November 24, 2010

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: SFFAS 40, Definitional Changes Related to Deferred Maintenance and Repairs, Amending Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant and Equipment. – **TAB I** [1]

OBJECTIVES

The objective is to approve the issuance of SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs, Amending Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant and Equipment*.

BRIEFING MATERIALS

The following materials are attached to this memorandum.

1. Tracked-changes version of the standard.
2. Smooth PDF Version of the standard.
3. Ballot.

BACKGROUND

The objective of this standard is to amend SFFAS 6 to (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)

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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 on November 10, 2010, and subsequently, members provided comments, which are addressed in the attached "tracked changes" version (Attachment 1) of the document.

BALLOTS

The attached Ballot includes submission instructions and is due by December 16, 2010. Members not responding by December 22, 2010 will be considered to have abstained. If you decide to dissent, please notify staff immediately and provide any written explanation for your dissent as soon as possible but no later than December 10, 2010. Any dissents 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 at your convenience.

Attachments

1. Ballot Draft SFFAS 40 – Tracked Changes Version
2. Ballot Draft SFFAS 40 – Clean PDF Version
3. Ballot

Federal Accounting Standards Advisory Board

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

Statement of Federal Financial Accounting Standards 40

March 1, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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Summary

Deferred maintenance and repairs (DM&R) is maintenance and repair activity that was not performed when it should have been or was scheduled to be and which is put off or delayed to a future period. Although DM&R is not sufficiently measurable to support recognition or disclosure as basic information, it is nonetheless a cost and has been reported as required supplementary information (RSI). Information about DM&R has been required because the information is important to help financial statement users assess the efficiency and effectiveness of the federal government's management of property, plant, and equipment. The Board believes reliable government-wide data are needed to assist users in making assessments related to property, plant, and equipment.

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

These amendments represent a first step toward improving reporting on deferred maintenance and repairs. 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 with stakeholders toward improved financial reporting especially as it plans to address measurement and reporting issues.

Introduction

Purpose

1. Issues regarding both federal real property management and DM&R are currently being addressed by stakeholders including members of Congress,[1] federal agencies[2] as well as federal and non-federal councils.[3] As part of a coordinated effort among key federal stakeholders, the Board is committed to providing timely guidance on issues currently being addressed. The Board believes clarifying the definition of maintenance and repairs is an important first step in improving the accounting and reporting of DM&R.

2. The objective of this Statement is to incorporate definitional changes in response to concerns raised by the financial and technical[4] communities. The Board also considered the findings of a Federal Facilities Council (FFC) Committee on Operations & Maintenance review of SFFAS 6. The major SFFAS 6 concerns it identified include: (a) different interpretations among agencies and auditors regarding what to report and how to report, (b) 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 DM&R that best reflects or enhances current federal practices. SFFAS 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS no. 6, Accounting for Property, Plant, and Equipment and SFFAS 8, Supplementary Stewardship Reporting*,

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[1] Federal Real Property Disposal Enhancement Act of 2009. H.R. 2495, 111th Congress, 1st Session. Federal Real Property Disposal Pilot Program. S. 1667, 110th Congress, 2nd Session.

[2] Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4th, 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."*

[3] *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.

[4] 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.

issued in April 1999, reclassified deferred maintenance (DM) to RSI primarily as a result of auditor concerns. Since then, asset assessment methodologies have matured and Administration initiatives[5] 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.

[5] Presidential Executive Order 13327.

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 replaced with the following text:

> Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.[1] Activities include preventive maintenance; replacement of parts, systems,[1a] or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, 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.
>
> [Footnote 1 – [1] The determination of acceptable condition may vary both between entities and among sites within the same entity. Management shall determine what level of condition is acceptable.]
>
> [Footnote 1a – [1a] The term "systems" can refer to either (1) information technology assets (e.g., hardware, internal use software, data communication devices, etc.) or (2) groupings (assemblages) of component parts belonging to a building, equipment or other personal property.]

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 –

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

• Identification of each major class [footnote 6 to remain; omitted here for brevity] of asset for which maintenance and repairs have~~s~~ 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[footnote 7 to remain; omitted here for brevity] 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,

− 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, [footnote 8 revised] and

− the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.

[Footnote 8 - [8]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, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,”* 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. Some factors were given greater weight than other factors. The guidance enunciated in the Statement–not the material in this or other appendices –should govern the accounting for specific transactions, events, or conditions.

Project History

A1. In late 2008 the Board reviewed its technical agenda and initiated a DM project. The DM project was highly ranked by constituents who provided input on the Board's technical agenda. A FASAB task force was convened to study the findings of a past review and recent federal and industry developments. The task force is addressing issues in two phases – (1) definitions and (2) measurement and reporting. This Statement is the result of the definitions phase. It addresses areas the task force identified as needing clarification. The task force developed definitional options for the Board's consideration and the amendments in this Statement are intended to clarify important matters. The Board notes that the minimum required supplementary information currently required at paragraph 83 of SFFAS 6 may be further modified as a result of the outcome of subsequent work related to the measurement and reporting phase of this project.

Primary Goals of the Proposed Amendments

Goal of DM&R Reporting

A2. Concerning the goal of DM&R reporting, the Board believes there is confusion regarding what is required in the financial reports under the current definitions. The Board's ultimate goal for DM&R information is that it serves as a useful tool for all decision makers, 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.

A3. Achieving the goal of DM&R reporting requires many judgments regarding what is needed in each situation. These definitional changes are a first step in improving the usefulness of DM&R reporting. Several definitional issues were discussed by the task force. For some issues, changes were proposed and in others they were not. The primary issue for which a change was not proposed in the exposure draft was a definition of acceptable condition. The rationale for that decision is provided below. Issues addressed by the exposure draft and the Board's decisions are discussed following a summary of the exposure draft outreach and responses.

Acceptable Condition and Judgment

A4. 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.

A5. 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 of inconsistent definitions 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 guidance these preparers/users seek would be management policies. Providing such guidance is not an appropriate role for an accounting standards setting body. The Board believes that the standards provide general guidance to be coupled with managerial judgment based on such factors as agency mission and asset use. In the next phase of the project, the Board will ask the task force to consider factors that management might appropriately consider in determining acceptable condition.

