May 15, 2003

Memorandum

TO: Assistant Directors – Administration

FROM: Debra E. Sonderman, Director, **/signed/**
Office of Acquisition and Property Management

SUBJECT: **REAL PROPERTY FINANCIAL MANAGEMENT POLICY GUIDE**

By memorandum from the Deputy Assistant Secretary – Budget and Finance, the revised Real Property Financial Management Policy (RPFMP) was issued on April 30, 2003. As indicated in the memorandum, the attached Real Property Financial Management Policy Guide is issued to provide RPFMP implementation guidance for use by Department of the Interior bureaus and offices.

The guide has been prepared in a user friendly question and answer format, and provides comprehensive coverage including bureau officials' responsibilities, requests for exceptions to the RPFMP, capitalization criteria, record maintenance requirements, and monthly performance metrics and other reporting requirements.

Preparation of the guide has been a collaborative effort, and we appreciate the feedback received from bureau and office property management, finance, and facilities personnel. Debra Carey is available on 202-208-5542 to answer any finance questions and Teresa Barry is available on 202-208-4328 to assist your staff on any real property questions related to the policy and guide.

Attachment

cc: Property Management Partnership
Finance Officers Partnership
KPMG

Bcc: PAMrdg/subjfile:05/15/03(Corrigan\RPFMP Guide Transmittal)

United States
Department of the Interior
Real Property Financial Management Policy Guide

Office of Acquisition and Property Management

May 2003

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I. PURPOSE AND BACKGROUND.

The purpose of this guide is to provide implementing guidance for the U.S. Department of the Interior Real Property Financial Management Policy (RPFMP) dated April 30, 2003.

Beginning with the Chief Financial Officers' Act of 1990, the Federal government has passed legislation increasing the financial accountability of Federal entities, including the control, accountability, and financial reporting of real property. The timeliness, accuracy and completeness of real property data are critical to the Department of the Interior's ability to justify its funding requests and to verify its accomplishments. Additionally, this data must pass the test of an annual financial statement audit in order for the Department to maintain an unqualified audit opinion.

The Office of Acquisition and Property Management (PAM), in collaboration with the Office of Financial Management (PFM), prepared this guide to assist you in collecting, documenting, and providing accurate and complete real property inventory and financial data.

Please Note: This guide addresses real property only, i.e., any interest in land, together with improvements, structures and fixtures, appurtenances, and improvements of any kind located thereon.

II. AUTHORITIES.

This guidance supports the requirements of SFFAS Number 3, "Accounting for Inventory and Related Property," SFFAS Number 6, "Accounting for Property, Plant and Equipment" (as amended by SFFAS Numbers 11 and 16), and SFFAS Number 8, "Supplementary Stewardship Accounting" (as amended by SFFAS Numbers 11 and 16). The SFFAS standards can be found at: www.fasab.gov.

III. RESPONSIBILITIES.

Assistant Secretaries, Bureau Directors, bureau financial officers and program managers all have a role in ensuring that real property is properly managed and reported and that real property and financial records are reconciled. The roles and responsibilities below can only be accomplished through close cooperation among all parties. This list focuses on financial-related responsibilities and does not include all responsibilities, e.g., safeguarding assets.

A. What tasks are Bureau Directors responsible for?

Bureau Directors shall:

1. Certify on an annual basis, as part of their bureau's Management Control Assurance Statement as to the accuracy and completeness of real property inventories performed by the bureau during the reporting period;
2. Ensure that accounts are reconciled;
3. Ensure that adequate financial controls are in place;

4. Ensure that financial records and reports accurately reflect the status of real property in accordance with the Department of the Interior's (DOI) RPFMP; and
5. Approve bureau plans ensuring that 100 percent of real property assets are inventoried over a five year period.

NOTE: The above responsibilities may not be delegated.

B. What tasks are Assistant Directors – Administration (ADA)(or equivalent) responsible for?
In addition to the responsibilities identified in D. below, Assistant Directors – Administration (or equivalent) shall:
1. Allocate sufficient resources to conduct all phases of physical inventories and reconciliations to ensure property data recorded are accurate and complete, and the general ledger balances for real property are adequately supported;
2. Ensure the organization and management of personnel tasked with coordinating, performing, and reporting of the physical inventory verification;
3. Ensure that physical inventories and monthly reconciliations are accurate, complete, completed within established time frames and in compliance with other requirements of DOI's RPFMP; and
4. Submit a plan to the Bureau Director that ensures that the bureau has planned real property inventories for 100 percent of its real property assets over a five year period.
5. Ensure that bureau real property performance accomplishments are properly accounted for in monthly reports to the Office of Acquisition and Property Management.

C. What tasks are Chief Financial Officers of bureaus and offices responsible for?
Chief Financial Officers of bureaus and offices shall:
1. Ensure that adequate financial controls are in place and financial records and reports accurately reflect the status of real property in accordance with the Department of the Interior's RPFMP;
2. Ensure independent control of data in the accounting system;
3. Reconcile accounting system data to the official real property subsidiary records at least monthly;
4. Maintain documentation of account reconciliations. Documentation must be available for review by auditors;
5. Maintain financial records in cooperation with property managers and facility managers for each capital facility project (i.e., any real property asset or capital improvement project with an overall cost of $100,000 or greater) in progress. These records are the source for entries to the general ledger work in progress accounts. The Contracting Officer or his/her Representative (i.e., Contracting Officer's Representative/Contracting Officer's Technical Representative), in consultation with the appropriate real property official, is responsible for furnishing information to identify costs applicable to construction in progress (CIP);
6. Support the bureau's real property inventory planning process to ensure that real property inventories are planned for 100 percent of real property assets over a five year period; and

7. Maintain close liaison with property management, facilities management and other personnel concerned with real property to provide assurance that values reported are accurate.

D. What tasks are persons who manage real property responsible for?
Persons who manage real property shall:
1. Ensure that real property accounts are reconciled and inventories are documented;
2. Maintain all records related to real property, including records of financial transactions related to real property;
3. Reconcile official real property subsidiary system data to accounting system data at least monthly;
4. Contribute to the preparation of the bureau's real property inventory planning process to ensure that real property inventories are planned for 100 percent of real property assets over a five year period;
5. Perform physical inventories. Inventories must be reconciled with financial and other real property records. The Bureau ADA, accountable officer or designee, must certify the accuracy of the results throughout the management control reporting period. The Bureau Director must certify the accuracy of the results annually as part of the bureau's management control assurance statement. Physical inventory plans must be coordinated with the Office of Inspector General and third party auditors. **Notice Regarding Segregation of Duties**: Persons responsible for maintaining financial and other property records should not be the same persons who physically verify assets;
6. Maintain documentation of physical inventories. Documentation must be available for review by auditors;
7. Ensure the establishment and maintenance of real property accountability records to provide for effective and overall control;
8. Enforce measures to prevent loss, misuse or abuse of real property; and
9. Maintain close liaison with Chief Financial Officers and other personnel concerned with real property to provide assurance that values reported are accurate.

IV. EFFECTIVE DATE/TRANSITION PERIOD/EXCEPTIONS.

A. What is the effective date of the Real Property Financial Management Policy (RPFMP) on which this guide is based?
The policy was effective upon issuance, April 30, 2003. However,
1. capitalization thresholds identified in the policy are effective for transactions that occur after October 1, 2003; and
2. new useful lives for real property are effective October 1, 2003. NOTE: Useful lives of currently held real property need not be changed to reflect the new useful lives. Depreciation is changed *prospectively*, thus no change is required for accumulated depreciation reported to date.

B. Is the RPFMP, or any portion of it, e.g., thresholds, retroactive?
No, the RPFMP is not retroactive.

C. Will a transition period be allowed for bureaus/offices to implement the new real property policy issued on April 30, 2003?
Yes, upon approval of the Director, Office of Acquisition and Property Management (PAM), bureaus/offices may be authorized, on a case-by-case basis, a transition period to implement the new real property financial management policy. For example, some bureaus/offices may need a transition period to adjust to monthly reconciliations, establish new systems, train appropriate personnel, etc.

Bureau/office requests to implement a transition period must:
1. be in writing and signed by the Bureau Director;
2. clearly state the reason(s) why a transition period is required; and
3. provide a suggested transition timeframe, supporting rationale, and implementation date(s).

The Director, PAM, will make the final decision on the request.

D. Will any exceptions be granted to the RPFMP?
The Director, PAM and the Director, Office of Financial Management (PFM) will consider granting specific exceptions to the policy based on written request. Only the Director, PAM, may grant exceptions to the policy.

