



October 28, 2010

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Draft SFFAS: Definitional Changes Related to Deferred Maintenance and Repairs - Amending SFFAS 6, PP&E<sup>1</sup> – Tab G**

**MEETING OBJECTIVE**

The purpose of this session is to review a draft standard on changes to the maintenance definition included in Statement of Federal Financial Accounting Standards (SFFAS 6) as well as incorporate related Board recommendations. This will enable staff to issue a pre-ballot draft of the final standard by e-mail shortly after the October meeting and a ballot draft for the December meeting.

**BRIEFING MATERIALS**

- Attachment 1 – Draft SFFAS.**

**TODAY'S MEETING**

- Review Staff draft and identify any Board concerns.
- If applicable, note changes and finalize wording so that a pre-ballot can be provided via email.
- If applicable, address any Board concerns or questions.

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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.

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## PROJECT GOALS

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### PROJECT GOALS

Enhance reporting of deferred maintenance and repairs information<sup>2</sup>.

1. Identify and resolve definitional issues (comparability) related to existing SFFAS 6 terminology.
2. Develop criteria appropriately considered in establishing “acceptable condition.”
3. Consider whether fixed assets should be classified as critical/non-critical (or another alternative) for reporting purposes.
4. Identify and resolve any measurement and reporting issues.
  - a. Identify relevant measures or indicators being used in practice (e.g., condition index, return on investment) and decide if any additional measures should be included in federal financial reports.
  - b. Identify current measurement techniques and emerging techniques for deferred maintenance and repair as well as desired measures or indicators.
    - i. Determine if techniques are desirable and permissible under existing standards.
    - ii. Determine if techniques are comparable (e.g., full cost vs. incremental cost; current cost vs. projected cost).
    - iii. Consider any needed amendments to standards.
  - c. Consider whether reporting should further disaggregate fixed assets by (1) categories such as buildings and equipment, (2) predominant use, or (3) some other recognized method.
  - d. Review SFFAS 6 requirements for explanatory information and revise as needed.
5. Address recognition and measurement of asset impairment – at this time, research regarding asset impairment is being conducted but development of options is not. Consideration of options will be deferred until DM&R amendments are proposed.

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<sup>2</sup> FASAB Project Plan: TAB J-1, Asset Impairment and Deferred Maintenance, October 3, 2008.

# BACKGROUND

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## BACKGROUND

At the August 26<sup>th</sup> Board meeting the Board discussed the major issues raised by respondents in comment letters to the Exposure Draft dated May 4<sup>th</sup>, 2010. Although the Board agreed not to hold a public hearing concerning the definition phase of the project, it believes that the measurement and reporting phase might require a public hearing.

The Board acknowledged that the Exposure Draft received a robust response and that the majority of the respondents were in favor of the proposed changes.

Several respondent issues seemed to draw most of the Board's attention:

- whether deferred maintenance and repairs (DM&R) should apply to capitalized PP&E and non-capitalized stewardship PP&E or more broadly to fixed assets,
- varying degrees of interpretation among agencies resulting in inconsistent reporting; i.e., whether or not maintenance is in fact deferred or extended,
- whether or not deferred capital investments should be reported along side DM&R to reflect fiscal exposure while also helping to frame DM&R,
- (re)consideration of a useful life concept for DM&R reporting, and
- whether DM&R should be reported regardless of asset condition.

Many of the issues arising from respondent comments circled around measurement and/or reporting matters and although the Board broached some of these issues, it agreed that such matters were premature to discuss before further task force analysis and staff review. Furthermore, the Board agreed to handle the balance of respondent issues via clarifications to the language contained in the Exposure Draft (i.e., Basis for Conclusions), implementation guidance and/or technical bulletin.

The Board noted that the value of the project is significantly enhanced by having a task force comprised of multi-disciplinary professionals. Specifically, this project provides an opportunity to not only make financial statement information (RSI) useful for managers in decision making (i.e., budgeting and management), but also address concerns as to the relevance of capital asset reporting in general by recognizing that links exist between DM&R and capital asset reporting as well as costs associated with maintaining those capital assets.

Materiality and government-wide consistency were discussed to the extent that they are relevant factors to be considered as we move into the measurement and reporting phase.

Finally, the Board agreed to review the pros and cons of postponing the issuance of the definitional amendments until the measurement and reporting phase is completed to avoid the potential for unforeseen problems that might arise from later changes to the

## BACKGROUND

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measurement and reporting aspects of the standard. Members raised the following questions about completing the definitional phase by issuing a standard:

1. Would the changes in the definition appear to resolve the issue of reporting DM&R on non-capitalized general PP&E? Given that the Board intends to address this in the next phase, members wished to avoid interim changes in practice.
2. Would the definition reinforce practices such as reporting zero DM&R based on the view that assets in use are in acceptable condition?
3. Given the magnitude of the issues in the measurement and reporting phase, is there sufficient benefit from the definition phase to warrant issuance?

Staff believes the definition phase should be concluded by issuing a standard. As members noted at the last meeting – the definition establishes in general terms the “what (gets measured as DM&R).” The draft standard clarifies that the Board does not intend that the issue of reporting DM&R on non-capitalized general PP&E be resolved by the definition. Currently, par. 83 of SFFAS 6 provides that “At a minimum, the following information shall be presented as required supplementary information for **all PP&E** (each of the four categories established in the PP&E standard should be included).” (emphasis added) This has not been changed and the basis for conclusions explains the Board’s intent to address the issue in the next phase of the project.

With respect to divergent practices, the definition alone is unlikely to resolve all divergent practices. Some divergent practices seem to result from the factors considered in determining what is acceptable condition and the SFFAS 6 measurement guidance. For example, par. 83 provides that agencies using the condition assessment method report “a range or a point estimate of the dollar amount of maintenance **needed to return it to its acceptable operating condition.**” (emphasis added) Staff believes that this guidance can be improved since it focuses on whether the asset is “acceptably operating” rather than whether the asset is in an “acceptable condition.” , That is, agencies may or may not consider maintenance status – e.g., they may simply consider whether the asset is functioning. We suggest clarifying instances such as this by addressing improvements with the task force.

A significant majority of respondents supported the definitional changes. The changes would resolve a long-standing issue – whether repairs should be included. This effort also supports changes that are being considered by the Federal Real Property Council (FRPC). The FRPC has expressed an interest in adopting the FASAB definition for its database. Delaying action – particularly given the level of support expressed by respondents - may result in a continued disconnect between management information systems and financial reporting.

