>Adjustments may be necessary because the cost of maintenance and  
8 repairs foregone may not be cumulative. For example, if periodic painting is skipped  
9 twice it is not necessarily true that the cost would be double the scheduled amount.]

10  
11                   • The above listed disclosure requirements are not applicable to the U.S.  
12 government-wide financial statements. SFFAS 32 provides for required  
13 supplementary information applicable to the U.S. government-wide financial  
14 statements for these activities.

- 15  
16                   e. Paragraph 84 – ...noncritical amounts of maintenance and repairs  
17                   needed.....noncritical amounts of maintenance and repairs  
18                   needed...

19                   **Effective Date**

- 20                   8. This Statement is effective for periods beginning after September 30, 2011.  
21                   Earlier implementation is encouraged.

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

1 **Appendix A: Basis for Conclusions**

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

7 **Project History**

8 A1. In 1995 in its release of SFFAS 6, *Accounting for Property, Plant and*  
9 *Equipment*, the Board officially defined DM as “maintenance that was not  
10 *performed when it should have been or was scheduled to be and which,*  
11 *therefore, is put off or delayed for a future period.”* SFFAS 6, as later  
12 amended,<sup>13</sup> established that information about DM would be RSI rather  
13 than disclosed (in basic information) as required originally in SFFAS 6.  
14 The Board opined that DM reporting was in an evolutionary phase with  
15 agencies in the process of developing a variety of systems to assess DM.  
16 As a result, measurement of DM information was neither consistent nor  
17 comparable.<sup>14</sup> The Board identified a need to (a) develop guidance on  
18 determining acceptable condition and (b) revise standards based on  
19 experience gained during the experimentation period.

20 A2. In June 1996 the Board addressed the issue of DM in its release of  
21 SFFAS 8, *Supplementary Stewardship Reporting*. The Board stated that  
22 one way the government demonstrates accountability over assets is by  
23 reporting on both their existence and condition by a reference to DM  
24 reported in the financial statements.

25 A3. In 1999 the Chief Financial Officers (CFO) Council initiated a review of  
26 SFFAS 6 as it pertained to DM reporting. The Federal Facilities Council  
27 (FFC) conducted a study as a separate inter-agency effort led by the  
28 Department of Defense.<sup>15</sup> The study addressed concerns over (a) different  
29 interpretations among agencies and auditors regarding what and how to  
30 report DM information, (b) the introduction of terms not used in the  
31 technical community, (c) terms in the maintenance definition that were

**Comment:** 4/6/10 - Per Michael Granof: "I didn't understand this statement as written until I went back to SFFAS 8. The wording in SFFAS seems to be a bit clearer so why not use it."  
Staff Concurs.  
**Deleted:** with references to DM information in the financial reports.

<sup>13</sup> SFFAS 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6, Accounting for Property, Plant and Equipment and SFFAS No. 8, Supplementary Stewardship Reporting*. Date issued, April 1999.

<sup>14</sup> SFFAS 6, par. 180.

<sup>15</sup> The FFC was established in 1953 and operates under the auspices of the National Research Council (NRC), the principal operating agency of the National Academies and the National Academy of Engineering. The FFC is a cooperative association of Federal agencies and periodically publishes reports that are prepared by committees of federal employees and as such, do not constitute NRC recommendations.

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- 1 loosely defined, and (d) terms in the maintenance definition that were not  
2 reflective of actual practice
- 3 A4. In May 2003 the Board again addressed the existence of DM issues in  
4 SFFAS 23, *Eliminating the Category National Defense Property, Plant,*  
5 *and Equipment*. The Board stated that it expected to undertake a project  
6 in the future to integrate depreciation, impairment and DM reporting.
- 7 A5. In late 2008 the Board reviewed its technical agenda and initiated a DM  
8 project. The DM project was highly ranked by constituents providing input  
9 regarding priorities for the Board's technical agenda. A FASAB task force  
10 was convened to study the findings of past reviews. The task force also  
11 plans to address recent federal and industry developments primarily in the  
12 area of real property accountability and asset condition assessments. The  
13 task force is addressing issues in two phases – (1) definitions and (2)  
14 measurement and reporting. This exposure draft is the result of the  
15 definitions phase.
- 16 A6. Not only has the Board considered this matter important in most  
17 deliberations concerning the government's capital assets, DM in  
18 connection with federal real property continues to be a Government  
19 Accountability Office (GAO) high risk area.<sup>16</sup> Given the different asset  
20 maintenance practices at many of the agencies, the Board has tentatively  
21 concluded that some degree of flexibility<sup>17</sup> in how DM is assessed and  
22 measured should continue. For example, the use of similar or even  
23 identical assets placed in service for different purposes necessitates  
24 flexibility in assessment and measurement. One example is an X-ray  
25 machine used in a hospital emergency room as compared to an X-ray  
26 machine used in a museum's conservation laboratory. Each may have  
27 different operating standards as well as inspection requirements to best  
28 reflect the nature of the asset's use in supporting its mission.
- 29 A7. Although the Board recognizes the need to retain some agency flexibility,  
30 the Board notes that management should establish and report its policies  
31 regarding acceptable condition criteria. For example, when management  
32 elects to use the condition assessment survey method, SFFAS 6,  
33 paragraph 83 requires management to report requirements or standards