E. How do I request an exception and what is required?
Requests for exceptions to the RPFMP must be submitted in writing by a Bureau/Office Director, and show sufficient and satisfactory reason to support the exception. The request packages must also include an analysis of the impact of the requested exception on the bureau/office financial statement. Requests for exceptions must be submitted to the Director, Office of Acquisition and Property Management at the following address:

U.S. Department of the Interior
1849 C Street, NW, (MS 5512)
Washington, DC 20240

F. Will bureaus/offices be monitored on the implementation of the policy?
Yes, bureau/office implementation of the RPFMP will be monitored. Among other methods, bureau/office real property management accomplishments will be monitored through reports on a series of related performance metrics.

G. What are the performance metrics reporting requirements related to real property management accomplishments? When are reports due?
Bureau ADA’s (or equivalent) must submit reports on their bureau’s real property management accomplishments in the performance metric areas on a monthly basis beginning October 1, 2003. Reports shall be provided to the Director, PAM. (Refer to Appendix A for the specific performance measurement metrics.)

V. POLICY.

Real property owned or leased by the Department of the Interior (DOI) must be properly accounted for in real property accountability records. Any changes to real property owned or leased by DOI must be tracked and reflected in real property accountability records. Each real property acquisition, improvement, construction, donation, transfer or upgrade that meets the overall capitalization criteria will be recognized in the financial records and depreciated.

What is real property?
Real property is any interest in land, together with improvements, structures and fixtures, appurtenances, and improvements of any kind located thereon. The term "real" should be associated with realty, land, or something attached thereto.

VI. PROPERTY CLASSIFICATIONS.

A. Into what classes does real property fall into?
Real property falls into the following classes (Refer to Appendix B for detailed definitions of the following property classifications.):

1. **Buildings, Structures and Facilities**
   (a.) Buildings, Improvements, and Renovations (includes retrofits and upgrades)
   (b.) Structures and Facilities
   (c.) Water Projects Subject to User Charges
   (d.) Heritage Assets
   (e.) Multi-Use Heritage Assets

2. **Land and Land Rights**
   (a.) General Property, Plant and Equipment (PP&E) Land
   (b.) Stewardship Land
   (c.) Mineral Rights, Natural Resources and the Outer Continental Shelf
   (d.) Land rights
   (e.) Improvements to Land

3. **Construction-in-Progress (CIP)**
   (a.) Assets Constructed for Other Federal Agencies
   (b.) Assets Constructed for Non-Federal Agencies
   (c.) Construction in Abeyance
   (d.) Investigation and Development Costs

B. How are restroom facilities classified?
Stand alone restroom facilities, referred to as "Comfort Stations" are classified under "Buildings-Other" in a real property inventory.

VII. CAPITALIZATION CRITERIA.

A. Capitalization and General Capitalization Criteria/Threshold.

1. What is capitalization?
For purposes of the RPFMP and this guide, capitalization is the recording of the total acquisition cost of an item in the general ledger of DOI's financial accounts. Once recorded in the general ledger, a capitalized asset is depreciated over the term of its life.

The intent of capitalization in the financial records is to provide an accurate and total reflection of DOI's investment in real property over time and to provide information on operating performance by allocating costs to the periods benefited.

2. What is the Department of the Interior's capitalization threshold for real property?
DOI's capitalization threshold for real property is $100,000. The threshold is effective October 1, 2003, and applies to all real property including, roads, modifications, improvements, etc. (However, refer to question #6 below regarding **special criteria.**)

3. What is the difference between "capitalized" and "expensed"?
Capitalization provides a reflection of an investment over time, whereas, expensed goods and/or services reflect expenditures made in which the benefits do not extend beyond the present operating period. Expensed goods/services must be booked in the same period in which the expense was incurred, and they are never accounted for in the general ledger.

4. What is the difference between "capitalization" and "accountability" with regard to real property assets?
Accountability is the maintenance of records of, and control over, assets determined to be important because of their use, value or significance in meeting DOI's mission and fiduciary responsibilities. As defined above, capitalization is the actual recording of the total acquisition cost of an item in the general ledger of DOI's financial accounts. While bureaus/offices have accountability responsibilities for *all* real property assets, not all real property assets are required to be capitalized. The RPFMP's capitalization threshold of $100,000 for real property does not relieve managers from continuing to exercise accountability for real property items valued at less than $100,000.

5. In general, what items/assets are required to be capitalized?
In general, items/assets to be capitalized include:
- (a) Land and Land Rights;
- (b) Land Improvements;
- (c) Construction-in-Progress;
- (d) Buildings;
- (e) Building Improvements and Renovations;

(f) Leasehold Improvements;
(g) Roads;
(h) Bridges; and
(i) Utility Systems

However, keep in mind, any class of real property must be capitalized if the cost of the asset is $100,000 or greater and it meets other special capitalization criteria.

6. Does this apply to *all* real property items or do special criteria apply for capitalization?

Special criteria apply in determining whether any specific real property item must be capitalized. The following criteria must be applied:

(a) Any asset designated as a stewardship or heritage asset is **not capitalized.**
(b) Any asset that has an estimated useful life of less than two years is **not capitalized.**
(c) Any asset that has an acquisition cost below the established capitalization threshold is **not capitalized.**

In addition, in order ***to be capitalized*** as real property, the asset:

(1) Must **not be intended for sale** in the ordinary course of operations; and
(2) Must have been acquired or constructed with the intention of **being used, or being available for use by DOI and/or its bureaus/offices.**

7. Does the $100,000 capitalization threshold apply to all DOI bureaus/offices? Do exceptions apply?

Yes, the $100,000 capitalization threshold applies Departmentwide. However, bureaus/offices may retain their current capitalization threshold for real property *if that threshold is less than $100,000*. Bureaus/offices opting to retain their current lower capitalization threshold must provide written notice of their intention to retain the lower capitalization threshold to the Director, PAM and the Director, PFM. Such notice would be prepared as an exception to the RPFMP. (Refer to section IV.D. of this guide for instructions on preparing and forwarding exceptions.) A Bureau Director must receive approval from the Director, PAM prior to implementing a threshold different from the Department's $100,000 threshold.

B. Application of General Capitalization Criteria to Specific Situations.

1. Buildings, Structures and Facilities.

(a.) New Acquisition of Real Property.
How does the capitalization policy/threshold apply to *new* acquisitions of real property?

DOI bureaus and offices must capitalize each real property asset that meets the general capitalization criteria described in section VII.A., above.

(b.) Assets Comprised of Individual Units.
How does the capitalization policy/threshold apply to real property assets made up of individual units?

(i) If an asset, as originally installed, is part of a group of individual components, *each of which could stand alone as a functional asset*, it is subject to the capitalization criteria. For example, a parking lot or stand-alone parking garage may be part of a group of structures making up a DOI office complex. However, it can stand alone as a functional asset (e.g., you can use the parking lot or garage even if the office building is closed). Therefore, it would be subject to capitalization.

(ii) If an asset, as originally installed, is part of a group of components that function *only as part of the whole*, the asset in total is treated as a single real property asset subject to capitalization criteria. For example, an elevator installed in a DOI office building cannot stand alone. Once installed, it is part of the office building. In this case, the *entire* office building as a whole, including the total acquisition cost of the elevator, is subject to capitalization.

(c.) Capital Improvements.
(1) What is a capital improvement?
A capital improvement is a modification to existing real property which:

(i.) extends its useful life by two years or more; <u>or</u>

(ii.) enlarges or improves its capacity or otherwise upgrades it to serve needs different from, or significantly greater than, those originally intended, e.g., adding a dormitory wing to a training building.

(2) How are capital improvements treated differently from operations, repair and maintenance?
In most cases, standard operations, repair and maintenance work on real property does not significantly extend the property's useful life or expand its capacity beyond that originally intended. For example, repair and replacement of a broken waterline at a facility would constitute repair and maintenance and would not be capitalized. Whereas, adding a new $500,000 boiler to a facility would constitute a capital improvement because it extends the useful life of the building in which it was installed. Repairs and maintenance are *expensed*. Capital improvements that meet the general capitalization criteria are *capitalized* and recorded in the general ledger. (Refer to questions/answers on "Replacements" at VII.B.1.(d.)(1), (2) and (3) below, and section XIII of this guide, "Maintenance,")

(3) How do I establish whether an asset or capital improvement is to be capitalized?
To establish whether an asset or capital improvement is to be capitalized, the dollar values for modifications are **not** added to the value of the original assets. Rather, the asset acquisition and capital improvement are treated as *separate transactions* and the capitalization criteria are to be applied separately *to each transaction*.

For example, if the campus of a training facility constructs a sports stadium, the stadium would have to be capitalized separately from other buildings on the campus and should not affect the original value of the entire campus. If a single subsequent modification meets the capitalization criteria, that modification must be capitalized at its acquisition cost.

(d.) Replacements.
(1) How do I account for replacements due to a capital improvement?
Where a replacement occurs due to a capital improvement, accounts should be adjusted to *remove* the cost and accumulated depreciation of the asset replaced. For example, when a facility installs a $500,000 boiler to replace a 30-year old boiler, you would adjust accounts to remove the cost and accumulated depreciation of the 30-year old boiler that has been replaced.