# PROS & CONS – DELAYING ISSUANCE

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## PROS & CONS – DELAYING ISSUANCE

<u>PROS</u> (reasons to wait)	<u>CONS</u> (reasons to proceed now)
<p>1. Greater user acceptance is gained as we learn more concerning measurement and reporting.</p> <p>Impacts include:</p> <ul style="list-style-type: none"> <li>a. Increases likelihood of linkages between strategic planning (i.e., critical success factors) and tactical execution (i.e., desk procedures),</li> <li>b. Increased managerial value of RSI disclosure.</li> </ul>	<p>1. Project derailment and slippage occurs as critics question the definition and due process.</p> <p>Impacts include:</p> <ul style="list-style-type: none"> <li>a. Increases likelihood of project failure as we become mired in technical (i.e., engineering) minutia.</li> <li>b. Congressional interests not addressed.</li> </ul>
<p>2. Demonstrates a collegial (non heavy handed) approach with the community-at-large.</p> <p>Impacts include:</p> <ul style="list-style-type: none"> <li>a. Results in greater collaboration among constituent parties.</li> <li>b. Increases user acceptance of final SFFAS.</li> </ul>	<p>2. Board actions perceived as tentative and indecisive exacerbating frustration and confusion among practitioners.</p> <p>Impacts include:</p> <ul style="list-style-type: none"> <li>a. GAO recommendation &amp; OMB/FRPC agreement adversely impacted.</li> <li>b. Decreases user acceptance of final SFFAS.</li> </ul>
<p>3. Avoids speculation/uncertainty among practitioners as to the impact the definition might have on future reporting.</p> <p>Impact includes:</p> <ul style="list-style-type: none"> <li>a. Results in greater clarity and less confusion.</li> </ul>	<p>3. Allows practitioners time to begin making policy and procedural changes with their organizations.</p> <p>Impact includes:</p> <ul style="list-style-type: none"> <li>a. Results in a more seamless and less burdensome transition.</li> </ul>

At the August Board meeting there was discussion as to answering the “what” (gets measured as DM&R) before proceeding to the “how” (do we measure and report DM&R).

## QUESTIONS FOR BOARD

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### QUESTIONS FOR BOARD

Staff believes that issuing the amendment to the definition now establishes the “what” the Board is seeking and sets a baseline for measurement and reporting without which we would not be able to answer the “how.”

#### Questions for the Board

1. Are there any other pros, cons or issues which should be considered before deciding on whether or not to issue the SFFAS (definition)?
2. Should the Board decide not to issue the SFFAS, what would be the primary reason for delay to share with the community-at-large?
3. Should the Board decide to issue the SFFAS, are there any specific comments or notes that should be incorporated into our release?

## PROJECT TIMELINE

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### PROJECT TIMELINE

STEPS	DATE	MILESTONE	TASKS
1	October 27 - 28, 2010	<b>Board meeting: Review SFFAS - Maintenance Definition for Pre- ballot.</b>	October Tasks: Revise draft SFFAS based on Board member input. Circulate a pre-ballot draft before December meeting.
2	December 2010	<b>Board email: Review Pre-ballot Draft SFFAS  Approve Ballot Draft SFFAS</b>	Request Board comments on the pre-ballot with the objective of a Ballot draft before the next meeting.  Transmittal to Principals: begin 90 day review period. Transmittal to Congress for 45 day review period will occur in early 2011. <sup>3</sup>  REMINDER: The CFO Act requires a Congressional review of accounting standards addressing capital assets.  <b>90 day Principal review period ends circa February 2011.</b>
3	February 2011	<b>Board meeting: Presentation of potential measures or indicators.</b>	The Board will consider an inventory of currently used and emerging measures and indicators. Any task force recommendation regarding reporting these measures will be provided. If possible, a decision regarding whether potential measures or indicators should be considered further for financial reporting purposes is sought.
4	March – May 2011	Task force	Considering Board input, summarize current and emerging techniques for measuring DM&R and other desired indicators.  Identify any issues that would prevent current approaches from being suitable for financial reporting purposes.  Consider any desired dis-aggregation of PP&E (e.g., by predominant use and/or asset category).  Develop recommendations.
5	June 2011	<b>Board meeting: Consider draft ED on measurement and reporting</b>	Review the staff draft and identify any Board concerns.

<sup>3</sup> The 112<sup>th</sup> Congress is scheduled to meet from January 3, 2011 to January 3, 2013.

## PROJECT TIMELINE

STEPS	DATE	MILESTONE	TASKS
6	August 2011	<b>Board meeting: Consider revised draft ED on measurement and reporting.</b>	Review the staff draft and identify any Board concerns so that a pre-ballot draft can be provided via e-mail.
7	September 2011	<b>Board email: Pre-ballot draft ED – on measurement and reporting.</b>	Request Board comments on the pre-ballot with the objective of a Ballot draft before the next meeting. <b>Comments due by September 15</b>
8	October 2011	<b>Before or at Board Meeting: Ballot to approve and issue ED</b>  <b>Release ED - measurement and reporting for comment.</b>	Ballot draft provided by early August and ballots required by NLT October 31 to allow for member consideration of any alternative views. If none, the ED would be issued before the meeting.  <b>Release ED.</b>
9	February 2012	<b>Board meeting: Consider comments and issues.</b>  <b>Schedule a Public Hearing as appropriate.</b>	Review respondent comments and discuss issues including staff recommendations. Provide any revisions to the draft SFFAS as a pre-ballot draft via email for comment between meetings. <b>Proceed with final ballot SFFAS for the June 2012 meeting.</b>
10	June 2012 – August 2012	<b>Board meetings: Review and Approve SFFAS on measurement and reporting.</b>	Transmittal to Principals: begin 90 day review period and concurrent transmittal to Congress for 45 day review period.  REMINDER: The CFO Act requires a Congressional review of accounting standards addressing capital assets.
11	September, 2012	Task force: Asset Impairment.	Work with the task force would turn to asset impairment upon issuance of the ED on DM&R – Measurement & Reporting circa Fall 2012.

## EFFECTIVE DATE

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### EFFECTIVE DATE

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

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

Thank you for your continued interest in this project.

Attachment:

1. Attachment 1 - Draft Standard.

**ATTACHMENT 1 – DRAFT SFFAS**

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**ATTACHMENT 1 – DRAFT SFFAS**

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Federal Accounting Standards Advisory Board

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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 40**

February 15, 2011

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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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## 1 Summary

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

9 This Statement amends Statement of Federal Financial Accounting Standards (SFFAS)  
10 6, *Accounting for Property, Plant, & Equipment* (PP&E). The amendments (1) clarify that  
11 “deferred maintenance” reporting includes deferred repairs, (2) revise the examples of  
12 maintenance and repair (M&R) activities to better reflect current practices and  
13 encompass activities associated with heritage assets, multi-use heritage assets and  
14 stewardship land as well as equipment and other personal property, and (3) address  
15 issues related to the distinction between maintenance, repairs and new capital  
16 expenditures.

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

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

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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 under-funded, leading to adverse consequences such as increased safety hazards, poor service to the public, higher future costs, and inefficient operations.

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## 1 Introduction

### 2 Purpose

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

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<sup>4</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>5</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>6</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>7</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>8</sup> The review was initiated in response to a Chief Financial Officers Council request.