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**Comment:** 4/6/10 Michael Granof: "I think it is important to emphasize that flexibility is justified in the measurement and assessment of DM – as opposed to how it is reported. To me, at least, I found the original wording unclear as I assumed that it referred to reporting."

Although Staff concurs with changes, note that in some cases flexibility in measurement has allowed for understatement of DM&R. Use of "tentatively" and "some" reserves the Board's right to future changes, if any.

<sup>16</sup> 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.

<sup>17</sup> 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."

1 for acceptable condition reporting. In forthcoming guidance related to the  
 2 measurement and reporting phase of this project, the Board intends to  
 3 provide more guidance regarding factors that management may  
 4 appropriately consider in determining acceptable condition as well as the  
 5 appropriate degree of flexibility in measurement.

## 7 Resolving Definitional Concerns

8 A8. Concerning the goal of DM&R reporting, the Board believes there is  
 9 confusion regarding what is required in the financial reports under the  
 10 current definitions. The Board's ultimate goal for DM&R information is that  
 11 it serve as a useful tool ~~for~~ all decision makers, internal and external  
 12 including Congress, oversight bodies, management, and citizens. To be  
 13 useful, it must provide information about needed M&R that has yet to be  
 14 performed. Therefore, management should present a reasonable  
 15 estimate(s) of the cost of maintenance and repair activities that it would  
 16 have performed in support of its mission if resources had been available in  
 17 the past. In addition, management should provide explanatory material.

**Comment:** Suggested edit by  
Michael Granof via email 4/6/10.

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18 A9. The Board believes that management should present (1) an explanation of  
 19 how the agency determines acceptable condition by asset class, and (2)  
 20 DM&R including the portion of funded M&R that could not be performed  
 21 during the reporting period which is now also deferred. The value of  
 22 DM&R information is ensuring that management adequately reports  
 23 consistently from period to period (a) how it defines DM&R in-practice, (b)  
 24 its requirements for acceptable condition and related condition  
 25 assessments, and (c) the asset maintenance policies and practices it  
 26 intends to follow.

27 A10. Clearly, achieving the goal of DM&R reporting requires many judgments  
 28 regarding what was needed in each situation. These definitional changes  
 29 are a first step in improving the usefulness of DM&R reporting. The Board  
 30 recognizes that there will be further discussions on this topic. However,  
 31 the Board ~~strives not to be~~ overly prescriptive. Several definitional issues  
 32 were discussed by the task force. For some issues, changes were  
 33 proposed and in others they were not. Each issue is discussed below and  
 34 the Board's decision explained.

**Comment:** Per Scott Showalter's  
email dated 4/3/10; "strives".

**Comment:** Suggested edit by  
Michael Granof via email 4/6/10; "not  
to be."

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## 36 Acceptable Condition and Judgment

37 A11. M&R planning requires decisions about the level of condition to which an  
 38 asset should be maintained – for example, "as new" condition or "fair"  
 39 condition. When management elects to use the condition assessment

1 survey method, SFFAS 6 also requires that information concerning  
2 requirements or standards for acceptable condition be reported; assisting  
3 users in understanding what condition the agency judges to be  
4 "acceptable." The Board acknowledges that a view exists among certain  
5 practitioners and users of DM&R information that because SFFAS 6  
6 guidance allows decisions about acceptable levels of condition it is too  
7 flexible. Further, it requires agencies to rely heavily on unspecified human  
8 judgment in the area of "acceptable" condition.

**Comment:** Edits via cold-read conformance review.

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**Comment:** Edits via cold-read conformance review. Hyphen confuses the grammar of this sentence, but inserting quotes around "acceptable" clarifies it.