(2) How does that differ from accounting for replacements made as part of maintenance?
The costs of replacements as part of maintenance are **expensed** and no change is made to the records of the original asset.

(3) When is replacement of parts of structural components expensed?
Expenditures for repairs and maintenance are charged to expense, as incurred.

(e.) Disposals.
How do I account for disposals?
The disposal of a real property asset, i.e., removal of an asset's recorded cost and accumulated depreciation, should be treated *separately* from any additions or replacements. However, costs associated with disposing of existing property that will be replaced, e.g., destroying an old parking lot in order to build a new one in its place, should be treated as part of the capital improvement.

(f.) Transfers.
(1) What is a "transfer" of real property as related to the DOI RPFMP?
Transfers of property occur only between Federal agencies. The policies covered by the RPFMP apply to transfers both within DOI and between DOI and other Federal agencies. (Transactions with the public or state, local and tribal governments are covered elsewhere, e.g., in related OMB Circulars and bureau/office supplementary guidance.) Capitalization of transfers, like any other real property asset, is contingent on meeting the general capitalization criteria.

(2) How do I account for transfers without reimbursement between DOI and another Federal entity?
In most cases, transfers of real property between Federal entities occur without reimbursement to the transferor for the value of the asset. (NOTE: Incidental payments/ costs associated with the transfer, e.g., documentation, transfer fees, etc., are *not* considered reimbursement for the value of the asset.)

Transfers without reimbursement are recorded in DOI's accounts at the net book value of the transferor *plus* all associated incidental costs. If the transferor's net book value for the asset cannot be determined, the estimated fair market value of the property *plus* all associated incidental costs should be recognized.

(3) How do I account for transfers without reimbursement between DOI entities?
Real property transferred without reimbursement to another DOI bureau or location will be recorded as a *decrease to* the asset and accumulated depreciation accounts of the *transferring bureau/office* and as an *increase to* the asset and accumulated depreciation account of the *receiving bureau/office* at the same amount.

(4) How do I account for transfers <u>with</u> reimbursement between DOI and another Federal entity?
Real property transferred to or from another Federal entity, with reimbursement for the value of the property, is recorded at the amount of reimbursement to the transferor *plus* all associated incidental costs. (NOTE: Incidental payments/costs associated with the transfer, including documentation, transfer fees, etc., are **not** to be considered as part of the reimbursement for the **value of the asset**, rather, they are treated as part of the costs.)

(5) How do I account for transfers <u>with</u> reimbursement between DOI entities?
Real property transferred with reimbursement to another DOI bureau or location would generally be recorded on the receiving bureau's books at the amount of reimbursement to the transferor *plus* all associated incidental costs. CAUTION: Such transfers must be reviewed by PFM and auditors to ensure that DOI's financial records are not adversely affected.

(g.) Donations and Other Property Received from the Public Without Reimbursement.
(1) Should real property acquired by donation, through bequest, or confiscation be capitalized?
Provided that it meets the general capitalization criteria, real property acquired by donation, through bequest, or confiscation will be capitalized and recorded in the appropriate asset account at estimated fair market value when it is acquired by DOI.

(2) How would I assess a value to forfeited real property?
Forfeited real property should be valued at fair market value minus an allowance for any liens or claims from a third party.

(3) How would I assess a value to assets built by volunteers?
Assets built by volunteers *at little or no cost to the Government* are considered to be donated property.

(4) How is seized property to be handled?
Seized property, i.e., property taken under law enforcement action, is *not* considered to be Real Property. Rather, seized assets are to be treated as inventory in accordance with SFFAS #3 <u>until adjudication</u>, at which time disposition is determined.

(h.) Borrowed and Loaned Assets.
(1) How do I treat real property borrowed from other organizations?
Real property borrowed from other organizations is *not* recorded in DOI's financial records. However, appropriate accountability must be maintained for all borrowed property.

(2) How do I treat real property loaned to another organization without transfer of title?
Real property loaned to another organization without transfer of title remains a DOI asset. Appropriate accountability must be maintained for all loaned property.

(i.) Heritage Assets.
(1)What is a heritage asset?
Heritage assets are property, plant and equipment (PP&E) that possess one or more of the following characteristics:
(i) historical or natural significance;
(ii) cultural, educational or aesthetic value; or
(iii) significant architectural characteristics.

(2) Are the costs of improving, reconstructing or renovating heritage assets to be capitalized or expensed?
Costs of improving, reconstructing or renovating heritage assets must be *expensed* in the period in which they are incurred. (Refer to section VII.D. of this guide, "Construction-in-Progress" regarding heritage assets.)

(j) Multi-Use Heritage Assets.
(1) How does a multi-use heritage asset differ from a heritage asset?
Multi-use heritage assets have both operating and heritage characteristics, however, in a multi-use heritage asset, the predominant use of the asset is in government operations.

(2) What is predominant use?
Predominant use is defined as more than 50% of the entire building, structure, or land is being used for one purpose. For example, if an office building has 51% of its gross square footage is used for storage, its predominant use is a warehouse / storage unit. If more than 50% of land is used for an airfield with some agriculture use, its predominant use would as an airfield.

(3) Are acquisition, construction and renovation costs of multi-use heritage assets to be capitalized or expensed?
All acquisition, construction and renovation costs of multi-use heritage assets that meet the capitalization threshold are capitalized and depreciated.

(k) Earthen Structures

(1) What is an earthen structure?

Earthen structures are composed of earth and similar materials that retain water, e.g., dikes levees, and ditch plugs.

(2) How are earthen structures accounted for?

Subject to the general capitalization criteria (i.e., refer to section VII. A. "Capitalization Criteria"):

(i.) **Water projects subject to user charges:** are capitalized and depreciated regardless of construction material. (Note: This rule applies to earthen and non-earthen water projects.)

(ii.) **Earthen structures related to Stewardship Land and permanent improvements to Stewardship Land:** are expensed as acquisition of Stewardship Land.

(iii.) **Other earthen structures related to bureau operations:** are capitalized and depreciated.

(l.) Leasehold Improvements.

(1) How do I account for DOI-funded costs of improvements to buildings, structures and facilities leased by DOI?

Subject to the general capitalization criteria, DOI-funded costs of improvements to buildings, structures and facilities leased by DOI are capitalized.

(2) What is meant by "useful life"?

Useful life is the period of time during which an asset will have economic value and be usable. Useful life is sometimes referred to as the "economic life" of an asset.

(3) How do I calculate the useful life of improvements on leased property?

(i.) The useful life of improvements on a *Federal* building leased from GSA must not exceed the expected period of occupancy of the building.

(ii.) The useful life of improvements on leased *non-federal* buildings cannot exceed the lease term.

NOTE: The cost of Interior-owned buildings, structures and facilities and related improvements located on land not owned by DOI will be included in Buildings or Other Structures and Facilities, as appropriate.

(m.) Capital Leases and Lease Related Issues.

(1) What is a capital lease?

Certain lease arrangements effectively give a lessee an ownership interest in the leased property. In these cases, the property is capitalized as a DOI asset. A lease is considered to be a capital lease when any one of the following four criteria is met:

(i.) Ownership of the property is transferred to the lessee at the end of the lease; or

(ii.)The property may be purchased at a bargain price at the end of the lease term; or

(iii.)The lease term is greater than 75% of the estimated economic or useful life of the property; or (iv.) The present value of the minimum lease payments is greater than 90% of the fair market value.

The determination of whether a lease will be a capital lease is accomplished well in advance of lease execution because of the possible budget score-keeping (OMB Circular A-11) that may be required. Before making any lease commitment on the part of DOI, you must consult with your servicing accounting organization regarding OMB Circular A-11 applicability.

(2) What is a cancelable lease?

A cancelable lease is usually executed for property located in metropolitan areas or areas where the demand for rental space is high. It is a lease that can be terminated without additional compensation by providing notice at least 180 days in advance of the time of moving out. Refer to the termination clause of the lease to determine if it can be canceled.

(3) How does a bureau/office reflect in the financial statements that a lease has been cancelled?

The information should be disclosed in the financial footnote, which should include information such as the terms of the lease agreement and the effective termination date.

(4) What is a non-cancelable lease?

A non-cancelable lease is one where the lessee remains ultimately responsible for the rent for the term of the lease, regardless of whether they move out before the end of the lease term. This usually happens where a tenant initiated termination of operation in a rural area or in a specialized rental space where it would be difficult to find other renters.

Your options to remedy the lease include:

- buying out the lease
- subleasing
- including a contract provision for handling early cancellation of the lease.

(5) How does a bureau/office reflect in the financial statement that a lease cannot be cancelled because of the terms of the contract/agreement and another facility is being leased, purchased, etc.?