Summary of Outreach Efforts

A6. The Exposure Draft was issued May 4, 2010 with comments requested by June 25, 2010. Upon release of the exposure draft, notices and press releases went to *The Federal Register, FASAB News, the Journal of Accountancy, AGA Today, the CPA Journal, Government Executive,* the CFO Council, the Council of Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network; and members of both the Federal Real Property Council and the Federal Facilities Council and committees of professional associations generally commenting on exposure drafts in the past.

A7. This broad announcement was followed by direct mailings of the exposure draft to the House Committee on Oversight and Government Reform, the Senate Committee on Homeland Security and Governmental Affairs, and the American Association of State Highway and Transportation Officials.

A8. A reminder notice was provided on June 14th and professional associations were contacted via telephone on or about that date.

Responses to the Exposure Draft

A9. Thirty-four responses were received. Table 1.0 summarizes received responses by respondent type.

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 managers	28	1	29
Users, academics, others	1	2	3
Auditors	2	0	2
Total	31	3	34

A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The following paragraphs discuss respondent comments and Board decisions.

Adding "Repairs" to Title and Body of Definition

A11. The task force reported much confusion regarding the proper treatment of repairs. Due to this confusion, some agencies may not be reporting deferred repairs. As a result, the Board proposed that the term "deferred maintenance" should be revised to "deferred maintenance and repairs." The majority of respondents agreed with the Board's proposal to add "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.

A12. Two respondents objected based on the assumption that “repairs” cannot be planned. However, this is not always nor usually the case. There are in fact many repairs that can be planned for based on historical and statistical analyses such as a study of failure rates. Also, not all repairs are of an emergency or corrective nature as some repairs are adaptive which lend themselves to planning. Some agencies have programs in-place that attempt to predict repairs and in some cases these predictions can cover over 90% of the repair activity over a two year time horizon. For example, roof maintenance plans include an analysis of the condition assessment which can forecast when a roof (or portion thereof) might fail and require repair.

A13. The remaining respondent who disagreed believes including repairs will cause continued confusion due to the lack of definition for this term. However, based on both the task force’s recommendation as well as the majority of respondents who are in favor of this change, it is apparent that the community-at-large believes that including this term helps to clarify conflicting interpretations and divergent practices. Although the Board does not believe that from an accounting point of view, maintenance and repairs should be distinguished from each other, it does recognize that some within the technical community do make a distinction. Accordingly, the original definition[6] by virtue of excluding other than “normal” repairs” contributes to the underreporting of deferred maintenance and repairs as well as the lack of consistency both within and among agencies. While it is the Board’s intention that for financial reporting purposes M&R not be treated separately, the Board acknowledges the view that maintenance generally retains an asset’s functionality whereas repair generally restores an asset’s functionality.

A14. It should be noted that although the Board believes that “repairs” should be added to the definition, it does acknowledge that various interpretations surrounding unique circumstances may warrant future guidance.

[6]SFFAS 6, paragraph 78.

Illustrative List of Activities

A15. The second sentence of the definition provides an illustrative list of activities which is 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 heritage assets, multi-use heritage assets, stewardship land, equipment and other personal property in addition to buildings.

A16. In reviewing the reasons cited by the minority of respondents who disagreed with the proposed changes to the illustrative list of activities, it is clear that some of the issues raised should be dealt with via implementation guidance while others require Board clarification. Specifically:

a. Systems – One respondent objected to adding “systems” since it appeared confusing to include a term which relates to equipment along with terms associated with buildings. Another respondent objected to adding “systems” since it referenced information technology assets which are already included by virtue of being an asset class within property, plant, and equipment. The Board desires to clarify that the term “systems” can refer to either (1) information technology assets (e.g., hardware, internal use software, data communication devices, etc.) which are in fact covered by SFFAS 6 as amended or (2) groupings (assemblages) of component parts belonging to a building, equipment or other personal property. Furthermore, depending on an agency’s capitalization criteria, systems and/or their replacements may or may not be capitalized. Because the maintenance and repair definition is an umbrella definition covering many categories and classes of assets, it would be both impractical and inappropriate to limit the meaning of terms such as “systems” that cut across such a broad spectrum of assets.

b. Greater Clarity of Terms – Two respondents sought greater clarity in each of the proposed terms. One respondent preferred retaining “normal repairs” since it distinguishes itself from major and extraordinary repairs. The Board believes that standards should be general. If needed, detailed guidance can be provided through implementation guidance. However, the Board will work with the task force to consider examples in the next phase of the project. In addition, agencies are encouraged to seek implementation guidance as needed before the effective date.

c. Eliminate entire list - One respondent preferred eliminating the entire list or at least excluding preventative maintenance entirely stating that maintenance work is routine, recurring, repetitive, and periodic in nature and as such is never deferred but rather extended. Thus, according to this respondent deferred maintenance is minor in magnitude and too difficult to measure and report. The Board does not subscribe to the notion that deferred maintenance and repair activities are immaterial in nature at all agencies. Furthermore, the Board's research and overall respondent support (from the community-at-large) for the proposed changes reflect that greater clarity and not less is needed in the definition.

d. Audit misapplication - One respondent was concerned that auditors will treat the list as all-inclusive. The Board desires to make it clear that the list is illustrative only and does not purport to identify all activities that an agency might consider to be either maintenance or repair.

e. Accounting for disposal costs - One respondent sought guidance on disposal activities. Disposal activities are beyond the scope of this project.

f. Information technology assets - One respondent sought inclusion of internal use software. As previously stated, this SFFAS 6 as amended in fact applies to all categories and classes of PP&E including internal-use software.

g. Impact on capitalization - One respondent was concerned that systems might be capitalized even though capacity increases or upgrades are not accomplished. The Board notes two points in this matter: (1) depending on an agency's capitalization criteria, systems and/or their replacements may or may not be capitalized and (2) it does not intend at this time making any definitional changes that would require an agency to change its capitalization policies or criteria.