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**Comment:** Per Scott Showalter's email dated 4/3/10.

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9 A12. Preparers and users who hold this view opine that unless FASAB includes  
10 guidance defining "acceptable condition" in the DM&R standards,  
11 agencies will continue to have disparate goals regarding DM&R. In their  
12 opinion, this could lead to (a) inaccurate DM&R reporting because asset  
13 assessment practices may not be consistent without a government-wide  
14 definition of "acceptable condition", (b) flawed M&R planning, and (c)  
15 DM&R reporting that is not informative to readers. After careful  
16 consideration of this view, the Board believes that the resultant guidance  
17 these preparers/users have asked FASAB to articulate would be  
18 management policies and are not the appropriate role of FASAB. In  
19 essence, the more appropriate question for the Board is how prescriptive  
20 or principles-based DM&R standards should be.

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

**Comment:** 4/6/10 Michael Granof: "I'm not sure what this means. Wouldn't some agencies account for M&R separately, at least in their internal accounts – at least para. 14 implies that they might."

Staff suggests we change from "accounting" to "financial reporting" (purposes) to address Mr. Granof's concern.

**Comment:** Suggested edit per Hal Steinberg email dated 4/5/10; adding "comma." Staff suggests instead a construction parallel to that of the first sentence for clarity.

**Deleted:** for financial

**Inserted:** financial

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**Deleted:** reporting purposes,

**Inserted:** reporting

**Inserted:** ,

30 **Repairs and Examples**

31 A14. The technical community at some agencies does not consider repairs a  
32 subset of maintenance and each is treated separately for operational  
33 purposes. However, the Board notes that M&R are not treated separately  
34 for financial reporting purposes. Confirming the earlier CFO Council  
35 initiated review, the task force noted that there is much confusion  
36 regarding the proper treatment of repairs, resulting in disparate accounting  
37 and reporting of repair work. Due to this confusion, some agencies may  
38 not be reporting deferred repairs. As a result, the Board believes that to  
39 eliminate confusion and improve financial reporting the term "deferred  
40 maintenance" should be revised to "deferred maintenance and repairs."  
41 Further conforming changes and additions are described and explained  
42 below.

1 A15. The term “repair” either in its original SFFAS 6 context or currently, is not  
 2 defined in FASAB literature. Consequently, various interpretations have  
 3 been made over time that often create confusion or ambiguity concerning  
 4 how best to classify an M&R activity. While it is the Board’s position that  
 5 for financial reporting purposes M&R are not treated separately, it is the  
 6 Board’s opinion that maintenance activities retain an asset’s functionality  
 7 whereas repair activities restore an asset’s functionality.

8 A16. The second sentence of the existing definition provides an illustrative list  
 9 of activities which are not meant to be all inclusive. The Board believes  
 10 that the list of activities contained in the second sentence of the existing  
 11 definition should be changed to better reflect current federal and industry  
 12 practices as well as encompass M&R activities related to equipment and  
 13 other personal property in addition to buildings.

14 A17. The current sentence would be changed as follows:  
 15 Activities It includes preventive maintenance, normal  
 16 repairs, replacement of parts, systems, or and  
 17 structural components, and other activities needed to  
 18 preserve or maintain the asset so that it continues to  
 19 provide acceptable services and achieves its  
 20 expected life.

21 A clean reading of the sentence follows:

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

25 A18. In so doing, the Board notes the following changes:

26 a. Deleting the term “normal repairs” since, in technical terms, there are  
 27 no “normal” repairs. Such a reference causes confusion and  
 28 ambiguity inasmuch as it (1) could lead to the exclusion of repair  
 29 activities (e.g. repairs brought about by injury or damage) that would  
 30 ordinarily fall under deferred maintenance reporting and (2) implies  
 31 that there are abnormal or extraordinary repairs.  
 32  
 33

34 b. Adding the term “systems” - first, because complete system  
 35 replacements can be part of a routine M&R program, they should not  
 36 be excluded from the definition of M&R. For example, it is not  
 37 uncommon for real property to be viewed in terms of building service  
 38 systems such as electrical, plumbing, HVAC, fire protection, and  
 39 elevators. Second, like other assets, Information Technology (IT)  
 40 systems also are subject to routine maintenance and repair (e.g.

**Comment:** 4/6/10 Michael Granof:  
 “Do we really want to say this. I  
 thought the whole point of this  
 statement was that it is really  
 impossible to make a meaningful  
 distinction between the two.”