The information should be disclosed in the financial footnote, which should include information contained in the lese contract/lease that allows no provision for cancellation. There should either be a copy of the statement of the agreement/lease or a thorough explanation as to why the lease cannot be cancelled.

(6) How can a bureau/office return non-cancelable space?

Even though a space may be designated as "non-cancelable," agencies may nonetheless look to the General Services Administration (GSA), Public Building Service (PBS) to find a backfill tenant for the space. Because the space is designated "non-cancelable," the agency may vacate and return the space to PBS, but PBS will not relieve the agency of the obligation to pay serviced shell rent (including operating costs), the annual amortized cost for tenant improvements, joint use charges, security, and the GSA fee (if the space is leased). These charges will only be removed if PBS finds a backfill tenant, and then only to the degree to which the backfill tenant's rent covers the rent obligation of the vacating agency, net of the tenant improvements provided to the backfill tenant, and net of GSA's fee. During the vacancy period, it may be possible to reduce rent for operating expenses. PBS will add the space to its vacant space lists so that if a backfill candidate is found, the agency's rent losses can be mitigated.

(7) What is a direct lease?
A direct lease is contracted with in-house staff, where the Bureau/Office becomes the lessee.

(8) What is a non-direct lease?
A non-direct lease is one that the GSA leases for a bureau or one that GSA owns and rents to a bureau. GSA is the lessor and submits rent bills to the lessee bureau. The space rented by GSA is called GSA space or Government-controlled space.

(n) Collateral/Installed Equipment.
What is collateral equipment and how is it handled with respect to capitalization?
Collateral equipment, also known as installed equipment, includes building-type equipment, built-in equipment, and large substantially affixed equipment, normally installed as a part of a facility project either as part of the original facility construction or a modification. Collateral equipment is considered part of the facility project or structure in which it is installed and *shall be included in the value of the project* when making the determination as to whether the project meets the capitalization criteria. The cost of replacements of, or additions to the collateral equipment will be treated as either a capital improvement or maintenance, in accordance with the Capital Improvements section of this guide. (Refer to Sections VII. A. "Capitalization Criteria," and section VII.B.1.(c), "Capital Improvements.")

2. Construction-in-Progress.

(a) Construction-in-Progress.
What is meant by Construction-in-Progress and how is it handled with respect to capitalization?
Construction-in-Progress refers to real property assets acquired or constructed over a period of time. For these types of assets, the decision of whether to capitalize the asset should be based on its expected total cost (refer to section IX. "Valuation"). If the cost is expected to exceed the capitalization threshold, costs should be accumulated in the Construction-in-Progress account until the asset is placed in service. If the final cost upon completion does not meet the capitalization threshold, the item will be expensed rather than capitalized at that point.

This is an on-going process. Procedures shall ensure that the costs of facilities projects are capitalized in accordance with capitalization criteria and the related amounts removed from work in progress. A review of the physical completion status of individual facilities shall be conducted with authorized real property officials sufficiently in advance of the end of the fiscal year so that necessary entries can be made to properly reflect their status as of the fiscal year end. Reviews should be completed regularly throughout the fiscal year in order to meet the Department's three-day close out period.

(b) Construction in Abeyance.
What is meant by Construction in Abeyance and how is it handled with respect to capitalization and Construction-in-Progress?
Construction in Abeyance refers to certain long-term construction projects that are suspended for a period of time due to financial, legal, political, or other reasons. A project is considered to be in abeyance when it has been formally suspended and management has taken steps to preserve the project from deterioration pending resumption of construction. At the time it is decided to put a project in abeyance, amounts related to the project recorded in Construction-in-Progress must be transferred to Construction in Abeyance, and presented as *a sub-category* of Construction-in-Progress. NOTE: Costs to protect the project from deterioration are considered *operating expenses* and are **not** capitalized.

(c) Construction and Renovation of Heritage Assets.
How is the construction and renovation of Heritage Assets to be handled with respect to capitalization and Construction-in-Progress?
Under Federal accounting standards, the costs of improving, reconstructing or renovating heritage assets must be *expensed* in the period in which the costs are incurred. The cost of Heritage Asset construction or renovation projects will be accumulated in Construction-in-Progress accounts in order to facilitate management of the project. A Construction-in-Progress Contra-Account will be established by the servicing finance office and used to ensure that costs are charged in the proper accounting period.

3. Land

(a) How are land, Stewardship Land, roads, bridges, trails and related improvements accounted for?
Land, Stewardship Land, roads, bridges, trails and related improvements will be accounted for as identified in the following table:

Table 1: Accounting for Land, Stewardship Land, Roads, Bridges, Trails

Category of Land/Improvement	Capitalized	Expensed
General PP&E Land – Considered to be permanent and does not depreciate over time.	Cost of PP&E land, *other than Stewardship Land*, is capitalized in bureau financial records. No depreciation is recognized.	
Stewardship Land – Public domain land and land acquired for use as parks, wildlife refuges and other similar objectives. Public domain land remains stewardship land *even if* it is used for operating purposes. Costs associated with Stewardship land are **not** capitalized as assets.		Cost of acquiring Stewardship Land is expensed in the period in which the land is acquired.

Incidental Costs Associated with the Acquisition of Land (e.g., costs to relocate current tenants, demolish unnecessary structures) are considered part of the acquisition cost of the land.	Capitalized ***if*** associated with General PP&E Land	Expensed ***if*** associated with Stewardship Land.
Improvements to Land	Capitalized ***if*** the overall capitalization criteria are met.	
Improvements to Stewardship Land	Assets constructed to meet *other* program needs are capitalized.	Improvements designed to protect or preserve Stewardship Land is expensed as acquisition of Stewardship Land.
Roads, Roadbeds and Related Property- Accounting treatment of roads and roadbeds is made after consideration of a number of factors, including the nature of the underlying land and pavement material. **a. Roadbeds** – treated as a permanent land improvement. **b. Paved Roads and Gravel Roads** **c. Bridges-**meeting length and width standards and comply with safety inspection standard at 23 CFR 650, Subpart C. Culvert crossings are not considered to be bridges. (See p. 14 of DOI RPFMP) **d. Roads and Bridges Incidental to Purchase of Land** – are **not** capitalized separately from the land and are added to accountability records at zero value (considered fully depreciated) for maintenance purposes. **e. Trails** – considered to be improvements to Stewardship Land. (Improvements designed to improve or protect Stewardship Land are expensed.) Some trails are heritage assets. **f. Roads on Stewardship Land** – are treated in the same manner as paved and gravel roads on non-Stewardship Land.	a. Roadbeds constructed on non-Stewardship Land will be capitalized as a permanent land improvement ***if*** it meets the capitalization criteria. b. Paved roads and gravel roads are capitalized ***if*** general capitalization criteria are met, e.g., if useful life is expected to be in excess of 2 years. c. Bridges are capitalized ***if*** the general capitalization criteria are met. f. Paved roads and gravel roads are capitalized ***if*** general capitalization criteria are met, e.g., if useful life is expected to be in excess of 2 years.	a. Roadbeds constructed on Stewardship Land are expensed. b. Paved roads and gravel roads the estimated that do not meet the general capitalization criteria, e.g., useful life of which are **not** expected to exceed 2 years, are expensed. e. Trails earthen in nature and the cost of constructing and maintaining trails are expensed. f. Paved roads and gravel roads that do not meet the general capitalization criteria, e.g., useful life of which are **not** expected to exceed 2 years, are expensed.

(b) What are land improvements?
Additions to or betterments of real property that enhance its value or involve the expenditure of labor or money and are designed to make the property more useful or valuable as distinguished from ordinary repairs. Maintenance and ordinary repairs may include painting and the repair of roofs, windows, heating systems, lighting, and plumbing equipment and are usually associated with buildings, facilities, and structures. Real property expenditures greater than $100,000 per FY for improvements should be capitalized and expenditures of less than $100,000 per FY should be expensed.

(c) What are some examples of land improvements?
Physical characteristics may have a significant effect on the value of land. Important physical characteristics of land include location, size and shape, capability of combining sites for increased value of the land, frontage, topography, utilities, site improvements, accessibility, view, and environment. Land improvements may also include grading, landscaping, paving, and utility hookups.

Special characteristics that may influence and improve the land value include the type of soil, drainage, climate, crop potential, mineral deposits, wildlife habitats, streams, lakes, distance from populated areas, and potential for recreational use.

VIII. RECORDS.

A. Standard General Ledger (SGL) Accounts.

1. What kind of real property transactions are to be recorded in the general ledger?
Accounting transactions affecting DOI-owned and leased real property, whether DOI- or contractor-held, shall be recorded in general ledger asset accounts in accordance with the DOI Real Property Financial Management Policy.