1 reclassified deferred maintenance (DM) to required supplementary  
2 information (RSI) primarily as a result of auditor concerns. Since then, asset  
3 assessment methodologies have matured and administration initiatives<sup>9</sup> have  
4 prompted agencies to develop condition assessment, measurement and  
5 reporting systems. However, these methodologies and systems are not  
6 uniform throughout government, resulting in a lack of comparability.

7 Materiality

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

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<sup>9</sup> Presidential Executive Order 13327.

## 1 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.”

## 7 Effect on Existing Standards - SFFAS 6

- 8 6. SFFAS 6, paragraph 78 is replaced with the following text:

9  
 10 Maintenance and repairs are activities directed toward keeping  
 11 fixed assets in an acceptable condition<sup>6</sup>. Activities include  
 12 preventive maintenance; replacement of parts, systems<sup>6a</sup>, or  
 13 components; and other activities needed to preserve or maintain  
 14 the asset. Maintenance and repairs, as distinguished from capital  
 15 improvements, exclude activities directed towards expanding the  
 16 capacity of an asset or otherwise upgrading it to serve needs  
 17 different from, or significantly greater than, its current use.

**Comment:** M. Granof 8/11/2010  
 Email and Respondent # 31 – DoL.

**Comment:** Per M. Granof email  
 8/11/10.  
 Respondents 24 & 28; Interior & DoC,  
 respectively.

18  
 19 [Footnote 6 – <sup>6</sup>Acceptable condition may vary both between entities and  
 20 among sites within the same entity. Management shall determine what  
 21 level of condition is acceptable.]

22  
 23 [Footnote 6a – <sup>6a</sup>The term “systems” can refer to either (1) information  
 24 technology assets (e.g., hardware, internal use software, data  
 25 communication devices, etc.) or (2) groupings (assemblages) of  
 26 component parts belonging to a building, equipment or other personal  
 27 property.]

- 28  
 29  
 30 7. The term “maintenance” is replaced with “maintenance and repairs” and  
 31 conforming grammatical changes are made in the following paragraphs of  
 32 SFFAS 6:

- 33 a. Paragraph 77 – “Deferred maintenance and repairs” are ~~is~~  
 34 maintenance and repairs...
- 35 b. Paragraph 80 – ...for deferred maintenance and repairs may...

- 1 c. Paragraph 82 – ...in a forecast of maintenance and repairs expense,  
2 these forecasts may serve as a basis against which to compare  
3 actual maintenance and repairs expense and estimate deferred  
4 maintenance and repairs.
- 5 d. Paragraph 83<sup>10</sup> –
- 6 At a minimum, the following information shall be presented as required  
7 supplementary information for all PP&E (each of the four categories  
8 established in SFFAS 6 the PP&E standard should be included).
- 9 • Identification of each major class <sup>[footnote 6 omitted]</sup> of asset for which  
10 maintenance and repairs have been deferred.
- 11 • Method of measuring deferred maintenance and repairs for each  
12 major class of PP&E.
- 13 • If the condition assessment survey method of measuring deferred  
14 maintenance and repairs is used, the following should be presented for  
15 each major class of PP&E:
- 16 – description of requirements or standards for acceptable operating  
17 condition,
- 18 – any changes in the condition requirements or standards, and asset  
19 condition <sup>[footnote 7 omitted]</sup> and a range or a point estimate of the dollar amount  
20 of maintenance and repairs needed to return assets to their ~~it to its~~  
21 acceptable operating condition.
- 22 • If the total life-cycle cost method is used the following should be  
23 presented for each major class of PP&E:
- 24 – the original date of the maintenance and repairs forecast and an  
25 explanation for any changes to the forecast,
- 26 – prior year balance of the cumulative deferred maintenance and  
27 repairs amount,

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<sup>10</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.

- 1                   – the dollar amount of maintenance and repairs that was defined by  
2 the professionals who designed, built or manage the PP&E as required  
3 maintenance and repairs for the reporting period,
- 4                   – the dollar amount of maintenance and repairs actually performed  
5 during the period,
- 6                   – the difference between the forecast and actual maintenance and  
7 repairs,
- 8                   – any adjustments to the scheduled amounts deemed necessary by  
9 the managers of the PP&E, <sup>[footnote 8 revised]</sup> and
- 10                  – the ending cumulative balance for the reporting period for each major  
11 class of asset experiencing deferred maintenance and repairs.

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

15  
16                  • The above listed disclosure requirements are not applicable to the U.S.  
17 government-wide financial statements. SFFAS 32 provides for required  
18 supplementary information applicable to the U.S. government-wide financial  
19 statements for these activities.

20  
21                  e. Paragraph 84 – ...noncritical amounts of maintenance and repairs  
22 needed.....noncritical amounts of maintenance and repairs  
23 needed...

24 Effective Date

25 8. This Statement is effective for periods beginning after September 30, 2011.  
26 Earlier implementation is encouraged.

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

1

**2 Appendix A: Basis for Conclusions**

3 This appendix discusses some factors considered significant by Board members in  
4 reaching the conclusions in this Statement. It includes the reasons for accepting certain  
5 approaches and rejecting others. Some factors were given greater weight than other  
6 factors. The guidance enunciated in the Statement—not the material in this or other  
7 appendices—should govern the accounting for specific transactions, events, or  
8 conditions.

**9 Project History**

- 10 A1. In 1995 in its release of SFFAS 6, *Accounting for Property, Plant and*  
11 *Equipment*, the Board officially defined DM as “*maintenance that was*  
12 *not performed when it should have been or was scheduled to be and*  
13 *which, therefore, is put off or delayed for a future period.*” SFFAS 6,  
14 as later amended,<sup>11</sup> established that information about DM would be  
15 RSI rather than disclosed (in basic information) as required originally in  
16 SFFAS 6. The Board opined that DM reporting was in an evolutionary  
17 phase with agencies in the process of developing a variety of systems  
18 to assess DM. As a result, measurement of DM information was  
19 neither consistent nor comparable.<sup>12</sup> The Board identified a need to (a)  
20 develop guidance on determining acceptable condition and (b) revise  
21 standards based on experience gained during the experimentation  
22 period.
- 23 A2. In June 1996 the Board addressed the issue of DM in its release of  
24 SFFAS 8, *Supplementary Stewardship Reporting*. The Board stated  
25 that one way the government demonstrates accountability over assets  
26 is by reporting on both their existence and condition by a reference to  
27 DM reported in the financial statements.
- 28 A3. In 1999 the Chief Financial Officers (CFO) Council initiated a review of  
29 SFFAS 6 as it pertained to DM reporting. The Federal Facilities

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<sup>11</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>12</sup> SFFAS 6, par. 180.