Staff advises that the Board retain the  
 Task force’s recommendation to help  
 clarify and sharpen existing guidance.  
 From a technical perspective,  
 retaining function versus restoring  
 function in fact helps clarify and  
 distinguish a “routine” repair from a  
 capital-type repair which is excluded  
 from DM&R reporting.

Staff believes that Mr. Showalter’s  
 suggested edit (While it is the Board’s  
 position....) improves this sentence.

**Comment:** Per Scott Showalter’s  
 email dated 4/3/10.

Staff believes that Mr. Showalter’s  
 suggested edit improves the passage.  
 Staff suggests substituting “financial  
 reporting” for “accounting” purposes.

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 conformance review.

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

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1 version releases commonly referred to as “maintenance fixes”) and  
 2 consequently, should be included in the list of M&R activities. The IT  
 3 example would typically fall under a Maintenance Agreement with a  
 4 vendor and could represent a significant investment among assets  
 5 classified as personal property or equipment.

6 | c. Deleting “structural” as it implies real property and because the  
 7 FASAB definition covers all major asset classes to include equipment  
 8 and other personal property, this change helps to ensure appropriate  
 9 application.

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conformance review.

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10 d. Adding “maintain” in addition to “preserve” - not all assets are  
 11 “preserved”; asset preservation such as one would find with a  
 12 museum collection is different from asset maintenance. Asset  
 13 preservation has a distinct meaning in the technical community as it  
 14 implies a level of maintenance (e.g. museum collections) usually  
 15 reserved for historical monuments/structures and synonymous with  
 16 conservation techniques.

### 17 Acceptable Services

18 A19. “Acceptable services” should be eliminated since (1) the Board desires to  
 19 simplify the definition where possible by defining M&R in a crisp manner,  
 20 and (2) asset preservation or maintenance to an “acceptable condition”  
 21 standard inherently provides for “acceptable services.” That is, asset and  
 22 mission effectiveness (e.g. desired output of goods or services) is  
 23 inherently understood to be the underlying motive behind M&R.

**Comment:** Edits via cold-read  
conformance review.

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24 A20. As a result, the second sentence of the proposed definition omits the  
 25 following phrase: “acceptable services.” The revised second sentence  
 26 would read as follows (underscoring added for emphasis):

27 “Activities include preventive maintenance, replacement of  
 28 parts, systems, or components, and other activities needed  
 29 to preserve or maintain the asset.”<sup>18</sup>

30

### 31 Original Intent or Current Use

32 A21. The task force discussed concerns regarding the phrase “originally  
 33 intended use.” Some members indicated that an asset’s originally

<sup>18</sup> 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.”

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):

**Comment:** Per Scott Showalter's email dated 4/3/10.

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

A22. Members of the task force raised several concerns regarding the exclusion of capital improvements from DM&R reporting. The concerns include:

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

**Comment:** Edits via cold-read conformance review.

**Comment:** Per Scott Showalter's email dated 4/3/10.

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A23. 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

1 M&R policy; this is an event that has financial consequences for the entity  
 2 and is relevant to decision makers.

3 A24. The Board is mindful that the distinction between M&R activities and  
 4 improvements to existing assets is often grey. Some M&R activities that  
 5 could enhance an asset may not generally be considered by accountants  
 6 as “capital improvements” that are recognized as additions to the agency’s  
 7 assets. In addition, there will be uncertainty regarding the unit of analysis  
 8 – whether an entire facility is “the asset” or its individual components are  
 9 “assets.” Therefore, depending on the unit of analysis, an activity might be  
 10 considered M&R or replacement of an old asset with a new one. It is not  
 11 the Board’s intention that a precise distinction be attained in every case.  
 12 Rather, that agencies should not include new asset, capital improvement  
 13 and/or enhancement needs in DM&R and should treat like circumstances  
 14 similarly over time since a consistently followed practice that is well  
 15 described will assist decision makers.

