

>>> "BFA Financial Statement Audit" <[bfa-fsaudit@nsf.gov](mailto:bfa-fsaudit@nsf.gov)> 6/25/2010 5:07 PM >>>

Good Afternoon:

Thank you for the opportunity to comment on the Deferred Maintenance exposure draft. The National Science Foundation (NSF) has consistently participated and provided input during the discussions to develop this new policy.

Please see the attached Word document containing our comprehensive responses.

In summary, NSF agrees with the proposed changes presented in questions Q1 through Q3. With respect to question Q4, NSF has included comments stating that we would not agree with the inclusion of all "fixed assets" in the DM&R calculation. Regarding question Q5, NSF has no additional comments or suggestions at this time.

Please let us know if you have any questions or require additional information.

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## Questions for Respondents

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

Responses are requested by June 25, 2010

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.**

*NSF agrees with the inclusion of “repairs” in the definition. Where repairs are necessary in order to keep assets in workable condition, we believe that those costs should be collected and disclosed. Therefore, we agree that any deferred repair costs should be disclosed along with deferred maintenance to allow users to fully understand the true value and condition of the agency’s PP&E.*

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

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

**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**

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<sup>1</sup> Note: The current SFFAS 6 language states in part that maintenance is “...needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.”

**explanations)? Please provide the rationale for your answer to each change.**

*NSF agrees with the changes made to the list as they are more reflective of the types of repairs and maintenance required for today's PP&E. We also agree that the new definition better stresses that deferred maintenance on equipment, as well as real property.*

- 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.**

*NSF agrees with the elimination of the reference to “expected life”. Federal assets commonly remain in use after they are fully depreciated. However, the fact that the initial estimate of useful life may have been conservative for a particular item of property should not prevent our disclosure of future costs to maintain that asset in an acceptable condition for as long as it remains in service.*

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.**

*NSF agrees with this change. It provides a greater level of clarity as to the difference between capitalized improvements to an asset and routine deferred maintenance and repair of that asset.*

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.**

*(NSF is interpreting “fixed assets” in this question to mean non-capitalized property that is tracked by an agency outside of the financial system- we believe that all capitalized equipment and real property are already covered by the FASAB definition of PP&E – if “fixed assets” are meant to be defined in another way- NSF requests further clarity of that definition before it can respond to this question.)*

*NSF strongly believes that DM&R should be limited to capitalized PP&E and not expanded to include all accountable property for the following reasons:*

- The notes to the financial statements (including RSI) are meant to convey information about the line items and accounts included in the actual financial statements. Therefore, DM&R provides information regarding the capitalized PP&E line item on the balance sheet. There is no information in the financial statements regarding non-capitalized property except for an expense in the year it was acquired. Therefore, it is possible that an agency has a large amount of repairs and maintenance on immaterial and non-capitalized property that, if included in the DM&R disclosure, could skew the perception of value of the agency’s capitalized assets. We realize that fully depreciated assets may initially seem to cause the same issue as non-capitalized assets regarding the total asset value on the PP&E line item. However, all capitalized assets, depreciated or not, are a part of the value of the PP&E and any depreciation offset that exists, whether the item is fully depreciated or not, is only based on the acquisition value of that asset. Therefore, when DM&R exists, depreciation alone no longer fully reflects the total costs to acquire and maintain the asset in an acceptable condition, which is why DM&R costs are disclosed in any case.*
- Non-capitalized property is, by definition, considered to have an immaterial value to the agency. Since, in order to be cost effective, any repairs and maintenance would have to cost less than a complete replacement, it can be assumed that any repairs or maintenance would also be immaterial to the agency. NSF does not believe that, in a cost-benefit situation, it makes sense to track any DM&R on these immaterial items.*
- DM&R is largely related to the matching principle of accounting. For capitalized assets, the future expense is disclosed so that we can fully understand the true cost of that continuing to use the asset has for the agency, even if the actual expense will occur in a later year. For non-*

*capitalized assets, the matching principle does not apply. The decision was already made to fully expense their costs upon acquisition, even if they will be used for multiple years. There is no "asset value" that is tracked to require a disclosure of a possible condition impairment of that asset.*

- *While we understand that differing capitalization thresholds across the various agencies causes concerns with total PP&E that is capitalized, and as a result DM&R that is disclosed, at the government-wide level. We do not, for the above reasons, believe that only changing DM&R disclosure requirements would result in any increased accuracy of reporting. A better solution would be to apply a government-wide capitalization threshold and require agencies to use it for GFRS reporting only (understanding that for agency-level reports the thresholds will likely have to remain as they currently exist in order to make sense at the various agencies' materiality levels) so that for the government-wide financial statements the application of DM&R and the PP&E line item will be consistent.*

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.**

*NSF has no other comments or suggestions, at this time.*