Phrase Elimination:
Acceptable Services and
Expected life

A17. The majority of respondents agreed with the Board's proposal to eliminate the phrase, *"so that it continues to provide acceptable services and achieves its expected life."* Of the three respondents who disagreed, the following issues were raised:

a. One objected to removing the "useful [sic] life" reference since it takes away a key quantitative factor for the evaluation of management's determination of the relative length of time in which an asset's acceptable condition would be expected to be maintained, and undermines the concept of useful life recognition in the basic financial statements and notes.

b. One objected to deleting "acceptable services" since the term "acceptable condition" does not encompass "acceptable services." According to this respondent the term "acceptable services" seems more measurable and indicative of adequate functionality and support of mission than "acceptable condition."

c. One objected to both phrases being removed since the phrase "acceptable services" helps convey the meaning of "acceptable condition" and the phrase "expected life" is also useful as it helps set the boundaries of the FASAB definition - subsequent acquisitions that extend an asset's "useful life" are capitalized and outside the scope of "deferred maintenance."

A18. The Board considered each of the arguments presented and decided eliminating this phrase helps to eliminate ambiguity and reflect actual asset management practices.

a. First, the Board notes that the changes made to the maintenance and repairs definition are limited to the application of this standard in regards to presenting DM&R information in RSI. Therefore, elimination of the "expected life" reference does not infringe on management's determination of an asset's acceptable condition. Furthermore, because the definition is limited to DM&R, the Board does not believe the "expected life" concept used for capitalization and depreciation is impacted in any meaningful way.

b. To help eliminate confusion and clarify the intent regarding DM&R reporting, the Board desires to simplify the definition wherever practicable. Notwithstanding health and/or safety implications, the Board believes that the most basic function for an adequate M&R program is to keep an asset in an acceptable condition consistent with management's expectations. Therefore, management is in the best position to first define and then assess whether or not a nexus exists between asset condition and "acceptable services." Although the term "acceptable condition" may not always encompass "acceptable services," management is responsible for that determination. Accordingly, undefined terms such as "acceptable services" that might have multiple meanings within an agency, let alone among agencies, run counter to the Board's intent of clarification.

c. The Board believes that linking DM&R to an "expected life" estimate is not useful. From an operational perspective, M&R activities may not solely be performed for the purpose of allowing PP&E to achieve its expected life because health and safety considerations may be paramount. Furthermore, estimates of expected life may change over time due to operating conditions, actual maintenance practices, or technical changes. As an asset's expected life changes, the 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.

Originally intended vs. current use.

A19. Two issues were raised by respondents who did not agree with the proposed change from "originally intended" to "current use." First, it was noted that "current use" will be misunderstood and misapplied and instead the Board should adopt the phrase "the use for which it is currently configured." Second, it was noted that "current use" would be a poor benchmark for definitional purposes and that the original intent could in fact be ascertained via reviewing various agency documents. The Board notes that the task force considered the term proposed by the respondent and found it to be problematic because it introduces a new term without a consistent meaning. For example, the term "configure" raises questions as to definition. Specifically, "configured" when and by whom? Does this imply a purely technical configuration based on schematic drawings or operational configuration based on logistics? The Board does not wish to introduce new terms that could cause further confusion or create any additional ambiguity. Concerning the second issue, the Board notes that the task force found the opposite to be true: current use is the most appropriate benchmark especially when one considers changes in mission or code (i.e., construction, health, and/or safety) requirements over the years and that original intent cannot always be readily ascertained via a review of agency documents.

Other Comments

Capital Improvements

A20. One respondent raised a concern regarding the exclusion of capital improvements from DM&R reporting. Additionally, the Board has been made aware of several other concerns over this matter. The concerns include:

a. failure to include "Total Correction Costs" in the definition would significantly under report all costs to correct existing capitalized assets; e.g., maintenance, repairs and estimated capital improvements

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

c. some repair activities may incidentally improve assets (e.g., damaged lighting fixtures may be replaced with more energy efficient lighting fixtures) and there is uncertainty regarding treatment of such projects

d. 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

A21. 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 included in the calculation of DM&R. DM&R arises because an asset exists that is not maintained in accordance with an agency's established M&R policy; DM&R have financial consequences apart from unmet capital needs which are relevant to decision makers.

A22. The Board is mindful that the distinction between M&R activities and improvements to existing assets is often not clear. Some M&R activities that could enhance an asset may not generally be considered by accountants as "capital improvements" and 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, 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.

A23. By reaffirming that M&R excludes capital improvements, the Board is striving to ensure the definition of DM&R for purposes of financial reporting will be one and the same as in the condition index[7] calculation of the Federal Real Property Profile (FRPP). This should result in agencies having to develop only one estimate of DM&R for both purposes.

A24. In the exposure draft, the Board sought not only input on the proposed changes, but also other changes, points, issues and/or considerations which may not have been specifically addressed in the exposure draft.

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7 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 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.

Twenty-two respondents provided additional comments that covered a broad array of issues ranging from editorial notes to acknowledging the positive effects of revising the definition as well as the ambitious nature of this project. In summary the comments received include:

a. One respondent suggested that the Board should not be overly prescriptive because one size does not fit all.

b. One respondent said the difficulty will be in transferring accounting requirements into the operations and maintenance arena.

c. One respondent suggested that the Board should consider distinguishing between types of repairs.

d. One respondent recommends that the Federal Real Property Council (FRPC) and the General Services Administration require agencies to report Active and Inactive DM.

e. One respondent suggested that guidance could be enhanced that DM&R applies to all classifications and classes of PP&E (i.e., in addition to real property). The Board notes that SFFAS 6, paragraph 83 requires DM&R information for <u>each</u> category of PP&E by major class.

f. One respondent stated that acceptable condition differs between equipment and facilities. For equipment it may be defined as mission-capable or serviceable.

g. One respondent suggested adding guidance on using GSA's FRPP information for the annual data calls. Replacement costs or ranges of such costs are needed to determine whether or not funding DM&R is economically advantageous compared to asset replacement.

h. One respondent stated that there is a borderline between financial reporting of DM&R and technical or project completion of M&R. In their opinion, M&R should be viewed over an asset's life-cycle and not by a financial reporting period.

DM&R on Non-capitalized General PP&E

A25. While views were sought on this issue, no changes in practice relating to DM&R on non-capitalized general PP&E should result from this Statement. SFFAS 6, paragraph 83, provides minimum reporting requirements. The Board will clarify these requirements during the next phase of this project.

