

Questions for Respondents: Responses of Mr. Nello Lavorini, DoD Business Transformation Agency-Transformation Requirements and Priorities (TPR&FM) Directorate

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.

Response: Concur with comment- repair s/b added in context of “to preserve or maintain the asset”; the clauses are inseparable.

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.**

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.”

Response: Concur

- 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: Concur with comment. Comment: Should include qualification clause that indicates that the objective of maintenance and repair is to preserve the asset (see above).

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.

Response: Concur with Comment- Statement s/b structured to indicate inclusively the activities directed solely for the purpose of preserving the asset; This would be in line with aforementioned changes stated inclusively and would maintain clarity of intent; Proposed statement is a negative exclusion, a superfluous phrase that does not appear necessary.

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.

Response: Do not concur- DM&R should retain its association to capitalized PP&E; Need to retain accountability for PP&E management/administration and not solely account for DM&R costs without proper traceability and audibility to affiliated PP&E.

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.

Comment: Changes proposed do clarify the guidance for PP&E-DM&R.