- 1 Council (FFC) conducted a study as a separate inter-agency effort led  
2 by the Department of Defense.<sup>13</sup> The study addressed concerns over  
3 (a) different interpretations among agencies and auditors regarding  
4 what and how to report DM information, (b) the introduction of terms  
5 not used in the technical community, (c) terms in the maintenance  
6 definition that were loosely defined, and (d) terms in the maintenance  
7 definition that were not reflective of actual practice.
- 8 A4. In May 2003 the Board again addressed the existence of DM issues in  
9 SFFAS 23, *Eliminating the Category National Defense Property, Plant,*  
10 *and Equipment*. The Board stated that it expected to undertake a  
11 project in the future to integrate depreciation, impairment and DM  
12 reporting.
- 13 A5. In late 2008 the Board reviewed its technical agenda and initiated a  
14 DM project. The DM project was highly ranked by constituents  
15 providing input regarding priorities for the Board's technical agenda. A  
16 FASAB task force was convened to study the findings of past reviews.  
17 The task force also plans to address recent federal and industry  
18 developments primarily in the area of real property accountability and  
19 asset condition assessments. The task force is addressing issues in  
20 two phases – (1) definitions and (2) measurement and reporting. This  
21 Statement is the result of the definitions phase.
- 22 A6. Not only has the Board considered this matter important in most  
23 deliberations concerning the government's capital assets, DM in  
24 connection with federal real property continues to be a Government  
25 Accountability Office (GAO) high risk area.<sup>14</sup> Given the different asset  
26 maintenance practices at many of the agencies, the Board has  
27 tentatively concluded that some degree of flexibility<sup>15</sup> in how DM is

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<sup>13</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.

<sup>14</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>15</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."

1 assessed and measured should continue. For example, the use of  
2 similar or even identical assets placed in service for different purposes  
3 necessitates flexibility in assessment and measurement. One example  
4 is an X-ray machine used in a hospital emergency room as compared  
5 to an X-ray machine used in a museum's conservation laboratory.  
6 Each may have different operating standards as well as inspection  
7 requirements to best reflect the nature of the asset's use in supporting  
8 its mission.

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

20 A8. The first phase of this project addresses definitions. The Board was  
21 assisted in this effort by a task force. The task force identified areas  
22 needing clarification and developed options for the Board's  
23 consideration in developing the Exposure Draft.

24

## 25 **Primary Goals of the Proposed Amendments**

26

### 27 **Resolving Definitional Concerns**

28 A9. Concerning the goal of DM&R reporting, the Board believes there is  
29 confusion regarding what is required in the financial reports under the  
30 current definitions. The Board's ultimate goal for DM&R information is  
31 that it serve as a useful tool for all decision makers, internal and  
32 external including Congress, oversight bodies, management, and

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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 citizens. To be useful, it must provide information about needed M&R  
2 that has yet to be performed. Therefore, management should present a  
3 reasonable estimate(s) of the cost of maintenance and repair activities  
4 that it would have performed in support of its mission if resources had  
5 been available in the past. In addition, management should provide  
6 explanatory material.

7 A10. The Board believes that management should present (1) an  
8 explanation of how the agency determines acceptable condition by  
9 asset class, and (2) DM&R including the portion of funded M&R that  
10 could not be performed during the reporting period which is now also  
11 deferred. The value of DM&R information is ensuring that management  
12 adequately reports consistently from period to period (a) how it defines  
13 DM&R in-practice, (b) its requirements for acceptable condition and  
14 related condition assessments, and (c) the asset maintenance policies  
15 and practices it intends to follow.

16 A11. Clearly, achieving the goal of DM&R reporting requires many  
17 judgments regarding what was needed in each situation. These  
18 definitional changes are a first step in improving the usefulness of  
19 DM&R reporting. The Board recognizes that there will be further  
20 discussions on this topic. However, the Board strives not to be overly  
21 prescriptive. Several definitional issues were discussed by the task  
22 force. For some issues, changes were proposed and in others they  
23 were not. Each issue is discussed below and the Board's decision  
24 explained.

25

#### 26 Acceptable Condition and Judgment

27 A12. M&R planning requires decisions about the level of condition to which  
28 an asset should be maintained – for example, “as new” condition or  
29 “fair” condition. When management elects to use the condition  
30 assessment survey method, SFFAS 6 also requires that information  
31 concerning requirements or standards for acceptable condition be  
32 reported; assisting users in understanding what condition the agency  
33 judges to be “acceptable.” The Board acknowledges that a view exists  
34 among certain practitioners and users of DM&R information that  
35 because SFFAS 6 guidance allows decisions about acceptable levels  
36 of condition it is too flexible. Further, it requires agencies to rely heavily  
37 on unspecified human judgment in the area of “acceptable” condition.

1 A13. Preparers and users who hold this view opine that unless FASAB  
2 includes guidance defining “acceptable condition” in the DM&R  
3 standards, agencies will continue to have disparate goals regarding  
4 DM&R. In their opinion, this could lead to (a) inaccurate DM&R  
5 reporting because asset assessment practices may not be consistent  
6 without a government-wide definition of “acceptable condition”, (b)  
7 flawed M&R planning, and (c) DM&R reporting that is not informative to  
8 readers. After careful consideration of this view, the Board believes  
9 that the resultant guidance these preparers/users have asked FASAB  
10 to articulate would be management policies and are not the  
11 appropriate role of FASAB. In essence, the more appropriate question  
12 for the Board is how prescriptive or principles-based DM&R standards  
13 should be.

14 A14. The Board notes that “acceptable condition” is an area of DM&R  
15 reporting that many accounting standard-setters have struggled with  
16 over the years. As such, the Board wishes to clarify that the accounting  
17 standards should not be overly prescriptive in this area. Instead, the  
18 Board strives to be clear that the standards are general guidance to be  
19 coupled with managerial judgment considering such factors as agency  
20 mission and asset use. In the next phase of the project, the task force  
21 will be asked to consider factors that management might appropriately  
22 consider in determining acceptable condition.

23

#### 24 **Summary of Outreach Efforts**

25 A15. The Exposure Draft was issued May 4, 2010 with comments requested  
26 by June 25, 2010. Upon release of the exposure draft, notices and  
27 press releases went to *The Federal Register*, *FASAB News*, *The*  
28 *Journal of Accountancy*, *AGA Today*, *The CPA Journal*, *Government*  
29 *Executive*, *The CFO Council*, *Council of Inspectors General on*  
30 *Integrity and Efficiency*, *the Financial Statement Audit Network*; and  
31 *members of both the Federal Real Property Council and Federal*  
32 *Facilities Council* and committees of professional associations  
33 generally commenting on exposure drafts in the past.

34  
35 A16. This broad announcement was followed by direct mailings of the  
36 exposure draft to the House Committee on Oversight and Government  
37 Reform, the Senate Committee on Homeland Security and

- 
- 1 Governmental Affairs, and the American Association of State Highway  
2 and Transportation Officials.
- 3 A17. A reminder notice was provided on June 14<sup>th</sup> and professional  
4 associations were contacted via telephone on or about that date.