2. What are the standard general ledger accounts for real property?
The standard general ledger accounts for real property are provided below:

Table 2: Standard General Ledger Accounts for Real Property

Category	Account #	Description
LAND		
	1711	Land and Land Rights
	1712	Improvements to Land
	1719	Accumulated Depreciation – Land Improvements
BUILDINGS, STRUCTURES AND FACILITIES		
	1730	Buildings, Improvements and Renovations
	1739	Accumulated Depreciation-Buildings and Improvements
	1740	Other Structures and Facilities
	1749	Accumulated Depreciation – Other Structures
CONSTRUCTION-IN-PROGRESS (CIP)		
	1720	Construction-in-Progress
	172B	CIP in Abeyance
	172C	CIP Completed But Not in Service
	199B	Investigations and Development

CAPITAL LEASE LIABILITY ACCOUNTS		
	2940	Capital Lease Liability
EXPENSE ACCOUNTS		
	690D	Non Prod Costs – Investment in NonFed Phys Prop
	690E	Non Prod Costs – Investment in Stewardship Assets
	690F	Non Prod Costs – Investment in Heritage Assets

B. Physical Inventories of Real Property.

1. What are the requirements associated with physical inventories of real property?
Bureaus must physically verify the presence and condition of all real property assets on a regular basis. All real property (i.e., 100%) must be inventoried over a five year period.

2. What basic information must be recorded during the inventory?
The following basic information must be gathered in the course of an inventory:
(a) location of items/assets;
(b) assessment of utilization of the real property items/assets; and
(c) confirmation of accuracy of subsidiary records.

The accuracy and completeness of each physical inventory must be certified in writing by the appropriate property officer or program manager. Physical inventories are a significant part of the annual financial audit. Accordingly, it is imperative that external auditors be consulted as each bureau's physical inventory plans and procedures are developed.

3. How do I conduct an official physical inventory?
The inventory can be accomplished through visitation, satellite imagery, aerial flight observations, maps, and photography, or other visual observations. The overall objective is to ensure that the records in the bureau/office database are accurate and complete. It is absolutely essential that testing throughout the year be conducted of the inventories to ensure existence and completeness of the inventory, accuracy of the acquisition dates, depreciation, transfers, etc.

4. Can the data gathered through physical inventories for financial accounting also be used to complete the Annual Report of Real Property Owned by or Leased to the United States (also known as the Worldwide Inventory – Real Property Profile – Annual Report, GSA Form 1166)?
Yes, you can use information gathered from the physical inventories as a basis for meeting the requirements for financial accounting of real property and the GSA Form 1166 report. The information contained in the two types of reports must be consistent. (Refer to Appendix C for information requirements related to the Annual Report of Real Property Owned by or Leased to the United States.)

C. Indian Fiduciary Trust Records Related to Real Property.

How are real property records associated with Indian Trust activities to be handled?
Any real property records associated with Indian Trust activities are subject to guidance provided by the Office of the Special Trustee for American Indians.

D. Record Content and Maintenance Requirements.

1. What official documentation must be maintained in the financial records for real property?
The following documentation must be maintained in the official financial records for real property:

(a.) Copy of purchase document/invoice/acquisition;
(b.) Copy of settlement agreement that includes cost and date of purchase/transfer, date placed in service;
(c.) Date ownership transferred; and
(d.) Identification of useful life of the asset in order to calculate depreciation.

2. What basic documentation is required for the official real property master file?
Facilities are required to maintain basic documentation that supports the cost of each real property asset, the date the asset was placed into service, the asset's useful life, and any subsequent acquisition including depreciation, addition or betterment, disposal, or transfer impacting the recorded value of the item. The appropriate documentation must be in written form for auditing purposes.

3. How long must the documentation be maintained?
Basic documentation will be maintained at the facility level for the life of the asset and then for three fiscal years after disposal or transfer of the real property asset as required by the Office of the Secretary, Comprehensive Records Disposal Schedule, Record Category E, Procurement and Property.

4. At minimum, what must be contained in a real property acquisition file?

(a.) Title Papers; and
(b.) Explanation of method of acquisition, e.g., how property was acquired.

5. How long must the real property acquisition file documents be maintained?
Title evidence must be maintained indefinitely. The other documents should be maintained as long as the Government owns the property or has recapture rights.

6. What else may be contained in the real property acquisition file?
As appropriate, the following documents may also be contained in the real property acquisition file:

(a) Copy of purchase document, invoice, and, if not apparent in the purchase document, a written explanation of the acquisition method;
(b) Property Specifications (type);

(c) Site maps and surveys;
(d) Plot Plans;
(e) Architect's sketches;
(f) Working diagrams;
(g) Preliminary drawings;
(h) Blue prints;
(i) Master Tracing;
(j) Utility Outlet Plans;
(k) Equipment Location Plan;
(l) Construction Process Photographs;
(m) Inspection reports;
(n) Building and Equipment management records;
(o) Maintenance Records;
(p) Allowance lists;
(q) Copy of settlement agreement that includes cost and date of purchase/transfer, date placed in service;
(r) Documentation of date ownership transferred;
(s) Documentation on Useful Life;
(t) As Built drawings; and
(u) Pertinent correspondence

IX. VALUATION.

A. What is the general rule for estimating value for capitalization purposes?

Each real property acquisition, addition, improvement, alteration, rehabilitation or replacement is to be treated as a *single event*. The *total cost of each single event* should be used to determine whether it meets the capitalization criteria, regardless of when payment is made. If the event meets the criteria for capitalization, all costs incurred in relation to that event, regardless of when they are paid, will be recorded in general ledger accounts. The total cost of a project, e.g., a building, will be considered a single event regardless of whether the work was performed through multiple contracts. (Refer to section VII.A. "Capitalization Criteria.")

B. What goes into calculating the capitalized value of real property?

Capitalized values of assets purchased or constructed by DOI shall include all costs paid for the property, the value of other assets surrendered in order to obtain the property and all other costs incurred to bring the real property to a form and location suitable for its intended use, i.e., the total cost to DOI. These costs include but are not limited to:

- amounts paid to vendors or contractors, including fees;
- transportation charges to the point of initial use;
- handling and storage charges;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for design, plans, specifications, and surveys;

- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of equipment and facilities used in construction work including depreciation;
- fixed equipment and related costs of installation required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims; and
- material amounts of interest costs paid.

C. How do I assign value to a donation?
Assets donated to DOI are recognized at the fair market value of the property *plus* any other costs incurred by the Government related to bringing the donated property to a form and location suitable for its intended use. (For examples, see the above listing of costs.)

D. How do I assign value to volunteer time?
The value of volunteer time is based on the average hourly earnings of all nonagricultural workers as determined by the Bureau of Labor Statistics, and is updated annually. The DOI uses as its standard for determining volunteer wage equivalents, INDEPENDENT SECTOR, an independent volunteer organization. INDEPENDENT SECTOR takes the Bureau of Labor Statistics figure and increases it by 12 percent to estimate for fringe benefits. In 2002, for example, the dollar value for volunteer time was $16.54 per hour. The current dollar values associated with volunteer time can be found at: independentsector.org/programs/research/volunteer_time.html

E. How do I assign value to real property obtained under a capital lease?
The value assigned to real property obtained through capital leases includes all costs directly attributable to making a capital asset available to the lessee, including, but not limited to:

1. finance charges, including interest;
2. ancillary costs such as delivery and installation charges; and
3. maintenance costs.

The cost of general PP&E acquired under capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception, i.e., the net present value of the lease payments calculated as specified in the liability standards unless the net present value exceeds the fair value of the asset.

F. How do I assign value to a trade-in?
Where capitalized property or collateral equipment is traded for another piece of property or capitalized collateral equipment, the capitalized value of the new asset will be amounts paid *plus* the net book value of assets traded in.

G. How are discounts factored in?
The capitalized value will be net of discounts taken.

H. How is value assessed for barter transactions?
Barter transactions are transactions where both sides relinquish assets other than cash, for example, transactions trading land in different locations is a common barter transaction. Barter transactions will be recognized at the fair market value of property surrendered or property received, whichever is more readily determinable. Property acquired in a barter transaction should be capitalized in accordance with section VII. A.“Capitalization Criteria.”

X. DEPRECIATION.

A. What is “depreciation” and what does it have to do with capitalization?
Depreciation is a reasonable allowance for exhaustion, wear and tear, and obsolescence, taken by the owner of a property and by which the cost of property is allocated over time. Depreciation decreases balance sheet assets and is also recorded as an operating expense for each period.

Capitalized real property, including buildings, structures and facilities, is depreciated over time in order to allocate the costs of assets to the activities and time periods expected to benefit from the use of the property. Depreciation is an important component of the full cost of activities for financial and performance reporting. In addition, management is expected to consider depreciation along with other cost elements when establishing reimbursable agreements and repayment contracts.

B. How is depreciation computed?
Depreciation is computed using the straight-line method (i.e., a method of depreciation that assumes an asset will lose an equal amount of value each year. It is calculated by taking the purchase price of an asset subtracted by the salvage value and divided by the asset’s useful life.), or other acceptable method as approved by the Director, PAM. Depreciation is calculated and accounted for by recognizing an entry to depreciation expense and accumulated depreciation. (Refer to “salvage value” in question E below.)

