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Please find attached our responses to the exposure draft entitled Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment.

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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.

Answer:

We disagree that including deferred repair in deferred maintenance definition.

Deferred maintenance, sometimes called unfunded maintenance, backlog of maintenance, or unaccomplished maintenance. The extent of deferred maintenance cannot be determined until there is agreement on how it is defined. “Deferred” is referring to both postponed maintenance and new needs. In general, maintenance and repair have different objectives with divided activities. Maintenance activities are planned, expected for prevention before the fact of repair. It is activities to upkeep of property and equipment. A preventive maintenance consists of scheduled inspections. Through the budget process, an agency can plan and allocate fund for future maintenance. The maintenance costs include those costs that should have been incurred but are deferred to future periods due to resources or funding constraints.

On the other hand, repair activities are incidental, unpredicted and sometimes after the fact of maintenance. Repair activities are happen in abnormal or the worst condition of PP&E. Repair activity can not be scheduled or planned for future damaged PP&E. Repair consists of work to restore damaged or worn-out property to a normal operating condition, or tasks to salvage equipment value for continued use of PP&E. This option can reduce future service disruptions, but result in repair work that may not be needed for many years.

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.”¹

- 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.**

Answer:

We agree to eliminate the word “expected life” but not “acceptable services”

We also propose to change the word “replacement of parts” to a generally practiced word “labor and material expensed” When there is no clear accounting principle existed for certain situation, generally prevailing concepts could be accepted because of popular consensus of opinion. The Association of Physical Plant Administrators is a non-profit organization that promotes common interests in college and university Physical Plant operations to include planning, development, administration, maintenance and operations; to foster professional ideals and standards. Their definition in deferred maintenance is widely recognized practice.

The Association of Physical Plant Administrators defines deferred maintenance as the labor and materials expended in periodic restoration of building components that are deteriorating on time cycles of more than one year. Maintenance is defined as work that protects or preserves the facility’s capital value or work to preserve or restore a capital facility to its original condition or such conditions that it can be effectively used for its intended purpose (here, we clearly see the same meaning of acceptable services). Maintenance has been defined to include preventive and routine maintenance, minor and major repairs, rehabilitation and even replacement if a component has deteriorated to a point where partial or full replacement is cost effective.

- 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.**

Answer:

Each agency needs to determine the condition of existing assets or facilities and the extent of deterioration, and should establish acceptable condition levels based on

¹ 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.”

established standards and policy maker and user preferences. Condition levels might be stated as minimally or fully acceptable based on different serviceability levels.

The term acceptable is not defined clearly, but the word acceptable allows each agency to practice their flexible standard of fixed assets. Keeping the word acceptable is important to practice minimum standard criteria. Agency wants to spend their resource cost effectively. If they spend maintenance expense for unacceptable condition of the asset, they would rather buy a new asset.

Acceptable levels of maintenance should be established using industry standards, agency assessment, and user input. To assist the policymakers in making decisions about acceptable maintenance levels, each agency's field station and program offices should provide information on prioritized critical conditions, alternative maintenance strategies and their respective unit costs and management scenario indicating service levels under different funding levels.

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.

Answer:

We agree to exclude the word "originally intended use"

In general, intended use and indications for use often use synonymously. In accounting practice, assets need to be put into service to meet agency's current demands of fair use. "Originally intended use" in accounting is too general to apply to specific assets, and the definition varies widely from an agency to agency. Agency requires the periodic inspection of PP&E to determine their current condition, to estimate the cost to correct deficiencies and to make available to their continuous demand on intended use. Over time the original intended use can be changed, however, the function of the assets for fair use can be utilized and optimized in flexible application. It is an overall picture to define what the asset is intended for, and it does not necessarily come in a written statement. As long as the assets are in fair use demand, constructing this term "originally intended use" should be left to each agency's fair use, and the word "originally intended" is redundant.

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.

Answer:

We believe D&M reporting should be limited to capitalized PP&E. DM&R reporting should be applied and utilized existing PP&E management approach for tracking changes in the condition of assets. Agency should review and classify its deferred maintenance into PP&E categories and then record material amounts in various capitalized PP&E. Deferred maintenance does not include cost of replacing the asset itself, but in replacing PP&E. Most of maintenance items are expensed when it purchased.

We understand FASAB's position on how to report for unfunded maintenance cost, and wish to find a way to recognize this deferred maintenance cost in financial statement. Maintenance is deferred because funding is not available for a variety of constraints. Where agency does not identify their mission critical PP&E maintenance cost for budget reflection, it does not receive proper attention, especially in times of tight budgets. As the result, the work is deferred to future budget cycle until funds are available.

Currently, federal agencies are required to report supplementary information (RSI) for all PP&E in their annual financial reports. The requirement states that deferred maintenance should be presented by major classes of PP&E identification. Each year, LOC's responsible offices analyze its capitalized asset, and identify mission critical maintenance. Their assessment of maintenance with replacement or maintenance with upgrade reflects applies to PP&E on financial statement. The existing deferred maintenance standard already has been applied to all PP&E reported on the balance sheet. Therefore there is no gains from expanding and reporting DM&R broadly to fixed asset overall. We should consider economic cost and benefit of reporting fixed asset broadly for DM&R.