



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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COMPTROLLER

JUN 23 2010

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

Dear Ms. Payne:

The Department of Defense appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board exposure draft, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*. We believe the revisions will increase the clarity of the guidance and resulting disclosures.

Responses to specific questions included in the document are enclosed. If you have any questions or wish to discuss our response further, please contact Ms. Debra J. Carey at 703-602-0155.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

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.

DoD agrees with the proposed change. Repairs and maintenance, while separate activities, are both essential to maintaining the asset. This change will improve the clarity of the guidance.

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.

DoD agrees with the proposed change to paragraph 78 of Statement of Federal Financial Accounting Standard (SFFAS) 6 as described in paragraphs 6, A16 and A17 of the Exposure Draft. We concur with the rationale for these changes as described in the Basis for Conclusions.

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.

DoD concurs with the proposed elimination of this phrase. This phrase created confusion among preparers without improving the quality of the disclosure.

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.”

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.

DoD concurs with the proposed change. The emphasis on the current use of the asset rather than on original intent is appropriate. The focus of the Deferred Repair and Maintenance disclosures should be the cost to the agency in the context of current operations, regardless of the original intended use of the assets.

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.

DoD believes that Deferred Maintenance and Repairs should be reported only for assets which meet the agency’s reporting threshold. As with capitalization thresholds, the establishment of this reporting threshold is the responsibility of agency management and may vary both between agencies and within agency by type of asset.

Capitalization thresholds established by agencies, by definition, reflect cost-benefit considerations. Capitalization thresholds balance the value, if any, of the increased precision of information against the cost of compiling, maintaining, reviewing and reporting that information. Thresholds are necessary to ensure that this balance is maintained. Some agencies may choose to use the capitalization thresholds established for financial reporting purposes as the cut-off point for Deferred Maintenance and Repairs reporting. On the other hand, some agencies may choose to report Deferred Maintenance and Repairs for all assets included in property tracking systems if the information has already been accumulated to meet management needs.

Likewise, the decision as to whether Deferred Maintenance and Repairs reporting should apply to fully depreciated assets should be left to agency management determination, based on a consideration of the quantity of fully depreciated assets managed by the agency, the agency’s reliance on that property and whether the information is otherwise accumulated to meet management needs. The considerations in making this decision are

similar to those applicable to capitalization threshold decisions. Specifically, the question is whether the value of the additional precision of including fully depreciated assets would offset the cost of compiling, maintaining, reviewing, and reporting that information.

Disclosure of management's policy in agency Notes to the Financial Statements would be appropriate.

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.

Although Deferred Maintenance and Repairs reporting applies to all Property, Plant and Equipment (PP&E), the Exposure Draft, by referring to Real Property projects, implies that the requirements apply only to Real Property rather than to all PP&E. (See paragraphs 1, A5 and A6.) Guidance to Federal agencies could be enhanced by additional discussion of the applicability of Deferred Maintenance and Repairs reporting guidance on other classification of PP&E.

In regard to the "acceptable condition" discussion, differences exist between equipment and facilities. For equipment, acceptable operating condition may be defined as the condition that exists when a weapon system or mission support asset is mission-capable or serviceable.