C. What is the frequency for computing and recognizing depreciation?
Depreciation will be computed and recognized on a monthly basis.

D. When does depreciation begin for new assets?
Depreciation of capitalized real property will begin the month that the assets are placed in service.

E. What is meant by “salvage value”?
Salvage value is the expected sale price of an asset at the end of its usefulness to the agency. The portion of an asset’s value assumed to be salvage value is **not** depreciated.

NOTE: Generally, Federal assets are used as long as possible and are rarely sold by the agency to the public for a price. Therefore, the salvage value of DOI real property is assumed to be $0 unless documentation supporting an expected specific salvage value is included in the asset's official file.

F. Are there exceptions to the application of depreciation to real property?
Yes, land, land rights and permanent improvements to land such as roadbeds do **not** lose value over time and are therefore not subject to depreciation. **No depreciation is recognized for these assets.**

G. Is there a special exception that applies to water projects subject to user charges?
Yes, the computation of depreciation on these projects must be determined in accordance with the appropriate statutory, regulatory and contractual terms governing project repayment and would not necessarily be computed on the straight-line method. If statutory, regulatory and contractual terms *do not* reflect a reasonable useful life, consult with your Bureau Chief Financial Officer to determine the appropriate period. The method for computing depreciation on this type of project and/or its components must be documented and consistently applied within the limits of the statutory and regulatory framework.

XI. ESTIMATED USEFUL LIFE.

A. What is the relationship between estimated useful life and depreciation?
In calculating the depreciation of an asset, you must consider its estimated useful life. *Useful life* applies to assets acquired in *new condition*. Assets acquired in *used condition* are depreciated over their expected *remaining useful life*.

B. Has DOI established some standard useful life ranges for certain types of real property assets?
Yes, DOI has made a determination of the standard range of useful lives for the following major asset types. Examples of individual asset types are also provided in the following table. NOTE: If an asset has special considerations or is not listed in the following table, a memorandum from a qualified facility management professional to document an alternative useful life should be placed in the property file or record.

Table 3: Useful Lives of Certain Major Real Property Asset Types

CLASSIFICATION	USEFUL LIFE RANGE
A. Buildings, Structures, Facilities, Improvements, and Renovations. Examples include: • Offices and warehouse buildings (including commercial, government, air traffic control towers and centers) • Residential properties • Electrical Power and Distribution Systems • Plumbing Fixtures and Accessories • Heating, Air Conditioning and Ventilation • Industrial Boilers • Dryers, Dehydrators, and Anhydrators • Architecture and Related Metal Products • Wood Building and Structures • Mobil Homes (permanently affixed to land)	**10 – 40 Years**

A. Buildings, Structures, Facilities, Improvements, and Renovations. (Continued) • Metal and Prefabricated Buildings/Structures • Masonry Buildings and Structures • Earthen Structures	**10 – 40 Years**
B. Capital Improvements, Facility Modifications, Leasehold Improvements. Examples include: • Temporary Buildings and Structures • Leasehold Improvements – Improvements (or expiration of lease, whichever comes first) • Other Structures (e.g., Roads, Sidewalks, Parking Lots)	**10 – 15 Years (or expiration of lease, whichever comes first)**
C. Water Projects Subject to User Charges.	**60 – 80 Years*** *The useful lives of components of Water Projects Subject to User Charges shall be determined in accordance with appropriate statutory, regulatory and contractual terms governing project repayment and would not necessarily coincide with the range stated above. If statutory, regulatory and contractual terms do not reflect a reasonable useful life, consult with your financial management office to determine the appropriate period. The method of estimating the useful life of this type of project and/or its components must be documented and consistently applied within the limits of the statutory and regulatory framework.

C. Will the change in the capitalization threshold pursuant to the DOI Real Property Financial Management Policy (effective October 1, 2003) affect calculations of capitalization, useful lives, and depreciation calculations of currently held property?

The change in capitalization threshold, from bureau-specific or $50,000 per item acquisition cost in previous years to $100,000 per item in FY 04 and beyond, is **not** retroactive. All real property placed into service prior to FY 04, with an initial capitalization cost of bureau-specific threshold or $50,000 per item will remain capitalized. All real property placed into service in FY 04 and beyond, with an acquisition cost of $100,000 per item will be capitalized. The useful lives of currently held property need not be changed to reflect the new useful lives effective October 1, 2003. Depreciation is changed prospectively, thus, no change is made to accumulated depreciation reported to date.

XII. TRANSACTION DATES.

A. What are the policies and procedures regarding "acquisition date"?

Transactions involving the acquisition of real property are to be recognized in the accounting records and official property subsidiary records within ten working days of acquisition, but in no case, later than the last day of the month in which the transaction occurs.

1. The acquisition date of *purchased real property* is the *date that title passes to DOI*. Title shall be considered to be passed when the authorized government official accepts the property for the agency.

2. The acquisition of *constructed real property* is the *date that the asset is accepted or placed in service*. This is defined as the date that the certificate of occupancy is signed by the authorized government official.

B. When is real property constructed for DOI recorded in the general ledger, and how is it handled?
In the case of real property constructed for DOI, it shall be recorded in the general ledger as construction work in progress *until it is placed in service by DOI*, at which time the balance will be transferred to real property. The authorized government official accepting the property is normally the Contracting Officer or that Officer's designated representative, who is responsible for notifying the Real Property Officer of the acceptance.

Capitalization of construction work in progress will not be delayed pending final acceptance of residual closeout work such as punch lists. At fiscal year-end, special care shall be taken to ensure than any assets meeting the timing of capitalization criteria are capitalized regardless of whether there are remaining costs to be paid. The amount capitalized should be the costs incurred to date that meet the requirements in Section IX, Valuation of the DOI RPFMP and this guide. However, all appropriate costs (as defined in the "Valuation" section), including any unpaid vouchers remaining at the time of acceptance, will subsequently be included in the *total cost* of the asset since construction of real property is treated as a single event.

C. How is obsolete or unserviceable real property handled?
Real property assets that no longer provide service in the operation of the entity will be removed from the accounts. Obsolete real property shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

D. What is the policy regarding the handling of real property not in use?
Real property assets disposed of, retired or removed from service by DOI will be removed from the real property accounts. The bureau's Real Property Officer shall notify the bureau's Deputy Chief Financial Officer in writing when real property for which DOI is accountable is no longer being used for DOI purposes. Assets to be sold or transferred will be reclassified to another appropriate asset account until sold or transferred. Assets to be disposed of will be written off. The bureau's Deputy Chief Financial Officer shall remove the capitalized cost of the real property and related accumulated depreciation

from the accounting records upon receipt of notification. The bureau's Real Property Officer shall also notify his/her respective Deputy Chief Financial Officer in the unlikely event that the real property is returned to active DOI use, so that it can be returned to capitalized status in the accounting records. In this case, the Deputy Chief Financial Officer will initiate actions to return the real property assets to a capitalized status in the accounting records.

E. What is the policy regarding disposal of real property?
When real property has been sold, abandoned, destroyed or declared excess and accountability transferred to another Federal agency, the property must be removed from the property records and an appropriate accounting transaction prepared recording the disposition of the property in the accounts and any related gain or loss. Cash received as a result of sale or transfer will be handled in accordance with appropriate budget rules. Real property disposal will be accomplished in accordance with Federal Property Management Regulation, 41 CFR, section 101-47.

F. Substance versus form: What happens if official paperwork transferring title or documenting acceptance is delayed?
Transactions are to be recorded when they occur, as discussed above. However, in some cases official paperwork transferring title or documenting acceptance is delayed for an extended period of time. For example, in some cases a building is occupied by employees and used for its intended purpose for several years even though facilities management personnel have not formally accepted the building awaiting final repairs or improvements by the contractor. This building would be considered to be in service and would be recognized as a DOI asset. The following general rule applies: **If a building or structure is complete and in use by DOI for its intended purpose, delays in paperwork are not a justification for failure to recognize the asset in official accounts.**

XIII. MAINTENANCE.

A. What is maintenance?
Maintenance is the act of keeping assets in usable condition. Maintenance includes preventive maintenance, emergency and scheduled repairs, replacement of parts and structural components, e.g., a roof, HVAC, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.

B. What does maintenance exclude?
As pointed out in section VII.B.1.(c)(2) of this guide, maintenance *excludes* activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

C. Are maintenance activities capitalized or expensed?
As indicated in section VII.B.1.(c)(2), maintenance activities shall be expensed.

D. What is "deferred maintenance"?
Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and has been delayed for a future period.

E. How will amounts reported for deferred maintenance be determined?
Amounts reported for deferred maintenance will be determined using the "Condition Assessment Survey" method.