16 A25. Some have noted that the definition refers to M&R of fixed assets rather  
 17 than M&R of PP&E.<sup>19</sup> They question whether DM&R reporting includes  
 18 fully depreciated PP&E and PP&E not capitalized due to capitalization  
 19 thresholds. In practice, PP&E accounting records comprise only those  
 20 fixed assets whose costs have been recorded as assets and carried  
 21 forward (i.e. capitalized) into one or more future periods when the benefits  
 22 associated with those assets will be realized.<sup>20</sup> For practical reasons,  
 23 some fixed assets are not capitalized and their costs are treated as  
 24 expense. From an asset maintenance point of view, the accounting  
 25 classification of a fixed asset at acquisition as either capitalized PP&E or  
 26 expense does not determine its future maintenance requirements or  
 27 schedule. For example, a single communication tower may fall under an  
 28 agency’s dollar capitalization threshold and be treated as an expense.  
 29 However, from a facility maintenance point of view, such equipment needs  
 30 to be maintained in order to meet agency objectives. In cases where the  
 31 required maintenance on non-capitalized assets is not performed, DM&R  
 32 may exist. Therefore, because PP&E is subject to various capitalization  
 33 thresholds whereas actual maintenance requirements are not, it may be  
 34 appropriate to define M&R in the broader context of fixed assets as  
 35 opposed to PP&E which is subject to balance sheet recording criteria.  
 36 However, the Board acknowledges that reporting practices reflect  
 37 management’s use of judgment in whether or not to report DM&R for  
 38 capitalized assets or for fixed assets. For example, some agencies may  
 39 not consider DM&R on non-capitalized assets as critical to agency

**Comment:** Per Scott Showalter's email dated 4/3/10.

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**Comment:** Per Woody Jackson on 4/9/10 telecon.

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**Inserted:** capitalized assets as critical to agency programs and report DM&R only on capitalized assets; whereas, other agencies may consider certain identified non

<sup>19</sup> SFFAS 6, par 78.

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

1 | ~~programs and report DM&R only on capitalized assets; whereas, other~~  
 2 | ~~agencies may consider certain identified non-capitalized assets as critical~~  
 3 | ~~and, accordingly, elect to report DM&R for both capitalized and identified~~  
 4 | ~~non-capitalized assets.~~ Therefore, the Board is seeking input on this issue  
 5 | and plans to address it in the next phase of the project.

**Deleted:**  
**Inserted:** capitalized assets as critical and, accordingly, elect to report DM&R for both capitalized and identified non-capitalized assets.

6 | A26. By reaffirming that M&R excludes capital improvements, the Board strives  
 7 | to better align DM&R with the condition index<sup>21</sup> calculation used for the  
 8 | Federal Real Property Profile (FRPP). This should result in agencies only  
 9 | having to develop one estimate of DM&R for both purposes.

**Comment:** Per Scott Showalter's email dated 4/3/10.  
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10 | A27. In addition to eliminating confusion that could arise from having two DM&R  
 11 | amounts, revising the maintenance definition is also expected to (a)  
 12 | simplify implementation requirements in the field and (b) improve the  
 13 | effectiveness of financial reporting. For example, because asset  
 14 | maintenance plans can commingle capital improvements with M&R  
 15 | activities distinguishing activities should foster greater linkage between  
 16 | asset maintenance systems and accounting systems. Expected changes  
 17 | arising from clarifying the M&R definition may require changes of some  
 18 | agency practices. However, the Board believes that the benefits outweigh  
 19 | the resultant costs while helping to reduce ambiguity, increase  
 20 | comparability and enhance financial reporting.

**Comment:** Per Alan Schumacher telecon on 4/8/10.  
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21 | A28. Additionally, the Board believes that linking DM&R to an "expected life"  
 22 | estimate is not appropriate for the following reasons. First, ~~federal assets~~  
 23 | are usually maintained and managed well beyond any initial estimate of  
 24 | useful or expected life in order to secure a maximum return or service  
 25 | benefit from the asset. Second, from an operational perspective, M&R  
 26 | activities may not solely be performed for the purpose of extending an  
 27 | "asset's useful life" since health and safety considerations may be  
 28 | paramount. Furthermore, in practice useful life or expected life may  
 29 | change over time due to operating conditions, actual maintenance  
 30 | practices, or technical changes. As an asset's expected life changes, the  
 31 | useful life assigned in the accounting records should be appropriately  
 32 | updated. However, this presents practical problems if M&R is tied to  
 33 | meeting an expected life – for example, which expected life is to be used  
 34 | and what happens when the expected life is exceeded. Therefore, the  
 35 | Board believes that linking M&R to attainment of an expected life is not  
 36 | appropriate.

**Comment:** Per Alan Schumacher telecon on 4/8/10.  
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<sup>21</sup> **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.