DRAFT

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## Comment Letters

A18. Thirty-four responses were received. Two tabular illustrations below summarize the respondents by type and agency represented. Table 1.0 summarizes received responses by respondent type and Table 1.1 is a summary of respondent entities.

**Table 1.0**

### Summary of Respondent Types to DM&R Maintenance Definition Exposure Draft

RESPONDENT TYPE	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Preparers and financial	28	1	29
Users, academics, others	1	2	3
Auditors	2	0	2
<b>Total</b>	<b>31</b>	<b>3</b>	<b>34</b>

1 **Table 1.1**  
 2 **Summary of Respondent Agencies to DM&R Maintenance Definition Exposure**  
 3 **Draft**

RESPONDENT AGENCIES <sup>16</sup>	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Other	7 <sup>17</sup>	3 <sup>18</sup>	10
Defense	7	0	7
NASA	3	0	3
Treasury	2	0	2
Agriculture	2	0	2
General Services Administration	2	0	2
Commerce	1	0	1
Energy	1	0	1
Environmental Protection Agency	1	0	1
Homeland Security	1	0	1
Housing and Urban Development	1	0	1
Interior	1	0	1
Labor	1	0	1
Veterans Affairs	1	0	1
<b>Total</b>	<b>31</b>	<b>3</b>	<b>34</b>

<sup>16</sup> From an entity-wide (Comprehensive Financial Report of the United States) point of view, Department of Defense (DOD), Department of Energy (DOE), Department of Interior (DOI), Department of Homeland Security (DHS), General Services Administration (GSA), Tennessee Valley Authority (TVA) and the United States Postal Service (USPS) are considered material to the FY2009 financial statements.

<sup>17</sup> Library of Congress, Pennsylvania Air Guard, Nuclear Regulatory Commission (2 qty.), National Science Foundation, Social Security, and Smithsonian Institution.

<sup>18</sup> Minnesota Department of Transportation, Association of Government Accountants (AGA), and the Greater Washington Society of Certified Public Accountants (GWSCPA).

- 1
- 2 A19. The Board did not rely on the number in favor of or opposed to a given  
3 position. Information about the respondents' majority view is provided  
4 only as a means of summarizing the comments. The Board considered  
5 the arguments in each response and weighed the merits of the points  
6 raised. The following paragraphs discuss respondent comments and  
7 Board decisions.
- 8
- 9 Adding "Repairs" to Title  
10 & Body of Definition  
11
- 12 A20. The task force noted that there is much confusion regarding the proper  
13 treatment of repairs. Due to this confusion, some agencies may not be  
14 reporting deferred repairs. As a result, the Board proposed that the  
15 term "deferred maintenance" should be revised to "deferred  
16 maintenance and repairs." The majority of respondents agreed with the  
17 Board's proposal to add "repairs" to the title and body of the revised  
18 definition in order to clarify that deferred "repairs" as well as deferred  
19 "maintenance" need to be reported.
- 20 A21. Two respondents base their objection on the assumption that "repairs"  
21 cannot be planned. However, this is not always nor usually the case.  
22 There are in fact many repairs that can be planned for based on  
23 historical and statistical analyses such as a study of failure rates. Also,  
24 not all repairs are of an emergency or corrective nature as some  
25 repairs are adaptive which lend themselves to planning. Some  
26 agencies have programs in-place that attempt to predict repairs and in  
27 some cases these predictions can cover over 90% of the repair activity  
28 over a two year time horizon. For example, roof maintenance plans  
29 include an analysis of the condition assessment which can forecast  
30 when a roof will need to be replaced. In regards to equipment,  
31 scheduled maintenance plans with fixed milestone dates also facilitate  
32 planning for repairs.
- 33 A22. The remaining respondent who disagreed believes that including  
34 repairs will cause continued confusion due to the lack of definition for  
35 this term. However, based on both the task force's recommendation  
36 as well as the majority of respondents who are in favor of this change,  
37 it is apparent that the community-at-large believes that including this  
38 term clarifies conflicting interpretations and divergent practices.

1 Although the Board does not believe that maintenance and repairs  
2 from an accounting point of view should be distinguished, it does  
3 recognize that some within the technical community do make a  
4 distinction. Accordingly, the original definition<sup>19</sup> by virtue of excluding  
5 other than “normal” repairs” contributes to the underreporting of  
6 deferred maintenance and repairs as well as the lack of consistency  
7 both within and among agencies.

8 A23. The Board notes that the technical community at some agencies does  
9 not consider repairs a subset of maintenance and each is treated  
10 separately for operational purposes. However, M&R are not treated  
11 separately for financial reporting purposes. The task force noted that  
12 there is much confusion regarding the proper treatment of repairs. Due  
13 to this confusion, some agencies may not be reporting deferred  
14 repairs. As a result, the Board believes that to eliminate confusion and  
15 improve financial reporting the term “deferred maintenance” should be  
16 revised to “deferred maintenance and repairs.” While it is the Board’s  
17 intention that for financial reporting purposes M&R not be treated  
18 separately, the Board acknowledges the view that maintenance  
19 generally retains an asset’s functionality whereas repair generally  
20 restores an asset’s functionality.

21 A24. It should be noted that although the Board believes that “repairs”  
22 should be added to the definition, it does acknowledge that various  
23 interpretations surrounding unique circumstances may warrant future  
24 guidance.

25

26 Illustrative List  
27 of Activities

28  
29 A25. The second sentence of the definition provides an illustrative list of  
30 activities which are not meant to be all inclusive. The Board believes  
31 that the list of activities contained in the second sentence of the  
32 existing definition should be changed to better reflect current federal  
33 and industry practices as well as encompass M&R activities related to

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

- 1 heritage assets, multi-use heritage assets, stewardship land,  
2 equipment and other personal property in addition to buildings.
- 3 A26. In reviewing the reasons cited by those respondents who disagreed  
4 with the proposed changes to the illustrative list of activities, it is clear  
5 that some of the issues should be dealt with via implementation  
6 guidance while others require Board clarification. Specifically:
- 7 a. Systems – One respondent objected to adding “systems” since it  
8 appeared confusing to include a term which relates to equipment along  
9 with terms associated with buildings. Another respondent objected to  
10 adding “systems” since it referenced IT assets which are already  
11 included by virtue of being an asset class within property, plant, and  
12 equipment. [The Board desires to clarify that the term “systems” can  
13 refer to either (1) information technology assets (e.g., hardware,  
14 internal use software, data communication devices, etc.) which are in  
15 fact covered by SFFAS 6 as amended or (2) groupings (assemblages)  
16 of component parts belonging to a building, equipment or other  
17 personal property. Furthermore, depending on an agency’s  
18 capitalization criteria, systems and/or their replacements may or may  
19 not be capitalized. Since the maintenance and repair definition is an  
20 umbrella definition covering many categories and classes of assets, it  
21 would be both impractical and inappropriate to limit the meaning of  
22 terms such as “systems” that cut across such a broad spectrum of  
23 assets.
- 24
- 25 b. Greater Clarity of Terms – Two respondents sought greater clarity in  
26 each of the proposed terms. One respondent preferred retaining  
27 “normal repairs” since it distinguishes itself from major and  
28 extraordinary repairs. The Board believes that standards should be  
29 general. If needed, detailed guidance can be provided through  
30 implementation guidance. However, the Board will work through the  
31 task force to consider examples in the next phase of the project. In  
32 addition, agencies are encouraged to seek implementation guidance  
33 as needed before the effective date.
- 34 c. Eliminate entire list - One respondent preferred eliminating the entire  
35 list or at least excluding preventative maintenance entirely stating that  
36 maintenance work is routine, recurring, repetitive, and periodic in  
37 nature and as such is never deferred but rather extended. Thus,  
38 according to this respondent deferred maintenance is minor in  
39 magnitude and too difficult to measure and report. The Board does not  
40 subscribe to the notion that deferred maintenance and repair activities