A26. The Board asked if the respondents believed that DM&R reporting should be limited to DM&R related to capitalized general PP&E as well as non-capitalized stewardship PP&E or directed broadly to fixed assets. Sixteen respondents were in favor of reporting DM&R broadly to fixed assets whereas fourteen respondents were in favor of limiting DM&R reporting to capitalized general PP&E as well as stewardship PP&E.

a. Respondents in favor of reporting DM&R broadly to fixed assets provided the following comments:

   i. DM&R should apply to all assets because capitalization thresholds are not recognized in asset management practices and should be consistent with GSA's Real Property profile (all assets).

   ii. DM&R on all fixed assets is a better indication of risk to the Government's varied missions.

   iii. Fixed assets relate better to M&R since all or most assets require maintenance.

   iv. Since there is confusion between what a capital asset is versus PP&E, DM&R should be reported under fixed assets.

   v. If an agency has a significant number of fully depreciated assets for which DM&R is reported, a reevaluation of useful life estimates is in order.

   vi. If an agency has a significant number of assets that do not meet its capitalization threshold for which the agency believes DM&R should be reported, a reevaluation of the capitalization threshold is in order.

vii. Consider allowing a threshold for DM&R reporting purposes. Agencies should be allowed to use judgment in determining whether DM&R should be limited or applied broadly; user benefits should exceed costs of preparing said information.

viii. DM&R is more pertinent to users than depreciation or historical cost information inasmuch as it represents future costs to be incurred.

ix. Limitations to DM&R reporting could cause potential data conflicts with other sources of information used by program and congressional offices.

b. Respondents in favor of reporting DM&R limited to capitalized general PP&E and stewardship PP&E provided the following comments:

i. DM&R should retain association to PP&E. Adding DM&R for non-capitalized assets skews any resultant analysis to PP&E. DM&R should trace and be auditable to PP&E.

ii. Capitalization thresholds reflect cost/benefit considerations balancing the cost of precision versus the costs to compile data.

iii. If an asset is expensed, it has been deemed immaterial and DM&R should follow suit.

iv. A (separate) threshold for DM&R on non-capitalized assets should be allowed to encourage such reporting.

v. Apply a uniform DM&R threshold applicable only for government-wide reporting purposes.

vi. Reporting DM&R for fixed assets in essence undervalues the PP&E reflected on the balance sheet.

vii. Establishing limits (definitions) for “fixed assets” will be very difficult in practice adding additional costs.

viii. Agencies should use judgment in determining whether DM&R be limited or applied broadly; user benefits should exceed costs of preparing said information.

Board Deliberations

A27. The Board discussed respondent input but has made a decision only regarding the proposed amendments to SFFAS 6 relating to the definition of DM&R. Input and suggestions regarding other topics will be considered in the next phase of the project – measurement, reporting and asset impairment. The basis for conclusions primarily addresses Board deliberations on definitional issues.

Board Approval

A28. This statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

Appendix B: Abbreviations

CFO	Chief Financial Officers (Council)
DM	deferred maintenance
DM&R	deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FFC	Federal Facilities Council
FRPC	Federal Real Property Council
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GSA	General Services Administration
M&R	maintenance and repair
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

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

March 1, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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Deleted: Goal of DM&R Reporting . 1010¶
Acceptable Condition and Judgment . 1111¶

Deleted: Comment Letters

Deleted: Table 1.0 Summary of Respondent Types to DM&R Maintenance Definition Exposure Draft . 1313¶
Adding “Repairs” to Title & Body of Definition . 1313¶
Illustrative List of Activities . 1515¶
Phrase Elimination: Acceptable Services and Expected life . 1717¶
Originally intended vs. current use. . 1818¶
Other Comments . 1919

Comment: Per W. Payne Nov 24 review. Please streamline ToC.

Deleted: February 15

Summary

Deferred maintenance and repairs (DM&R) is maintenance and repair activity that was not performed when it should have been or was scheduled to be and which is put off or delayed to a future period. Although DM&R is not sufficiently measurable to support recognition or disclosure as basic information, it is nonetheless a cost and has been reported as required supplementary information (RSI). Information about DM&R has been required because the information is important to help financial statement users assess the efficiency and effectiveness of the federal government's management of property, plant, and equipment. The Board believes reliable government-wide data are needed to assist users in making assessments related to property, plant, and equipment.

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

These amendments represent a first step toward improving reporting on deferred maintenance and repairs. 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 with stakeholders toward improved financial reporting especially as it plans to address measurement and reporting issues.

Comment: Per H. Steinberg 12 Nov email. Once you have the "or", the "therefore" is not needed.

Deleted: , therefore,

Comment: Per A. Schumacher 16 Nov. "for" should be "to."

Deleted: for

Comment: Per M. Granof email 15 Nov. "Is DM&R really a "cost"? Is it not more of an obligation or a cost to be incurred in the future."

Staff notes: SFFAS 6 at paragraph 174 (Basis for Conclusions) states that, *"The Board believes that deferred maintenance is a cost – a cost that management, at whatever level, has elected not to fund."*

Comment: Per A. Schumacher 16 Nov.

Incomplete (last) sentence; "to what end?" Suggest adding "to assist.." or deleting in entirety.

Comment: Per W. Payne Nov 24 review.
The initial placement of the M&R acronym should be within the body of the Standard on page 7.

Deleted: (M&R)

Comment: Per S. Showalter email dated 19 Oct and W. Jackson email dated 18 Nov.

Mr. Showalter suggested removing "management of and" because the standard does not provide guidance on management of PP&E.

However, an alternate Board view point (W.J. 18 Nov) maintains that financial reporting is "designed to facilitate management."

Staff advises: Retain phrase because we are not providing direct management guidance per se but rather, consulting with stakeholders who do have such an interest. This phrase appears to be in proper context stating that we will work with those interested in the management of PP&E issues.