F. What is a Condition Assessment Survey?
A Condition Assessment Survey is the periodic inspection of real property to determine its current condition and provide a cost estimate for any necessary repairs.

G. What are the deferred maintenance supplemental stewardship reporting requirements?
The following information shall be presented as Required Supplementary Information:

1. Identification of each major class of asset for which maintenance has been deferred. ("Major classes" of general PP&E shall be determined by the entity. Examples of major classes include, among others, buildings, structures, and land.)
2. Method of measuring deferred maintenance for each major class of real property.
3. If the Condition Assessment Survey Method of measuring deferred maintenance is used, the following must be provided:
    a. description of requirements or standards for acceptable operation condition;
    b. description of any changes in the condition requirements; and
    c. asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

A. Who is responsible for the real property performance measures?

Assistant Directors -Administration (ADA), or equivalent positions in each bureau/office, are responsible for implementing and tracking performance measures for real property management. Real property and financial managers must be aware of the measures and be held accountable for meeting the measures.

B. What is the purpose or end outcome of the performance measures for real property?

To ensure that adequate financial controls are in place and financial records and reports accurately reflect the status of real property.

C. What is the overarching purpose for the real property performance measures?

To improve the Department's real property management program and consistently obtain clean audit opinions on real property financial accounting.

D. How often are reports required on the property real property performance measures?

The Bureau ADA is required to report monthly on bureau accomplishments. This is consistent with the requirement for real property and financial management reconciliation that is also required at the end of each month.

E. What are the reportable performance measures and objectives?

Performance Measures	*Performance Objectives*
X% of implementation with bureaus of Departmentwide Real Property Financial Management Policy (DOI RPFMP).	100% = policy has been disseminated, responsibilities have been assigned, reporting processes and frequency have been revised, as appropriate, and data is being collected and reported in accordance with DOI RPFMP.
X% of bureau's real property accounts reconciled monthly	Higher percentage is good.
X% of changes to real property owned or leased that are tracked and reflected in real property accountability records.	Higher percentage is good.

Performance Measures	*Performance Objectives*
X% of bureau's real property physically inventoried (planned vs. accomplished)	Not less than 20% per year
X% of physical inventory findings requiring corrective actions addressed	Higher percentage is good.
# and X% of capitalized property depreciated over previous month	Must show monthly activity, as appropriate.
Average # of days required for recognition of real property transactions in bureau's accounting records and official property records.	Lower # is better should be < or = 10 days from acquisition.
X% of real property disposed of, retired, or removed from service as reflected in real property accounts and general ledger/previous month.	Must show monthly activity, as appropriate.

Property Classifications Defined for Purposes of RPFMP

A. Buildings, Structures and Facilities

1. Buildings, Improvements, and Renovations. Buildings are defined as structures that have four walls and a roof and are generally intended for human occupancy. Buildings include offices, warehouses, post offices, hospitals, prisons, schools, housing and storage units (excluding vault toilets). The cost of Federal Government-owned buildings acquired for and used in providing Federal Government services or goods includes the cost of acquisition, renovation, improvements, restoration, or reconstruction of multi-use heritage assets, when those costs are directly tied to the conduct of Federal Government operations. Fixed equipment required for the operation of a building that is permanently attached to and a part of the building and cannot be removed without cutting into the walls, ceilings or floors is also included. Examples of fixed equipment required for functioning of a building include plumbing, heating and lighting equipment, elevators, central air conditioning systems and built-in safes and vaults.

2. Structures and Facilities. Includes costs of acquisitions and improvements of structures and facilities other than buildings; for example, airfield pavements, harbor and port facilities, power production facilities and distribution systems, reclamation and irrigation facilities, flood control and navigation aids, utility systems (heating, sewage, water and electrical) when they serve several buildings or structures, communications systems, traffic aids, paved roads (see note regarding exceptions), bridges, non-Stewardship land easements, railroads, monuments and memorials and nonstructural improvements such as trails, sidewalks, parking areas and fences. The presence of office space with four walls and a roof within a structure does not change the nature of the underlying structure, e.g., Hoover Dam remains a structure even though office space is included in the dam. (Refer to Section VII. Capitalization Criteria regarding capitalizing structures and facilities.)

3. Water Projects Subject to User Charges. Water Projects Subject to User Charges. Consists of multi-purpose projects where construction costs are allocated among the various project purposes, e.g., irrigation water, municipal and industrial (M&I) water, hydroelectric power generation, flood control, recreation, and fish and wildlife enhancement. Some of these project purposes, e.g., irrigation water, M&I, and power are generally reimbursable; thus all costs incurred for these project purposes, commencing with initial project authorization, must be recovered from project beneficiaries.

4. Heritage Assets. Heritage assets are property, plant and equipment (PP&E) that possess one or more of the following characteristics: 1) historical or natural significance, 2) cultural, educational or aesthetic value; or 3) significant architectural characteristics. The cost of heritage assets is not often relevant or determinable, and the useful life of heritage assets is generally not reasonably estimable for depreciation purposes. The most relevant information about heritage assets is their existence and condition. Therefore, heritage assets are reported in physical units rather than in monetary value.

The cost of acquiring, improving, reconstructing, or renovating heritage assets, other than multi-use heritage assets, shall be recognized on the statement of net cost for the period in which the cost is incurred. The cost shall include all costs incurred during the period to bring the item to its current condition at its initial location.

No amounts for heritage assets acquired through donation or devise (a will or clause or a will disposing of property) shall be recognized in the cost of heritage assets. The assets' fair value, if known and material, shall be disclosed in notes to the financial statements in the year received. If fair value is not known or reasonably estimable, information related to the type and quantity of heritage assets received shall be disclosed.

5. Multi-Use Heritage Assets. Some assets may have both operating and heritage asset characteristics. A heritage asset that predominant use is for general government operations is referred to as a multi-use heritage asset (e.g., the Main Interior Building which is predominantly used as office space). The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets shall be capitalized as general PP&E and depreciated. Heritage assets having incidental use in general government operations (e.g., a small amount of office space in an historic structure) are not referred to as "multi-use heritage assets." Rather, they are simply "heritage assets."

B. Land and Land Rights. Land is the solid part of the surface of the earth. The treatment of land in financial records depends on whether it is General PP&E or Stewardship Land.

1. General PP&E Land is land used in general operations, including land underlying schools, office buildings, research facilities, etc., provided that the land was not previously acquired by the Federal government as part of the public domain and is not currently used in a stewardship capacity. The cost of General PP&E land is recognized in the financial records in the year that it is acquired. Land does not appreciate or depreciate.

2. Stewardship Land is any land owned by the Federal Government and not acquired for or in connection with other general PP&E. Typical stewardship land is land held for its natural or cultural significance such as park land, wildlife refuge, etc. In addition, any land which came into government ownership as public domain land remains stewardship land regardless of how the land is used by Interior as the cost of this land is not identifiable. The overwhelming majority of Interior's land is Stewardship land. Stewardship land does not have an identifiable financial value and is not recognized in the financial statements.

3. Mineral Rights, Natural Resources and the Outer Continental Shelf. Materials beneath the surface of the land (e.g., mineral deposits and petroleum), or above the surface of the land (e.g., renewable resources such as timber) and Outer Continental Shelf resources related to land are excluded from this policy. These assets are not considered to be real property within the scope of this policy document. In general, no financial value is assigned to these assets.

4. Land Rights are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, rights-of-way, and other land interests in land. Land rights are treated in the same manner as associated General PP&E or Stewardship Land.

5. Improvements to Land are permanent improvements to land used in operations, except for roads. Costs of improvements to land are treated in the same manner as General PP&E and Stewardship Land.

C. Construction-in-Progress (CIP). Construction-in-Progress includes costs incurred in the construction of real property for which the agency will be accountable, including direct labor, direct material, overhead and other costs incurred during construction. Upon completion, these costs will be transferred to the property capital asset account as the acquisition cost of the asset.

1. Assets Constructed for Other Federal Agencies are normally recognized as CIP on the books of the constructing bureau until completion. In general, upon completion, the asset is transferred to the property records of the other bureau or agency. The most common situation is where one Interior bureau constructs an asset for another Interior bureau. In this case, the asset under construction is clearly CIP of the Department and should be recognized as such. In the case of assets built for Federal agencies outside Interior, the terms of the agreement must be reviewed. If the agreement creates a situation where the asset under construction can be considered "held for sale", then it may be necessary to reclassify the asset from CIP to Inventory. Bureau and Department financial personnel must be consulted to ensure appropriate accounting recognition.

2. Assets Constructed for Non-Federal Agencies, including state, local and tribal governments, are also recognized as CIP until completion. The exact nature of the accounting treatment will depend upon the details of the transaction. Upon transfer of title to the non-federal agency, the bureau will remove CIP from its records and recognize an expense for Investment in Non-Federal Physical Property.