**Comment:** M. Granof 8/11/2010  
Email and Respondent # 31 - DoL

- 1 are immaterial in nature at all agencies. Furthermore, the Board's  
2 research and overall respondent support (from the community-at-large)  
3 for the proposed changes reflect that greater clarity and not less is  
4 needed in the definition.
- 5 d. Audit misapplication - One respondent was concerned that auditors will  
6 treat the list as all-inclusive. The Board desires to make it clear that  
7 the list is illustrative only and does not purport to fully identify all  
8 activities that an agency might consider to be either maintenance or  
9 repair.
- 10 e. Accounting for disposal costs - One respondent sought guidance on  
11 disposal activities. Disposal activities are beyond the scope of this  
12 project.
- 13 f. Information technology assets - One respondent sought inclusion of  
14 internal use software. As previously stated, this SFFAS 6 as amended  
15 in fact applies to all categories and classes of PP&E including internal-  
16 use software.
- 17 g. Impact on capitalization - One respondent was concerned that systems  
18 might be capitalized when capacity increases or upgrades are not  
19 experienced. The Board notes two points in this matter (1) depending  
20 on an agency's capitalization criteria, systems and/or their  
21 replacements may or may not be capitalized and (2) it does not intend  
22 making any definitional changes that would require an agency to  
23 change its capitalization policies or criteria at this time.
- 24
- 25 Phrase Elimination:  
26 Acceptable Services and  
27 Expected life
- 28
- 29 A27. The majority of respondents agreed with the Board's proposal to  
30 eliminate the phrase, "*so that it continues to provide acceptable*  
31 *services and achieves its expected life.*" Of the three respondents who  
32 disagreed, the following issues were raised:
- 33 a. One objected to removing the "useful [Sic] life" reference since it  
34 takes away a key quantitative factor for the evaluation of  
35 management's determination of the relative length of time in which  
36 an asset's acceptable condition would be expected to be

- 1 maintained, and undermines the concept of useful life recognition in  
2 the basic financial statements and notes.
- 3 b. One objected to deleting “acceptable services” since the term  
4 “acceptable condition” does not encompass “acceptable services.”  
5 According to this respondent the term “acceptable services” seems  
6 more measurable and indicative of adequate functionality and  
7 support of mission than “acceptable condition.”
- 8 c. One objected to both phrases being removed since the phrase  
9 “acceptable services” helps convey the meaning of “acceptable  
10 condition” and the phrase “expected life” is also useful as it helps  
11 set the boundaries of the FASAB definition - subsequent  
12 acquisitions that extend an asset’s “useful life” are capitalized and  
13 outside the scope of “deferred maintenance”.
- 14 A28. The Board considered each of the arguments presented and agreed  
15 that although clarification in the Basis for Conclusions was in order,  
16 eliminating this phrase helps to eliminate ambiguity and reflects actual  
17 asset management practices used at federal agencies.
- 18 a. First, the Board notes that the changes made to the maintenance  
19 and repairs definition are limited to the application of this standard  
20 in regards to presenting DM&R information in RSI. Therefore,  
21 elimination of the “expected life” reference in no way infringes or  
22 eliminates management’s determination of an asset’s acceptable  
23 condition. Furthermore, since the definition is limited to the  
24 application of this Statement, the Board does not believe that an  
25 agency’s “expected life” concept used for recognition and  
26 disclosure purposes in the basic financial statements and notes is  
27 impacted in any way.
- 28 b. In order to help eliminate confusion and clarify the intent regarding  
29 DM&R reporting, the Board desires to simplify the definition  
30 wherever practicable. Notwithstanding health and/or safety  
31 implications the Board believes that the most basic function for an  
32 adequate M&R program is to keep an asset in an acceptable  
33 condition consistent with management’s expectations. Therefore,  
34 management is in the best position to first define and then assess  
35 whether or not a nexus exists between asset condition and  
36 “acceptable services.” Although the term “acceptable condition”  
37 may not always encompass “acceptable services”, management is  
38 responsible for that determination. Accordingly, undefined terms

- 1 such as “acceptable services” that might have multiple meanings  
2 within an agency, let alone among agencies, run counter to the  
3 Board’s intent of clarification.
- 4 c. The Board believes that linking DM&R to an “expected life”  
5 estimate is not appropriate for the following reasons. First, federal  
6 assets are usually maintained and managed well beyond any initial  
7 estimate of useful or expected life in order to secure a maximum  
8 return or service benefit from the asset. Second, from an  
9 operational perspective, M&R activities may not solely be  
10 performed for the purpose of extending an “asset’s useful life” since  
11 health and safety considerations may be paramount. Furthermore,  
12 in practice useful life or expected life may change over time due to  
13 operating conditions, actual maintenance practices, or technical  
14 changes. As an asset’s expected life changes, the useful life  
15 assigned in the accounting records should be appropriately  
16 updated. However, this presents practical problems if M&R is tied  
17 to meeting an expected life – for example, which expected life is to  
18 be used and what happens when the expected life is exceeded.  
19 Therefore, the Board believes that linking M&R to attainment of an  
20 expected life is not appropriate.
- 21 d. The Board notes that it will readdress both of these terms as  
22 concepts in the asset impairment portion of its project. To that end,  
23 removal of either of these two phrases from the definition should in  
24 no way be interpreted as restricting management’s appropriate use  
25 of these concepts for other accounting applications such as  
26 capitalizing subsequent asset acquisitions that extend an asset’s  
27 “expected life.”
- 28  
29  
30 Originally intended  
31 vs. current use.  
32
- 33 A29. Two issues were raised by respondents who did not agree with the  
34 proposed change. First, it was noted that “current use” will be  
35 misunderstood and misapplied and that instead the Board adopt the  
36 phrase “the use for which it is currently configured.” Second, it was  
37 noted that “current use” would be a poor benchmark for definitional  
38 purposes and that original intent could in fact be ascertained via  
39 reviewing various agency documents. The Board notes that the task

1 force considered the term proposed by the respondent and found it to  
2 be problematic since it introduces a new term without a consistent  
3 meaning. For example, the term “configure” raises questions as to  
4 definition. Specifically, “configured” when and by whom? Does this  
5 imply a purely technical configuration based on schematic drawings or  
6 operational configuration based on logistics? The Board does not wish  
7 to introduce new terms that could cause further confusion or create  
8 any additional ambiguity. Concerning the second issue, the Board  
9 notes that the task force found the opposite to be true: current use is  
10 the most appropriate benchmark especially when one considers  
11 changes in mission or code (i.e. construction, health, and/or safety)  
12 requirements over the years and that original intent cannot always be  
13 readily ascertained via a review of agency documents.