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1	<b>Appendix B: Abbreviations</b>	
2		
3	CFO	Chief Financial Officers (Council)
4	DoD	Department of Defense
5	DM	deferred maintenance
6	DM&R	deferred maintenance and repair
7	FASAB	Federal Accounting Standards Advisory Board
8	FFC	Federal Facilities Council
9	FRPP	Federal Real Property Profile (GSA Asset Management Database)
10	GAAP	generally accepted accounting principles
11	GAO	Government Accountability Office
12	M&R	maintenance and repair
13	MD&A	management's discussion and analysis
14	OMB	Office of Management and Budget
15	PP&E	property, plant and equipment
16	RSI	required supplementary information
17	SFFAC	Statement of Federal Financial Accounting Concepts
18	SFFAS	Statement of Federal Financial Accounting Standards
19		

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Michael H. Granof

Nancy Fleetwood

Norwood J. Jackson, Jr.

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**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 June 30, 2010

May XX, 2010

Working Draft – Comments are Not Requested on This Draft

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## 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](http://www.fasab.gov).

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May XX, 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 June 30, 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](mailto: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

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## 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.<sup>1</sup> Although DM is not sufficiently measurable to support recognition or disclosure as basic information, it is nonetheless a cost and has thereby been required to be reported as required supplementary information (RSI).<sup>2</sup> Information about deferred maintenance has been required because the information is important to financial statement users.<sup>3</sup>

This Statement proposes amending Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, & Equipment* (PP&E). The amendments (1) clarify that deferred maintenance reporting includes deferred repairs, (2) revise the examples of maintenance and repair (M&R) activities to better reflect current practices and encompass activities associated with equipment and (other) personal property, and (3) address issues related to the distinction between maintenance, repairs and new capital expenditures.

The proposed amendments represent a first step toward improving reporting on deferred maintenance. The Board is working, and will continue to work, closely with stakeholders interested in improving management of and reporting on federal PP&E and related deferred maintenance. By addressing definitional issues as a first step, the Board will facilitate continued cooperation toward improved financial reporting.

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

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the operating performance objective is identified as being most important for DM reporting.<sup>4</sup> DM

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<sup>1</sup> Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant and Equipment*, November 30, 1995, par. 77.

<sup>2</sup> SFFAS 6, par. 174

<sup>3</sup> 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.

<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, September 2, 1993, par. 9-10.

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 evaluating the effectiveness of the asset maintenance practices that agencies employ in fulfilling their missions.

Issues with DM reporting have existed since the issuance of SFFAS 6 in 1995. The two most common issues noted are (1) the lack of comparability when assessing asset condition both within and among agencies and (2) measurement and reporting practices that vary greatly among agencies. These issues arise due to agencies having differing interpretations regarding the definition of “deferred maintenance” in SFFAS 6. This has led to confusion and ambiguity among interested users of DM information.

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 resolving the issues noted above. However, the Board also plans to address measurement and reporting issues through continued consultation with stakeholders which could lead to the issuance of additional guidance and/or standards.

This proposal does not alter financial reporting requirements but may result in changes in practice due to the enhanced definition. 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.

#### **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](http://www.fasab.gov/exposure.html). Your responses should be sent by e-mail to [fasab@fasab.gov](mailto: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 June 30, 2010.

The Board proposes redefining the term “maintenance” as it currently exists in SFFAS 6, paragraph 78 and repeated in the insert below:

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.

We ask that you refer to the proposed definition shown below as you read through the questions and formulate your responses.

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 directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.*

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 – A28 for a detailed discussion and related explanations)? Please provide the rationale for your answer.**

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.”<sup>5</sup>*

- a. **Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A18 for a list of changes and related explanations)? Please provide the rationale for your answer to each 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 A19, A20, and A28 for detailed discussions and related explanations)? Please provide the rationale for your answer to each reference/phrase.**

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 A21 for a detailed discussion and related explanation)? Please provide the rationale for your answer.**

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 DM&R in the broader context of fixed assets rather than only for capitalized PP&E.

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<sup>5</sup> 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.”