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Introduction

Purpose

1. Issues regarding both federal real property management and DM&R are currently being addressed by stakeholders including members of Congress,[1] federal agencies[2] as well as federal and non-federal councils.[3] As part of a coordinated effort among key federal stakeholders, the Board is committed to providing timely guidance on issues currently being addressed. The Board believes clarifying the definition of maintenance and repairs is an important first step in improving the accounting and reporting of DM&R.

2. The objective of this Statement is to incorporate definitional changes in response to concerns raised by the financial and technical[4] communities. The Board also considered the findings of a Federal Facilities Council (FFC) Committee on Operations & Maintenance review of SFFAS 6. The major SFFAS 6 concerns it identified include: (a) different interpretations among agencies and auditors regarding what to report and how to report, (b) 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 DM&R that best reflects or enhances current federal practices. SFFAS 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS no. 6, Accounting for Property, Plant, and Equipment and SFFAS 8, Supplementary Stewardship Reporting*,

Comment: Per M. Granof email 15 Nov. I think you should provide the title of an SFFAS the first time that you cite it.

[1] Federal Real Property Disposal Enhancement Act of 2009. H.R. 2495, 111th Congress, 1st Session. Federal Real Property Disposal Pilot Program. S. 1667, 110th Congress, 2nd Session.

[2] Presidential Executive Order 13327, Federal Real Property Asset Management signed February 4th, 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."*

[3] *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.

[4] 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.

Deleted: February 15

issued in April 1999, reclassified deferred maintenance (DM) to RSI primarily as a result of auditor concerns. Since then, asset assessment methodologies have matured and Administration initiatives[5] 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.

Comment: Per H. Steinberg 12 Nov email. Should "administration" have an initial capital?

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.

[5] Presidential Executive Order 13327.

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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."

Comment: Per A. Schumacher 16 Nov. M&R has already been defined above.

Staff notes: Per W. Payne Nov 24 review. The initial placement of the M&R acronym should be within the body of the Standard on page 7. We have eliminated the acronym from the summary on page 4.

Deleted: maintenance and repair (

Deleted:)

Effect on Existing Standards - SFFAS 6

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

> Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition.[1] Activities include preventive maintenance; replacement of parts, systems,[1a] or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, 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.
>
> [Footnote 1 – [1] The determination of acceptable condition may vary both between entities and among sites within the same entity. Management shall determine what level of condition is acceptable.]
>
> [Footnote 1a – [1a] The term "systems" can refer to either (1) information technology assets (e.g., hardware, internal use software, data communication devices, etc.) or (2) groupings (assemblages) of component parts belonging to a building, equipment or other personal property.]

Comment: Per A. Schumacher 16 Nov. Emphasize management's responsibility and avoid "shall" which implies a directive.

Staff notes: Per W. Payne Nov 24 review. Please retain the original language because this text exists in SFFAS 6 and the proposed change was not exposed for comment.

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…

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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 –

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

Comment: Per M. Granof email 15 Nov. Here and in two other places you use "shall" rather than "should."

Deleted: shall

• Identification of each major class [footnote 6 to remain; omitted here for brevity] of asset for which maintenance and repairs have~~s~~ 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[footnote 7 to remain; omitted here for brevity] 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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− 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, [footnote 8 revised] and

− the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs.

[Footnote 8 - [8]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, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,"* 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.

Comment: Per M. Granof email 15 Nov. I think you should provide the title of an SFFAS the first time that you cite it.

Deleted: February 15

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. Some factors were given greater weight than other factors. The guidance enunciated in the Statement–not the material in this or other appendices –should govern the accounting for specific transactions, events, or conditions.

Comment: Per M. Granof email 15 Nov. Better in my opinion to refer only to the "Board" rather than to "Board members."

Staff notes: Per W. Payne Nov 24 review. Please retain original language. This boiler plate introduction originated because individual members gave different weight to different factors. This introduction conveyed that there is rarely (identical) support for each factor.

Project History

A1. In late 2008 the Board reviewed its technical agenda and initiated a DM project. The DM project was highly ranked by constituents who provided input on the Board's technical agenda. A FASAB task force was convened to study the findings of a past review and recent federal and industry developments. The task force is addressing issues in two phases – (1) definitions and (2) measurement and reporting. This Statement is the result of the definitions phase. It addresses areas the task force identified as needing clarification. The task force developed definitional options for the Board's consideration and the amendments in this Statement are intended to clarify important matters. The Board notes that the minimum required supplementary information currently required at paragraph 83 of SFFAS 6 may be further modified as a result of the outcome of subsequent work related to the measurement and reporting phase of this project.

Comment: Per B. Dacey 19 Nov.

Comment: Per S. Showalter 12 Nov email.

Staff notes: This was originally a footnote on the page 8 ED which was deleted at Board member request in development of the SFFAS. Mr. Showalter has requested reinstatement in the BFC section because the second phase is on-going and may make changes to information currently being required.

Primary Goals of the Proposed Amendments

Goal of DM&R Reporting

A2. Concerning the goal of DM&R reporting, the Board believes there is confusion regarding what is required in the financial reports under the current definitions. The Board's ultimate goal for DM&R information is that it serves as a useful tool for all decision makers, 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.

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A3. Achieving the goal of DM&R reporting requires many judgments regarding what is needed in each situation. These definitional changes are a first step in improving the usefulness of DM&R reporting. Several definitional issues were discussed by the task force. For some issues, changes were proposed and in others they were not. The primary issue for which a change was not proposed in the exposure draft was a definition of acceptable condition. The rationale for that decision is provided below. Issues addressed by the exposure draft and the Board's decisions are discussed following a summary of the exposure draft outreach and responses.

Comment: Per A. Schumacher 16 Nov. Make sentence present tense; "is" for "was."

Deleted: was

Acceptable Condition and Judgment

A4. 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.

A5. 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 of inconsistent definitions 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 guidance these preparers/users seek would be management policies. Providing such guidance is not an appropriate role for an accounting standards setting body. The Board believes that the standards provide general guidance to be coupled with managerial judgment based on such factors as agency mission and asset use. In the next phase of the project, the Board will ask the task force to consider factors that management might appropriately consider in determining acceptable condition.

Comment: Per M. Granof email 15 Nov. I would change to ".....the Board will ask the task force to consider…." Or "The Board has asked the task force to consider in the next stage of the project.