## 14 15 **Other Comments**

### 16 **Capital Improvements**

17 A30. One respondent raised a concern regarding the exclusion of capital  
18 improvements from DM&R reporting. Additionally, the Board has been  
19 made aware of several other concerns over this matter. The concerns  
20 include:

- 21 a. failure to include “Total Correction Costs” in the definition would  
22 significantly under report all costs to correct existing capitalized  
23 assets; e.g., maintenance, repairs and estimated capital  
24 improvements
- 25 b. some special purpose reports include unfunded capital needs along  
26 with DM&R information and this is beneficial to users
- 27 c. some repair activities may incidentally improve assets (e.g.,  
28 scheduled replacement of a roof with a reflective roof improves  
29 energy efficiency) and there is uncertainty regarding treatment of  
30 such planned projects
- 31 d. there is uncertainty regarding planned M&R activities relating to  
32 fully depreciated fixed assets and fixed assets that are not  
33 recognized in the accounting records due to capitalization  
34 thresholds

1 A31. The Board believes that the existing goal of differentiating those  
 2 activities that might be considered capital improvements (or new  
 3 assets) from M&R should be maintained. DM&R reporting addresses  
 4 concerns about management of existing assets. While unmet capital  
 5 needs (i.e., capital improvements and new acquisitions) are relevant to  
 6 decision makers, they do not as clearly relate to reporting on past  
 7 transactions and events as DM&R does. As such, unmet capital needs  
 8 should not be accounted for and included in the calculation of DM&R.  
 9 DM&R arises because an asset exists and it is not maintained in  
 10 accordance with an agency's established M&R policy; this is an event  
 11 that has financial consequences for the entity and is relevant to  
 12 decision makers.

13 A32. The Board is mindful that the distinction between M&R activities and  
 14 improvements to existing assets is often grey. Some M&R activities  
 15 that could enhance an asset may not generally be considered by  
 16 accountants as "capital improvements" that are recognized as  
 17 additions to the agency's assets. In addition, there will be uncertainty  
 18 regarding the unit of analysis – whether an entire facility is "the asset"  
 19 or its individual components are "assets." Therefore, depending on the  
 20 unit of analysis, an activity might be considered M&R or replacement of  
 21 an old asset with a new one. It is not the Board's intention that a  
 22 precise distinction be attained in every case. Rather that agencies  
 23 should not include new asset, capital improvement and/or  
 24 enhancement needs in DM&R and should treat like circumstances  
 25 similarly over time since a consistently followed practice that is well  
 26 described will assist decision makers.

27 A33. By reaffirming that M&R excludes capital improvements, the Board  
 28 strives to better align<sup>20</sup> DM&R with the condition index<sup>21</sup> calculation

**Comment:** M. Granof email dated 8/11/10. "I don't know what is meant by "to better align...."

<sup>20</sup> In accordance with the GAO recommendation dated October 2008, report number GAO-09-10, *Federal Real Property: Government's Fiscal Exposure from Repair and Maintenance Backlogs is Unclear*, OMB and FASAB working with the FRPC have all agreed to work together and allow FASAB to develop a "uniform reporting requirement" definition for use in the Federal Real Property Profile. As per GAO, the intent of this definition is "to capture the government's fiscal exposure related to real property repair and maintenance."

<sup>21</sup> It should be noted that the revised maintenance and repair definition as contained in this standard is intended to be the basis for the numerator so that a uniform reporting requirement definition exists throughout federal government. **Condition Index (CI)** is a general measure of the constructed asset's condition at a specific point in

- 1 used for the Federal Real Property Profile (FRPP). This should result  
 2 in agencies only having to develop one estimate of DM&R for both  
 3 purposes.
- 4 A34. In the exposure draft, the Board not only sought input on the proposed  
 5 changes, but also other changes, points, issues and/or considerations  
 6 which may not have been specifically addressed in the exposure draft.  
 7 Twenty-two respondents provided additional comments that covered a  
 8 broad array of issues ranging from editorial and/or cosmetic notes to  
 9 acknowledging the positive effects of revising the definition as well as  
 10 the ambitious nature of this project. In summary the comments  
 11 received include:
- 12 Agency Flexibility  
 13 Needed
- 14 a. A suggestion that the Board should not be overly prescriptive. The  
 15 Board needs to be cautious that one size does not fit all. Agencies  
 16 need flexibility over acceptable condition determinations. The Board  
 17 should not articulate management policies and standards. Instead,  
 18 it should provide general guidance to be coupled with managerial  
 19 judgment considering such factors as mission and asset use.
- 20 Agency  
 21 Implementation  
 22 Issues
- 23 b. One respondent said the difficulty will be in transferring accounting  
 24 requirements into the operations and maintenance arena. Each  
 25 agency should be using a process that is auditable and repeatable.  
 26 RSI must be documented for review purposes.
- 27 Clarification of Terms  
 28 Needed
- 29 c. A suggestion that the Board should consider distinguishing  
 30 between types of repairs. One respondent remains concerned with  
 31 the distinction between M&R and capital improvements. Another  
 32 suggested that ordinary repairs, and major or extraordinary repairs

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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 need distinction. The respondent asserted that accounting  
2 literature recognizes and makes a distinction between these terms.  
3 It would be helpful to include examples of common projects  
4 considered to be M&R.
- 5 Additional Reporting  
6 Requirements  
7 Needed
- 8 d. One respondent recommends that the Federal Real Property  
9 Council (FRPC) and the General Services Administration require  
10 agencies to report Active and Inactive DM. Others wanted to  
11 include DM&R balances (dollar amounts) increases or decreases  
12 during the period due to changes, asset replacement costs, and a  
13 description of changes to measurement methods. Another was  
14 concerned that the Standard excludes unfunded capital costs  
15 relating to existing assets.
- 16 Enhanced Guidance  
17 Requested
- 18 e. One respondent suggested that guidance could be enhanced that  
19 DM&R applies to all classifications and classes of PP&E (i.e., in  
20 addition to real property). The Board notes that SFFAS 6,  
21 paragraph 83 requires DM&R information for each category of  
22 PP&E by major class.
- 23 Distinguish between  
24 Asset Classes
- 25 f. One respondent stated that acceptable condition differs between  
26 equipment and facilities. For equipment it may be defined as  
27 mission-capable or serviceable.
- 28  
29 Synchronize RSI  
30 to FRPP data
- 31 g. One respondent suggested adding guidance on using GSA's  
32 Federal Real Property Profile (FRPP) information for the annual  
33 data calls.
- 34 Asset Impairment  
35 Consideration
- 36 h. Another respondent suggested requiring the reporting of  
37 replacement costs or ranges of such costs to determine whether or

1 not funding DM&R is economically advantageous compared to  
2 asset replacement.