3. Construction in Abeyance is construction in progress that has been halted due to lack of funding or other reasons, and continues to be maintained (e.g., some BOR projects such as dams).

4. Investigation and Development Costs are costs incurred for general engineering studies and surveys that are directly related to project construction are capitalized as part of the Construction project. Investigation and development costs incurred prior to construction authorization or otherwise not related to project currently under construction will be accumulated as Investigation and Development costs and presented as a component of CIP. Once the engineering studies and surveys are complete and structural construction begins, these costs are transferred from investigations and development to CIP. Costs related to projects not reasonably expected to be pursued must be written off. Management must review the costs accumulated in investigations and development on a regular basis to ensure proper treatment.

Appendix C

Worldwide Inventory – Real Property Profile – Annual Report, GSA Form 1166

1. When and how must a bureau/office submit real property information to the Worldwide Inventory?
Each bureau must submit real property information annually as follows:

(a) On your real property inventory on the last day of each fiscal year (***or select a date when the records are closed for the FY).***

(b) Within 45 days after the fiscal year ends, e-mail your bureau's real property inventory information to the General Services Administration (GSA) at assetmanagement@gsa.gov or update the Federal Real Property Profile Internet Application at http://worldwide.gsa.gov. Bureaus electing to update on the Federal Real Property Profile Internet Application should also use these instructions as guidance. (Refer to FMR PART 102-84.55)

2. What types of real property must I report for the annual real property Inventory?
You must report for the Annual Real Property Inventory all land, buildings, and other structures and facilities owned by the United States (including wholly-owned Federal Government corporations) throughout the world and all real property leased by the United States from private individuals, organizations, and municipal, county, State, and foreign governments. These reports must include all real property that a Federal agency carries on its financial statement and/or in documentation accompanying the financial statement, such as:

(a) Unreserved public domain lands;
(b) Public domain lands reserved for national forests, national parks, military installations, or other purposes;
(c) Real property acquired by purchase, construction, donation, eminent domain proceedings, or any other method;
(d) Real property in which the Government has a long-term interest considered by the reporting agency as being equivalent to ownership. This would include land acquired by treaty or long-term lease (*e.g.,* 99-year lease), and that your agency considers equivalent to Federally-owned land;
(e) Buildings or other structures and facilities owned by or leased to the Government whether or not located on Government-owned land;
(f) Excess and surplus real property;
(g) Real property held in trust by the Federal Government;
(h) Leased real property (including leased land, leased buildings, leased other structures and facilities, or combination thereof); and
(i) Real property leased rent free or for a nominal rental rate if the real property is considered significant by the reporting agency.

NOTE: GSA FORM 1166 is an attachment to this Appendix.

ANNUAL REPORT OF REAL PROPERTY OWNED BY OR LEASED TO THE UNITED STATES

INSTRUCTIONS - For LEASED property, complete only the items enclosed by bold lines. For OWNED property, complete all items, including items enclosed by bold lines, except for Section V.

INTERAGENCY REPORT CONTROL NUMBER 0315-GSA-AN

1. PAGE ___ OF ___ PAGES

SECTION I - INSTALLATION

6. PROPERTY TYPE (1)	7. TRANS. CODE (2)	8. AGENCY BUREAU CODE (3-6)	9. GEOGRAPHIC LOCATION CODE a. STATE OR CONTINENT (7-8)	b. CITY OR TOWN (9-12)	c. COUNTY OR COUNTRY (13-15)	10. INSTALLATION NUMBER (16-22) (SUF.)

2. AGENCY CONTROL NO.

3. REPORT AS OF

4. AGENCY NAME

5. BUREAU NAME

11. REC. TYPE (23-24)	12. INSTALLATION NAME (28-57)	13. INSTALLATION STREET ADDRESS (58-87)
10		

14. CITY OR TOWN	15. COUNTY OR COUNTRY	16. STATE OR CONTINENT

17. ZIP CODE (88-96) (SUF.)	18. CONGRESSIONAL DISTRICT(S) (97-116) 1	2	3	4	5	6	7	8	9	10	19. ESTIMATED CURRENT VALUE *(in thousands)* (117-123)	20. HIGHEST AND BEST USE (124)	21. EXCESS INDICATOR (125)

22. HISTORICAL INDICATOR (126)	23. UTILIZATION DATA a. LAST SURVEY DATE *(Mo/Yr)* (127-130)	b. BASELINE (131)	c. DEFERRAL (132)	d. NEXT SURVEY DATE *(Mo/Yr)* (133-136)	e. CHANGE IN MISSION (137)	f. ANTICIPATED EXCESS DATE *(Mo/Yr)* (138-141)	g. GSA ASSISTANCE NEEDED (142)
		Y - Yes N - No	Y - Yes N - No		Y - Yes N - No		Y - Yes N - No

SECTION II - LAND

24. TRANS. CODE (2)	25. REC. TYPE (23-24)	26. USAGE CODE (25-26)	27. ACQUISITION CODE (27)	28. DATE(S) ACQUIRED a. FROM (28-31)	b. TO (32-35)	29. URBAN ACRES *(in tenths)* (36-43)	30. RURAL ACRES *(in tenths)* (44-53)	31. ACQUISITION COST *(in thousands)* (54-60)	32. EST. COST INDICATOR (61)	33. NEGLIGIBLE COST INDICATOR (62)
	2 0									
	2 0									
					TOTALS					

SECTION III - BUILDINGS

34. TRANS. CODE (2)	35. REC. TYPE (23-24)	36. USAGE a. CODE (25-26)	b. CLASSIFICATION	37. DATE(S) ACQUIRED a. FROM (28-31)	b. TO (32-35)	38. NUMBER OF BUILDINGS (36-40)	39. GROSS SQUARE FOOTAGE (41-48)	40. ACQUISITION COST *(in thousands)* (54-60)	41. EST. COST INDICATOR (61)	42. NEGLIGIBLE COST INDICATOR (62)
	3 0	1 0	OFFICE							
	3 0	1 4	POST OFFICE							
	3 0	2 1	HOSPITAL							
	3 0	2 2	PRISON							
	3 0	2 3	SCHOOL							
	3 0	2 9	OTHER INSTITUTIONAL USES							
	3 0	3 0	HOUSING							
	3 0	4 0	STORAGE							
	3 0	5 0	INDUSTRIAL							
	3 0	6 0	SERVICE							
	3 0	7 0	RESEARCH & DEVELOPMENT							
	3 0	8 0	ALL OTHER *(Specify in remarks)*							
	3 0	9 9	TRUST BUILDINGS							
					TOTALS					

SECTION IV - OTHER STRUCTURES AND FACILITIES

43. TRANS. CODE (2)	44. REC. TYPE (23-24)	45. USAGE a. CODE (25-26)	45. USAGE b. CLASSIFICATION	46. ACQUISITION COST *(in thousands)* (54-60)	47. EST. COST INDICATOR (61)	48. NEGLIGIBLE COST INDICATOR (62)
	4 0	1 2	AIRFIELD PAVEMENTS			
	4 0	1 3	HARBOR AND PORT FACILITIES			
	4 0	1 5	POWER DEVELOPMENT AND DISTRIBUTION			
	4 0	1 6	RECLAMATION AND IRRIGATION			
	4 0	1 8	FLOOD CONTROL AND NAVIGATION			
	4 0	4 0	STORAGE *(Other than buildings)*			
	4 0	5 0	INDUSTRIAL *(Other than buildings)*			
	4 0	6 0	SERVICE *(Other than buildings)*			
	4 0	7 0	RESEARCH AND DEVELOPMENT *(Other than buildings)*			
	4 0	7 1	UTILITY SYSTEMS			
	4 0	7 2	COMMUNICATIONS SYSTEMS			
	4 0	7 3	NAVIGATION AND TRAFFIC AIDS			
	4 0	7 6	ROADS AND BRIDGES			
	4 0	7 7	RAILROADS			
	4 0	7 8	MONUMENTS AND MEMORIALS			
	4 0	7 9	MISCELLANEOUS MILITARY FACILITIES			
	4 0	8 0	ALL OTHER *(Specify in remarks)*			
			TOTAL			

49. TOTAL COST FOR LAND, BUILDINGS, AND OTHER STRUCTURES AND FACILITIES

SECTION V - COMPLETE FOR LEASED PROPERTY ONLY

50. TRANS. CODE (2)	51. REC. TYPE (23-24)	52. NUMBER OF LEASES REPORTED (28-31)	53. EFFECTIVE DATE (32-37)	54. EXPIRATION DATE (38-43)	55. RENEWAL OPTION YEARS (44-45)	56. ANNUAL RENTAL RATE (46-53)	57. OTHER STRUCTURES AND FACILITIES INDICATOR (54)
	5 0						

58. REMARKS

59. PREPARED BY *(Print or type name and title)*	60. SIGNATURE	61. DATE