**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 A22(c) and A25 for a detailed discussion and related explanation.**

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 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.**

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## Introduction

### Purpose

1. The Board recognizes that issues regarding both federal real property management and deferred maintenance are currently being addressed by stakeholders including members of Congress,<sup>6</sup> federal agencies<sup>7</sup> as well as federal and non-federal councils.<sup>8</sup> As part of a coordinated effort among key federal stakeholders, the Board is committed to providing timely guidance via the standard-setting process that is responsive to the issues now being addressed. To that end, and in consultation with stakeholders, the Board believes careful consideration of the definition of maintenance is a critical first step in improving the accounting and reporting of deferred maintenance.
2. The objective of this Statement is to incorporate changes in response to concerns raised by the financial and technical<sup>9</sup> communities. The Board also considered the findings of a Federal Facilities Council (FFC) Committee on Operations & Maintenance review<sup>10</sup> (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) its introduction of terms not used in the technical community, (c) terms in the maintenance definition loosely defined, and (d) terms in the maintenance definition not reflective of actual practice.
3. Additionally, the Board desires to improve and, where needed, develop accounting and reporting guidance relative to deferred maintenance and repairs (DM&R) that best reflects or 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

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<sup>6</sup> Federal Real Property Disposal Enhancement Act of 2009. H.R. 2495, 111<sup>th</sup> Congress, 1<sup>st</sup> Session. Federal Real Property Disposal Pilot Program. S. 1667, 110<sup>th</sup> Congress, 2<sup>nd</sup> Session.

<sup>7</sup> Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4<sup>th</sup>, 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."

<sup>8</sup> National Research Council (NRC) Study on Predicting Outcomes of Investments in Maintenance and Repair for Federal Facilities. This study will be conducted by a panel of experts. The committee plans to finish its report by December 31, 2010.

<sup>9</sup> This Statement uses the phrase "technical community" to refer to agency personnel responsible for the management of property, plant, and equipment including technical issues such as maintenance and repair.

<sup>10</sup> The review was initiated in response to a Chief Financial Officers Council request.

administration initiatives<sup>11</sup> 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. 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.

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<sup>11</sup> Presidential Executive Order 13327.

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**Proposed Standards****Scope**

5. This Statement revises maintenance and repair (M&R) terminology in Statement of Federal Financial Accounting Standards (SFFAS) 6, as amended, by modifying the definition of maintenance and by replacing the term “deferred maintenance” with “deferred maintenance and repairs.”

**Effect on Existing Standards - SFFAS 6**

6. SFFAS 6, paragraph 78 is amended as follows:

~~For purposes of this standard, Maintenance and repairs is are~~ activities directed toward ~~described as the act of keeping fixed assets in an acceptable condition. 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. Maintenance and repairs~~ excludes 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, those originally intended.~~

Such that the revised 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 directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

7. The term “maintenance” is replaced with “maintenance and repairs” and conforming grammatical changes are made in the following paragraphs of SFFAS 6:
  - a. Paragraph 77 – “Deferred maintenance and repairs” ~~are is~~ maintenance and repairs...
  - b. Paragraph 80 – ...for deferred maintenance and repairs may...
  - c. Paragraph 82 – ...in a forecast of maintenance and repairs expense, these forecasts may serve as a basis against which to compare

actual maintenance and repairs expense and estimate deferred maintenance and repairs.

d. Paragraph 83<sup>12</sup> –

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

- Identification of each major class <sup>[footnote 6 omitted]</sup> of asset for which maintenance and repairs haves been deferred.
- Method of measuring deferred maintenance and repairs for each major class of PP&E.
- If the condition assessment survey method of measuring deferred maintenance and repairs is used, the following should be presented for each major class of PP&E:
  - description of requirements or standards for acceptable operating condition,
  - any changes in the condition requirements or standards, and asset condition<sup>[footnote 7 omitted]</sup> and a range or a point estimate of the dollar amount of maintenance and repairs needed to return assets to their it to its acceptable operating condition.
- If the total life-cycle cost method is used the following should be presented for each major class of PP&E:
  - the original date of the maintenance and repairs forecast and an explanation for any changes to the forecast,
  - prior year balance of the cumulative deferred maintenance and repairs amount,
  - the dollar amount of maintenance and repairs that was defined by the professionals who designed, built or manage the PP&E as required maintenance and repairs for the reporting period,
  - the dollar amount of maintenance and repairs actually performed during the period,

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<sup>12</sup> Please note that this section may be further modified as a result of the outcome of subsequent work related to the measurement and reporting phase of this project.

- the difference between the forecast and actual maintenance and repairs,
- any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E, <sup>[footnote 8 revised]</sup> and
- the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.

[Footnote 8 - <sup>8</sup>Adjustments may be necessary because the cost of maintenance and repairs foregone may not be cumulative. For example, if periodic painting is skipped twice it is not necessarily true that the cost would be double the scheduled amount.]

- The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for required supplementary information applicable to the U.S. government-wide financial statements for these activities.

