

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

Attached are the comments from the Public Buildings Service (PBS), Office of Portfolio Management (PT) and Office of Facilities Management and Services Programs (PM) to the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment.

Paul Taylor
Financial Operations Div (PFF)

General Services Administration
Public Buildings Service
Office of Facilities Management and Services Programs (PM)
Office of Portfolio Management (PT)

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

Question 1. 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.

Response: Agree to including the term Repairs in the body and title. Furthermore, we recommend the substitution of the term Maintenance with the term replacements. The rational is that typical maintenance activities such as; replace filters, lubricate bearings and valves, clean heat exchanger tubes, adjust dampers, recharge refrigerant, flush condensate pans and drains, adjust belts tension, clean burner, adjust pilot, etc. are minor tasks, costing pennies, and traditionally expensed. In reality maintenance work is routine, recurring, repetitive, and periodic in nature and never deferred in the sense of deferment, but rather the specific task cycle is extended from say semi-annual to annual cycle as a cost cutting measure. Thus, deferred maintenance is minor in magnitude and hard to measure and report on.

Question 2. 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.

Response: Disagree, building on the response to the first question we recommend the elimination of the illustrative list of activities and excluding preventive maintenance all together. Furthermore, we recommend the explicit differentiation between maintenance and repairs/replacements in terms such as “repair and replacements are mostly capitalized work that is not routine, recurring, repetitive, or periodic in nature”.

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.

Response: Agree, subjective.

Question 3. 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.

Response: Agree with the change. The new language is more descriptive and reiterates that an enhancement of equipment is not a part of M&R program. Maintenance activities when performed as recommended by the manufacturer constitutes that the asset will last for its intended life span. On the other hand, non-maintenance repair and replacement work are intended to extend or replace the life-span of the asset or to expand its capacity.

Question 4. 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.

Response: Reporting should be limited to capitalized PP&E as any deferred maintenance on expensed transactions would be immaterial.

Question 5. 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.

Response:

There is a clear and distinguished financial and technical border line between maintenance and repair/replacements & between Backlog and Planned work. Such variance is better summed as follows:

- **Capitalized vs. Expensed**
- **Preserve the stated manufacturer useful life span of the asset vs. Expand the life span of the asset (partially through repairs and fully through replacement)**
- **Routine, repetitive, and periodic tasks, vs. none cyclic tasks**
- **Maintain performance level at certain asset age as per the manufacturer vs. improve performance above and beyond the manufacturer stated level for such age**

- **Instead of Backlog of Deferred Maintenance & Repair (DM&R), we prefer Inventory of Required Repair and Replacements (RR&R) over specified number of years.**