



Greater Washington Society of CPAs and GWSCPA Educational Foundation

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June 25, 2010

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standard (SFFAS or Standard) *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 18 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

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

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

A1. The FISC generally agrees with this proposed revision to include “repairs” as part of the definition of deferred maintenance. The arguments put forward by the Board in paragraphs A8 – A27 provide many compelling reasons for the inclusion of “repairs” in the amended Standard.

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

believes that the terms “acceptable services” and “expected life” should be eliminated from the definition. The second sentence would read as follows:

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

- a. Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A17 for a list of changes and related explanations)? Please provide the rationale for your answer to each change.
- b. Do you agree or disagree with the elimination of the phrase “so that it continues to provide acceptable services and achieves its expected life” (refer to paragraphs A18, A19, and A27 for detailed discussions and related explanations)? Please provide the rationale for your answer to each reference/phrase.

A2. The FISC generally agrees with this proposed revision to change the list of activities.

However, the FISC recommends that the phrase “through their intended useful life” be included at the end of the first sentence of the revised definition (paragraph 6). This sentence would then read, “Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition through their intended useful life.” The omission of “through their intended useful life” 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 principal statements and footnotes.

As discussed in our response to question 4, the Board’s proposal in the ED to allow recognition of assets with “practical” lives within the financial reporting model that exceed the Federal entity’s recognition of “useful life” for accounting purposes gives rise to potential reader confusion, and creates a direct contradiction between the estimated and actual service life of the Federal entity’s assets. The Board outlines in paragraph A27 a distinction between an “accounting useful life” (i.e., an estimated service life) and a life that provides “maximum return or service benefit from the asset” (i.e., an actual service life). However, the Board does not revisit the definition of useful life in paragraph 17 of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which defines useful life as “normal operating life in terms of utility to the owner,” to draw such a similar distinction and acknowledgement that Federal entities may be permitted, through this ED, to have potentially significant differences between estimated service life and actual service life in their useful life determination. Further, the ED does not provide sufficient and persuasive arguments to explain the need to allow for recognition of the same asset with a useful life in the principal statements and notes, but a potentially implied or overt acknowledgement in a supplementary section that the useful life calculation in the principal statements and notes is likely understated, and that the asset’s “maximum return or service benefit” will exceed the asset’s accounting treatment. Under the current model of SFFAS 6, if a Federal entity finds repeated instances in which its capitalized assets are in use long after the asset’s useful life has passed, then that Federal entity should carefully revisit its useful life estimation methodology. The proposed ED could allow such a distinction to occur without recourse to the Federal entity’s useful life estimation methodology.

In summary, instead of further strengthening the requirements for Federal agencies to adopt a robust useful life estimation methodology that mirrors actual “utility to the owner,” the proposed ED has recognized that useful life determinations may not have to relate to actual usage or utility of the asset to the Federal entity.

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

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

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

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

- A3. The FISC agrees with this proposed exclusion of “originally intended.” The arguments put forward by the Board in paragraph A20 provides compelling reasons for the proposed change in the amended Standard.
- Q4. The Board is not proposing a change at this time but rather, is seeking input on the impact that agency capitalization thresholds might have in the reporting of deferred maintenance and repairs. Because PP&E is subject to various capitalization thresholds and actual maintenance requirements are not, some believe it is more appropriate to report deferred maintenance and repairs (DM&R) in the broader context of fixed assets rather than only for capitalized PP&E.

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

- A4. The FISC believes that the DM&R reporting should be directed broadly to all fixed assets over the capitalization threshold (e.g., actively depreciating and fully depreciated assets). However, the Board should advise Federal entities in the final Standard that if there are a significant number of fully depreciated fixed assets that are still in use and for which DM&R is reported, then that Federal entity may need to evaluate whether its process to estimate useful lives is appropriate.

Assets below the capitalization threshold are meant to be expendable, and have a useful life of less than two years. The Board should provide guidance to Federal entities that if there are a significant number of assets that do not meet the capitalization threshold and for which the Federal entity believes DM&R should be reported, then that Federal entity may need to evaluate whether its capitalization threshold is appropriate.

In addition, to balance concerns regarding the ‘cost versus benefit’ of aggregating all DM&R amounts, the FASAB should consider allowing Federal entities the ability to establish

thresholds for DM&R reporting (similar to paragraph 13 of SFFAS No. 6, which states that capitalization thresholds should be established by Federal entities rather than centrally by the Board). FISC's suggestion is not for the FASAB to stipulate thresholds for reporting DM&R. Rather, our recommendation is that the Board should include language similar to SFFAS No. 6 so that such thresholds can be determined by each Federal entity. Such a threshold system may allow entities to exclude certain assets or categories of assets that might require some, but incidental, DM&R amounts.

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

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

- A5. The FISC has the following comments and suggestions for consideration by the Board:

- FISC recommends that paragraph 7d of the ED (which revises paragraph 83 of SFFAS 6) include an additional minimum disclosure for DM&R that includes those increases or decreases in DM&R that arose during the period due to changes in laws or regulations, early retirement or abandonment of fixed assets, disasters, or other circumstances. Examples of significant changes to the DM&R balance could include the abandonment of assets when the cost to repatriate them to the United States or elsewhere exceeds their value (e.g., assets left in a theatre of military operations), a domestic disaster like Hurricane Katrina or widespread forest fires (causing a significant and unanticipated increase on maintenance and repair of the associated assets affected by a disaster or used for rescue and recovery operations following a disaster), or major changes in safety regulations, such as the grounding of a class of aircraft pending substantial alterations for safety purposes. The additional guidance recommended here would provide for more robust discussions and disclosures in the change in DM&R balances from one year to the next.
- A member of the FISC suggested that an additional point of interest by stakeholders, but lacking under current reporting requirements, is whether funding DM&R would be more economically advantageous compared to replacing the asset. The Board should consider requiring that Federal entities report the replacement cost (or range of replacement costs) in addition to DM&R of individually significant DM&R items. For example, an aging dam that has fallen in disrepair may be reported as requiring DM&R of \$150 million. However, under this proposed comparison reporting requirement, the Federal entity may report that the cost to replace the dam is \$180-\$210 million. This type of comparison for individually significant DM&R items may assist stakeholders in evaluating the benefits of funding DM&R versus funding a replacement item or class of assets.

Other Comments

We noted the following editorial matters for consideration by the Board:

- In several places on pages 21, 23, and 24, the use of “e.g.” and “i.e.” is not followed by a comma.
- On pages 22 and 23, the words “as such” should be replaced with “accordingly.”

We look forward to future opportunities to provide additional comments as the Board addresses the definition of ‘acceptable service’, and guidance for necessary and optional DM&R activities in the next phase of this DM&R project.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink that reads "Andrew Lewis". The signature is written in a cursive style with a horizontal line at the end.

Andrew C. Lewis
FISC Chair