Deleted: is asked

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Summary of Outreach Efforts

A6. The Exposure Draft was issued May 4, 2010 with comments requested by June 25, 2010. Upon release of the exposure draft, notices and press releases went to *The Federal Register, FASAB News, the Journal of Accountancy, AGA Today, the CPA Journal, Government Executive,* the CFO Council, the Council of Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network; and members of both the Federal Real Property Council and the Federal Facilities Council and committees of professional associations generally commenting on exposure drafts in the past.

A7. This broad announcement was followed by direct mailings of the exposure draft to the House Committee on Oversight and Government Reform, the Senate Committee on Homeland Security and Governmental Affairs, and the American Association of State Highway and Transportation Officials.

A8. A reminder notice was provided on June 14th and professional associations were contacted via telephone on or about that date.

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Responses to the Exposure Draft

Comment: Per W. Payne Nov 24 review.

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A9. Thirty-four responses were received. Table 1.0 summarizes received responses by respondent type.

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 managers	28	1	29
Users, academics, others	1	2	3
Auditors	2	0	2
Total	31	3	34

A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The following paragraphs discuss respondent comments and Board decisions.

Adding "Repairs" to Title and Body of Definition

Comment: Per W. Payne Nov 24 review.

Deleted: &

A11. The task force reported much confusion regarding the proper treatment of repairs. Due to this confusion, some agencies may not be reporting deferred repairs. As a result, the Board proposed that the term "deferred maintenance" should be revised to "deferred maintenance and repairs." The majority of respondents agreed with the Board's proposal to add "repairs" to the title and body of the revised definition

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in order to clarify that deferred "repairs" as well as deferred "maintenance" need to be reported.

A12. Two respondents objected based on the assumption that "repairs" cannot be planned. However, this is not always nor usually the case. There are in fact many repairs that can be planned for based on historical and statistical analyses such as a study of failure rates. Also, not all repairs are of an emergency or corrective nature as some repairs are adaptive which lend themselves to planning. Some agencies have programs in-place that attempt to predict repairs and in some cases these predictions can cover over 90% of the repair activity over a two year time horizon. For example, roof maintenance plans include an analysis of the condition assessment which can forecast when a roof (or portion thereof) might fail and require repair.

Comment: Per B. Dacey 19 Nov.

Deleted: their objection

A13. The remaining respondent who disagreed believes including repairs will cause continued confusion due to the lack of definition for this term. However, based on both the task force's recommendation as well as the majority of respondents who are in favor of this change, it is apparent that the community-at-large believes that including this term helps to clarify conflicting interpretations and divergent practices. Although the Board does not believe that from an accounting point of view, maintenance and repairs should be distinguished from each other, it does recognize that some within the technical community do make a distinction. Accordingly, the original definition[6] by virtue of excluding other than "normal" repairs" contributes to the underreporting of deferred maintenance and repairs as well as the lack of consistency both within and among agencies. While it is the Board's intention that for financial reporting purposes M&R not be treated separately, the Board acknowledges the view that maintenance generally retains an asset's functionality whereas repair generally restores an asset's functionality.

Comment: Per A. Schumacher 16 Nov. Using "clarifies" is too broad, consider "helps to clarify."

Deleted: clarifies

A14. It should be noted that although the Board believes that "repairs" should be added to the definition, it does acknowledge that various

[6] SFFAS 6, paragraph 78.

Deleted: February 15

interpretations surrounding unique circumstances may warrant future guidance.

Illustrative List of Activities

A15. The second sentence of the definition provides an illustrative list of activities which is 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 heritage assets, multi-use heritage assets, stewardship land, equipment and other personal property in addition to buildings.

A16. In reviewing the reasons cited by the minority of respondents who disagreed with the proposed changes to the illustrative list of activities, it is clear that some of the issues raised should be dealt with via implementation guidance while others require Board clarification. Specifically:

a. Systems – One respondent objected to adding "systems" since it appeared confusing to include a term which relates to equipment along with terms associated with buildings. Another respondent objected to adding "systems" since it referenced information technology assets which are already included by virtue of being an asset class within property, plant, and equipment. The Board desires to clarify that the term "systems" can refer to either (1) information technology assets (e.g., hardware, internal use software, data communication devices, etc.) which are in fact covered by SFFAS 6 as amended or (2) groupings (assemblages) of component parts belonging to a building, equipment or other personal property. Furthermore, depending on an agency's capitalization criteria, systems and/or their replacements may or may not be capitalized. Because the maintenance and repair definition is an umbrella definition covering many categories and classes of assets, it would be both impractical and inappropriate to limit the meaning of terms such as "systems" that cut across such a broad spectrum of assets.

b. Greater Clarity of Terms – Two respondents sought greater clarity in each of the proposed terms. One respondent preferred retaining "normal repairs" since it distinguishes itself from major and extraordinary repairs. The Board believes that standards should be general. If needed, detailed guidance can be provided through

Comment: Per A. Schumacher 16 Nov. Specify "minority of respondents."

Deleted: those

Comment: Per W. Payne Nov 24 review.

Deleted: IT

Comment: Messrs Per A. Schumacher 16 Nov and S. Showalter 12 Nov. Typo – "beacuse."

Deleted: February 15

implementation guidance. However, the Board will work with the task force to consider examples in the next phase of the project. In addition, agencies are encouraged to seek implementation guidance as needed before the effective date.

Comment: Per M. Granof email 15 Nov. Wouldn't it be better to say that the Board will "work with the task force" rather than "through" the task force.

Deleted: through

c. Eliminate entire list - One respondent preferred eliminating the entire list or at least excluding preventative maintenance entirely stating that maintenance work is routine, recurring, repetitive, and periodic in nature and as such is never deferred but rather extended. Thus, according to this respondent deferred maintenance is minor in magnitude and too difficult to measure and report. The Board does not subscribe to the notion that deferred maintenance and repair activities are immaterial in nature at all agencies. Furthermore, the Board's research and overall respondent support (from the community-at-large) for the proposed changes reflect that greater clarity and not less is needed in the definition.

d. Audit misapplication - One respondent was concerned that auditors will treat the list as all-inclusive. The Board desires to make it clear that the list is illustrative only and does not purport to identify all activities that an agency might consider to be either maintenance or repair.

e. Accounting for disposal costs - One respondent sought guidance on disposal activities. Disposal activities are beyond the scope of this project.

f. Information technology assets - One respondent sought inclusion of internal use software. As previously stated, this SFFAS 6 as amended in fact applies to all categories and classes of PP&E including internal-use software.

g. Impact on capitalization - One respondent was concerned that systems might be capitalized even though capacity increases or upgrades are not accomplished. The Board notes two points in this matter: (1) depending on an agency's capitalization criteria, systems and/or their replacements may or may not be capitalized and (2) it does not intend at this time making any definitional changes that would require an agency to change its capitalization policies or criteria.