3 Financial Reporting versus  
4 Technical Execution

5  
6 i. One respondent stated that there is a borderline between financial  
7 reporting of DM&R and technical or project completion of M&R. In  
8 their opinion, M&R should be viewed over an asset's life-cycle and  
9 not by a financial reporting period. As a result of this difference, it  
10 was suggested that instead of identifying any backlog of DM&R,  
11 this respondent preferred reporting an "Inventory of Required  
12 Repair and Replacements" over a specified number of years.

13  
14 DM&R on Non-capitalized  
15 General PP&E  
16

17 A35. While views were sought on this issue, no changes in practice relating  
18 to DM&R on non-capitalized general PP&E should result from this  
19 Statement. SFFAS 6, paragraph 83, provides minimum reporting  
20 requirements. The Board will clarify these requirements during the  
21 next phase of this project.

22 A36. The Board asked if the respondents believed that DM&R reporting  
23 should be limited to DM&R related to capitalized general PP&E as well  
24 as non-capitalized stewardship PP&E or directed broadly to fixed  
25 assets. Sixteen respondents were in favor of reporting DM&R broadly  
26 to fixed assets whereas fourteen respondents were in favor of  
27 reporting DM&R limited to capitalized general PP&E as well as  
28 stewardship PP&E.

29 a. Respondents in favor of reporting DM&R broadly to fixed assets  
30 cited the following reasons:

31 i. DM&R should apply to all assets since capitalization  
32 thresholds are not recognized in asset management  
33 practices and should be consistent with GSA's Real  
34 Property profile (all assets). Only reporting on capitalized  
35 assets is not reflective of an agency's complete portfolio.  
36 Agencies have a responsibility to track and control all  
37 assets not just those capitalized.

- 1 ii. DM&R on all fixed assets is a better indication of risk to  
2 the Government's varied missions.
- 3 iii. Fixed assets relate better to M&R since all or most assets  
4 require maintenance. Transparency and fiscal exposure  
5 are needed.
- 6 iv. Since there is confusion between what a capital asset is  
7 versus PP&E, DM&R should be reported under fixed  
8 assets.
- 9 v. If an agency has a significant number of fully depreciated  
10 assets for which DM&R is reported, a reevaluation of  
11 useful life estimates is in order.
- 12 vi. If an agency has a significant number of assets that do  
13 not meet its capitalization threshold for which the agency  
14 believes DM&R should be reported, a reevaluation of the  
15 capitalization threshold is in order.
- 16 vii. Consider allowing a threshold for DM&R reporting  
17 purposes.
- 18 viii. DM&R is more pertinent to users than depreciation or  
19 historical cost information inasmuch as it represents  
20 future costs to be incurred.
- 21 ix. Limitations to DM&R reporting could cause potential data  
22 conflicts with other sources of information used by  
23 program and congressional offices.
- 24 x. Agencies should use judgment in determining whether  
25 DM&R be limited or applied broadly; user benefits should  
26 exceed costs of preparing said information.
- 27
- 28 b. Respondents in favor of reporting DM&R limited to capitalized  
29 general PP&E and stewardship PP&E cited the following  
30 reasons:
- 31 i. DM&R should retain association to PP&E. Adding DM&R  
32 for non-capitalized assets skews any resultant analysis to  
33 PP&E. DM&R should trace and be auditable to PP&E.

- 1 ii. Capitalization thresholds reflect cost/benefit  
2 considerations balancing the cost of precision versus the  
3 costs to compile data. Reporting DM&R on fixed assets  
4 would impose an additional cost. DM&R on capitalized  
5 assets is cost effective for agencies.
- 6 iii. If an asset is expensed it has been deemed immaterial  
7 and DM&R should follow suit. There is no real gain in  
8 expanding DM&R to all fixed assets; must consider cost  
9 versus benefit.
- 10 iv. A (separate) threshold for DM&R on non-capitalized  
11 assets should be allowed to encourage such reporting.
- 12 v. Apply a uniform DM&R threshold applicable only for  
13 government-wide reporting purposes.
- 14 vi. Reporting DM&R for fixed assets in essence undervalues  
15 the PP&E reflected on the balance sheet.
- 16 vii. Accountability is different from accounting and financial  
17 reporting.
- 18 viii. Establishing limits (definitions) for “fixed assets” will be  
19 very difficult in practice adding additional costs.
- 20 ix. Agencies should use judgment in determining whether  
21 DM&R be limited or applied broadly; user benefits should  
22 exceed costs of preparing said information.

1

2 **Board Deliberations**

3

4 The Board discussed respondent input but has made a decision only  
5 regarding the proposed amendments to SFFAS 6 relating to the definition  
6 of DM&R. Input and suggestions regarding other topics will be considered  
7 in the next phase of the project – measurement and reporting. The basis  
8 for conclusions primarily addresses Board deliberations on definitional  
9 issues.

10

11 **Board Approval**

12 A37. This statement was approved for issuance by all members of the  
13 Board. The written ballots are available for public inspection at the  
14 FASAB's offices.

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1	<b>Appendix B: Abbreviations</b>
2	
3	AGA Association of Government Accountants
4	CFO Chief Financial Officers (Council)
5	DoD Department of Defense
6	DoE Department of Energy
7	DoI Department of Interior
8	DHS Department of Homeland Security
9	DM deferred maintenance
10	DM&R deferred maintenance and repair
11	FASAB Federal Accounting Standards Advisory Board
12	FFC Federal Facilities Council
13	FRPC Federal Real Property Council
14	FRPP Federal Real Property Profile (GSA Asset Management Database)
15	GAAP generally accepted accounting principles
16	GAO Government Accountability Office
17	GSA General Services Administration
18	GWSCPA Greater Washington Society of Certified Public Accountants
19	M&R maintenance and repair
20	OMB Office of Management and Budget
21	PP&E property, plant and equipment
22	RSI required supplementary information

- 
- |   |       |   |
|---|-------|---|
| 1 | SFFAC | Statement of Federal Financial Accounting Concepts  |
| 2 | SFFAS | Statement of Federal Financial Accounting Standards |
| 3 | TVA   | Tennessee Valley Authority                          |
| 4 | USPS  | United States Postal Service                        |

DRAFT

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