- e. Paragraph 84 – ...noncritical amounts of maintenance and repairs needed.....noncritical amounts of maintenance and repairs needed...

#### **Effective Date**

8. This Statement is 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 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,<sup>13</sup> established that information about DM would be 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. As a result, measurement of DM information was neither consistent nor comparable.<sup>14</sup> 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 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 by a reference to DM reported in the financial statements.
- 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 a study as a separate inter-agency effort led by the Department of Defense.<sup>15</sup> The study 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 technical community, (c) terms in the maintenance definition that were

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<sup>13</sup> SFFAS 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6, Accounting for Property, Plant and Equipment and SFFAS No. 8, Supplementary Stewardship Reporting*. Date issued, April 1999.

<sup>14</sup> SFFAS 6, par. 180.

<sup>15</sup> The FFC was established in 1953 and operates under the auspices of the National Research Council (NRC), the principal operating agency of the National Academies and the National Academy of Engineering. The FFC is a cooperative association of Federal agencies and periodically publishes reports that are prepared by committees of federal employees and as such, do not constitute NRC recommendations.

loosely defined, and (d) terms in the maintenance definition that were not reflective of actual practice

- A4. In May 2003 the Board again addressed the existence of DM issues in SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*. 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 reviewed its technical agenda and initiated a DM project. The DM project was highly ranked by constituents providing input regarding priorities for the Board's technical agenda. A FASAB task force was convened to study the findings of 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 two phases – (1) definitions and (2) 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.<sup>16</sup> Given the different asset maintenance practices at many of the agencies, the Board has tentatively concluded that some degree of flexibility<sup>17</sup> in how DM is assessed and measured should continue. For example, the use of similar or even identical assets placed in service for different purposes necessitates flexibility in assessment and measurement. 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 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

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<sup>16</sup> 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.

<sup>17</sup> 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."

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, and (2) DM&R including the portion of funded M&R 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.
- 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.

### 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.

- 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.
- 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, resulting in disparate accounting and reporting of repair work. 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.” Further conforming changes and additions are described and explained below.

- A15. 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. While it is the Board’s position that for financial reporting purposes M&R are not treated separately, it is the Board’s opinion that maintenance activities retain an asset’s functionality whereas repair activities restore an asset’s functionality.
- A16. 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.
- A17. 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.

- A18. 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 (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.
  - 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. 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” 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.
- 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.

### Acceptable Services

A19. “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.

A20. 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 to preserve or maintain the asset.”<sup>18</sup>

### Original Intent or Current Use

A21. The task force discussed concerns regarding the phrase “originally intended use.” Some members indicated that an asset’s originally

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<sup>18</sup> 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.”

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):

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

- A22. Members of the task force raised several concerns regarding the exclusion of capital improvements from DM&R reporting. The concerns include:
- a. some special purpose reports include unfunded capital needs along with DM&R information and this is beneficial
  - 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
  - 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
- A23. 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.

- A24. 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.
- A25. Some have noted that the definition refers to M&R of fixed assets rather than M&R of PP&E.<sup>19</sup> 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.<sup>20</sup> 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

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<sup>19</sup> SFFAS 6, par 78.

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

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.

- A26. By reaffirming that M&R excludes capital improvements, the Board strives to better align DM&R with the condition index<sup>21</sup> 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.
- A27. 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.
- A28. 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.

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<sup>21</sup> **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:  $CI = (1 - \text{\$/repair needs}/\text{\$/PRV}) \times 100$* . Source: 2009 GSA’s Guidance For Real Property Inventory Reporting dated July 14, 2009.

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**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

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**Federal Accounting Standards Advisory Board**

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Date: April 15, 2010

To: Members of the Board

From: Wendy M. Payne, Executive Director

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

The following is a ballot for the Exposure Draft on the standard referenced above. Please enter your name in the space provided below and indicate your approval or disapproval. Please fax the ballot to us at 202 512-7366. If you wish to submit your ballot via e-mail, please e-mail to me at [paynew@fasab.gov](mailto:paynew@fasab.gov).

Ballots are due by April 30th. Members not responding by May 6, 2010, will be considered to have abstained. If you wish to express an alternative view, please notify staff immediately and provide your alternative view as soon as possible but no later than April 16, 2010. **When staff receives six affirmative votes, we will publish the exposure draft unless a member has notified us that he or she is preparing an alternative view.**

Board Member: \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_ I approve the subject Exposure Draft

\_\_\_\_\_ I do not approve the subject Exposure Draft