Comment: Per A. Schumacher 16 Nov. Substitute "accomplished" for "experienced."

Deleted: experienced

Deleted: February 15

Phrase Elimination:
Acceptable Services and
Expected life

A17. The majority of respondents agreed with the Board's proposal to eliminate the phrase, *"so that it continues to provide acceptable services and achieves its expected life."* Of the three respondents who disagreed, the following issues were raised:

a. One objected to removing the "useful [sic] life" reference since it takes away a key quantitative factor for the evaluation of management's determination of the relative length of time in which an asset's acceptable condition would be expected to be maintained, and undermines the concept of useful life recognition in the basic financial statements and notes.

b. One objected to deleting "acceptable services" since the term "acceptable condition" does not encompass "acceptable services." According to this respondent the term "acceptable services" seems more measurable and indicative of adequate functionality and support of mission than "acceptable condition."

c. One objected to both phrases being removed since the phrase "acceptable services" helps convey the meaning of "acceptable condition" and the phrase "expected life" is also useful as it helps set the boundaries of the FASAB definition - subsequent acquisitions that extend an asset's "useful life" are capitalized and outside the scope of "deferred maintenance."

A18. The Board considered each of the arguments presented and decided eliminating this phrase helps to eliminate ambiguity and reflect actual asset management practices.

a. First, the Board notes that the changes made to the maintenance and repairs definition are limited to the application of this standard in regards to presenting DM&R information in RSI. Therefore, elimination of the "expected life" reference does not infringe on management's determination of an asset's acceptable condition. Furthermore, because the definition is limited to DM&R, the Board does not believe the "expected life" concept used for capitalization and depreciation is impacted in any meaningful way.

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b. To help eliminate confusion and clarify the intent regarding DM&R reporting, the Board desires to simplify the definition wherever practicable. Notwithstanding health and/or safety implications, the Board believes that the most basic function for an adequate M&R program is to keep an asset in an acceptable condition consistent with management's expectations. Therefore, management is in the best position to first define and then assess whether or not a nexus exists between asset condition and "acceptable services." Although the term "acceptable condition" may not always encompass "acceptable services," management is responsible for that determination. Accordingly, undefined terms such as "acceptable services" that might have multiple meanings within an agency, let alone among agencies, run counter to the Board's intent of clarification.

c. The Board believes that linking DM&R to an "expected life" estimate is not useful. From an operational perspective, M&R activities may not solely be performed for the purpose of allowing PP&E to achieve its expected life because health and safety considerations may be paramount. Furthermore, estimates of expected life may change over time due to operating conditions, actual maintenance practices, or technical changes. As an asset's expected life changes, the 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.

Originally intended vs. current use.

A19. Two issues were raised by respondents who did not agree with the proposed change from "originally intended" to "current use." First, it was noted that "current use" will be misunderstood and misapplied and instead the Board should adopt the phrase "the use for which it is currently configured." Second, it was noted that "current use" would be a poor benchmark for definitional purposes and that the original intent could in fact be ascertained via reviewing various agency documents. The Board notes that the task force considered the term proposed by the respondent and found it to be problematic because it introduces a new term without a consistent meaning. For example, the term

Comment: Per W. Payne Nov 24 review.

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Comment: Per Messrs A. Schumacher 16 Nov, M. Granof 15 Nov, B. Dacey 19 Nov, and S. Showalter 12 Nov. Typo – "beacuse."

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"configure" raises questions as to definition. Specifically, "configured" when and by whom? Does this imply a purely technical configuration based on schematic drawings or operational configuration based on logistics? The Board does not wish to introduce new terms that could cause further confusion or create any additional ambiguity. Concerning the second issue, the Board notes that the task force found the opposite to be true: current use is the most appropriate benchmark especially when one considers changes in mission or code (i.e., construction, health, and/or safety) requirements over the years and that original intent cannot always be readily ascertained via a review of agency documents.

Other Comments

Capital Improvements

A20. One respondent raised a concern regarding the exclusion of capital improvements from DM&R reporting. Additionally, the Board has been made aware of several other concerns over this matter. The concerns include:

a. failure to include "Total Correction Costs" in the definition would significantly under report all costs to correct existing capitalized assets; e.g., maintenance, repairs and estimated capital improvements

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

c. some repair activities may incidentally improve assets (e.g., damaged lighting fixtures may be replaced with more energy efficient lighting fixtures) and there is uncertainty regarding treatment of such projects

d. 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

A21. 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

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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 included in the calculation of DM&R. DM&R arises because an asset exists that is not maintained in accordance with an agency's established M&R policy; DM&R have financial consequences apart from unmet capital needs which are relevant to decision makers.

A22. The Board is mindful that the distinction between M&R activities and improvements to existing assets is often not clear. Some M&R activities that could enhance an asset may not generally be considered by accountants as "capital improvements" and 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, 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.

Comment: Per A. Schumacher 16 Nov. Change "grey" to "not always clear."

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A23. By reaffirming that M&R excludes capital improvements, the Board is striving to ensure the definition of DM&R for purposes of financial reporting will be one and the same as in the condition index[7] calculation of the Federal Real Property Profile (FRPP). This should result in agencies having to develop only one estimate of DM&R for both purposes.

Comment: Per A. Schumacher 16 Nov. Add "that", so sentence reads, "By reaffirming that M&R…."

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A24. In the exposure draft, the Board sought not only input on the proposed changes, but also other changes, points, issues and/or considerations which may not have been specifically addressed in the exposure draft.

Comment: Per M. Granof email 15 Nov. Page 21 – Para. A24 – Is it really necessary to include every comment. I'm glad that you reduced the document by six pages, but a few more pages could go as well.

Staff Notes: After consultation with the Executive Director, Staff recommends that this shortened version be retained becuse (1) not much space is reduced from any further consolidation, (2) respondent comments provide needed background for those reading the BFC to more fully understand environmental factors currently existing in federal government; asset management and (3) feedback to respondents enhances the Board's outreach efforts.

[7] 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 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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Twenty-two respondents provided additional comments that covered a broad array of issues ranging from editorial notes to acknowledging the positive effects of revising the definition as well as the ambitious nature of this project. In summary the comments received include:

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a. One respondent suggested that the Board should not be overly prescriptive because one size does not fit all.

b. One respondent said the difficulty will be in transferring accounting requirements into the operations and maintenance arena.

c. One respondent suggested that the Board should consider distinguishing between types of repairs.

d. One respondent recommends that the Federal Real Property Council (FRPC) and the General Services Administration require agencies to report Active and Inactive DM.

e. One respondent suggested that guidance could be enhanced that DM&R applies to all classifications and classes of PP&E (i.e., in addition to real property). The Board notes that SFFAS 6, paragraph 83 requires DM&R information for <u>each</u> category of PP&E by major class.

f. One respondent stated that acceptable condition differs between equipment and facilities. For equipment it may be defined as mission-capable or serviceable.

g. One respondent suggested adding guidance on using GSA's FRPP information for the annual data calls. Replacement costs or ranges of such costs are needed to determine whether or not funding DM&R is economically advantageous compared to asset replacement.

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h. One respondent stated that there is a borderline between financial reporting of DM&R and technical or project completion of M&R. In their opinion, M&R should be viewed over an asset's life-cycle and not by a financial reporting period.

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DM&R on Non-capitalized General PP&E

A25. While views were sought on this issue, no changes in practice relating to DM&R on non-capitalized general PP&E should result from this Statement. SFFAS 6, paragraph 83, provides minimum reporting requirements. The Board will clarify these requirements during the next phase of this project.

A26. The Board asked if the respondents believed that DM&R reporting should be limited to DM&R related to capitalized general PP&E as well as non-capitalized stewardship PP&E or directed broadly to fixed assets. Sixteen respondents were in favor of reporting DM&R broadly to fixed assets whereas fourteen respondents were in favor of limiting DM&R reporting to capitalized general PP&E as well as stewardship PP&E.

a. Respondents in favor of reporting DM&R broadly to fixed assets provided the following comments:

   i. DM&R should apply to all assets because capitalization thresholds are not recognized in asset management practices and should be consistent with GSA's Real Property profile (all assets).

   ii. DM&R on all fixed assets is a better indication of risk to the Government's varied missions.

   iii. Fixed assets relate better to M&R since all or most assets require maintenance.

   iv. Since there is confusion between what a capital asset is versus PP&E, DM&R should be reported under fixed assets.

   v. If an agency has a significant number of fully depreciated assets for which DM&R is reported, a reevaluation of useful life estimates is in order.

   vi. If an agency has a significant number of assets that do not meet its capitalization threshold for which the agency

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believes DM&R should be reported, a reevaluation of the capitalization threshold is in order.

vii. Consider allowing a threshold for DM&R reporting purposes. Agencies should be allowed to use judgment in determining whether DM&R should be limited or applied broadly; user benefits should exceed costs of preparing said information.

Comment: Per H. Steinberg 12 Nov email. This is the only comment in the declarative tense. How come?

Staff notes: Staff proposes we change by adding, "…be allowed to…" {use judgment}.

viii. DM&R is more pertinent to users than depreciation or historical cost information inasmuch as it represents future costs to be incurred.

ix. Limitations to DM&R reporting could cause potential data conflicts with other sources of information used by program and congressional offices.

b. Respondents in favor of reporting DM&R limited to capitalized general PP&E and stewardship PP&E provided the following comments:

i. DM&R should retain association to PP&E. Adding DM&R for non-capitalized assets skews any resultant analysis to PP&E. DM&R should trace and be auditable to PP&E.

ii. Capitalization thresholds reflect cost/benefit considerations balancing the cost of precision versus the costs to compile data.

iii. If an asset is expensed, it has been deemed immaterial and DM&R should follow suit.

iv. A (separate) threshold for DM&R on non-capitalized assets should be allowed to encourage such reporting.

v. Apply a uniform DM&R threshold applicable only for government-wide reporting purposes.

vi. Reporting DM&R for fixed assets in essence undervalues the PP&E reflected on the balance sheet.

vii. Establishing limits (definitions) for "fixed assets" will be very difficult in practice adding additional costs.

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viii. Agencies should use judgment in determining whether DM&R be limited or applied broadly; user benefits should exceed costs of preparing said information.

Board Deliberations

A27. The Board discussed respondent input but has made a decision only regarding the proposed amendments to SFFAS 6 relating to the definition of DM&R. Input and suggestions regarding other topics will be considered in the next phase of the project – measurement, reporting and asset impairment. The basis for conclusions primarily addresses Board deliberations on definitional issues.

Board Approval

A28. This statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

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Appendix B: Abbreviations

CFO	Chief Financial Officers (Council)
DM	deferred maintenance
DM&R	deferred maintenance and repair
FASAB	Federal Accounting Standards Advisory Board
FFC	Federal Facilities Council
FRPC	Federal Real Property Council
FRPP	Federal Real Property Profile (GSA Asset Management Database)
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GSA	General Services Administration
M&R	maintenance and repair
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

Date: November 24, 2010

To: Members of the Board

From: Wendy M. Payne, Executive Director

Subject: **Ballot for SFFAS 40,** 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 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.

Ballots are due by December 16. Members not responding by that day will be considered to have abstained. If you decide to dissent, please notify staff immediately and provide any written explanation for your dissent as soon as possible but no later than December 10th. Any dissents received will be circulated to other members as soon as possible so that they may consider the views of the dissenting member.

Board Member: ____ Date __________

__________ I approve the subject Exposure Draft

__________ I do not approve the subject Exposure Draft