United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

April 30, 2003

Memorandum

To: Solicitor
Inspector General
Assistant Secretaries
Bureau and Office Heads

From: Nina Rose Hatfield /s/
Deputy Assistant Secretary – Budget and Finance

Subject: **REAL PROPERTY FINANCIAL MANAGEMENT POLICY**

This memorandum transmits a change in the Department's policy on capitalization of real property. It is a part of the Department's efforts to transform financial management to improve our accountability. Please distribute this policy to all personnel who are accountable for property.

Real Property is any interest in land, together with improvements, structures and fixtures and improvements of any type located thereon. These tangible assets have an estimated useful life of two or more years; are not intended for sale in the ordinary course of business; and are intended to be used, or available for use by the entity. Real Property may also include Stewardship Assets.

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, construction, donation, transfer or upgrade that meets the overall capitalization criteria will be recognized in the financial records and depreciated.

Real property, other than Stewardship Assets, purchased on or after October 1, 2003, with an initial acquisition cost of $100,000 or more, will be capitalized. Leased property meeting the capitalization criteria in section VII.C.11 of the policy will be capitalized. Conversely, any real property purchased in FY 2004 or beyond with a cost of less than $100,000 shall be expensed in the year the real property is put into service.

The change in capitalization thresholds from current Bureau specific thresholds is not retroactive. All real property capitalized prior to FY 2004, will remain capitalized. The useful lives of currently held property need not be changed to reflect the new useful lives that are effective October 1, 2003.

The change in capitalization threshold for real property does not relieve managers from continuing to exercise accountability for real property items valued at less than $100,000. Guidance on this policy will be provided in the Department of the Interior's Real Property Guide and will reflect the new $100,000 capitalization threshold for real property and further guidance on how it is to be implemented. A separate policy for personal property is being finalized and will be issued shortly.

Exceptions to this policy may be granted only by the Director, Office of Acquisition and Property Management (PAM). Consideration of exceptions will be made by the Director, PAM and the Director, Office of Financial Management. Requests for exceptions to this policy must be justified and submitted, in writing, by the Bureau Director to the Director, PAM, with an analysis of the impact of the requested exception on the financial statement.

Developing this policy has been a collaborative effort, and we appreciate the feedback received from bureaus, the Office of Inspector General and our audit contractors, KPMG. Real property management, as envisioned here, is most encouraging for the future of Interior's real property management program. 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 this policy. Also, Debra Sonderman, Director, Office of Acquisition and Property Management or Sky Lesher, Director, Office of Financial Management are available to speak to you directly.

Attachment

cc: Property Management Partnership
Finance Officers Partnership
KPMG

Bcc: DAS B&F rdg file/PAM rdg file
4/29/2003/Barry/(O:\Postcert/Barry/Transmittal ltrRPPolicy)
Revised:Hatfield/5/1/03

DEPARTMENT OF THE INTERIOR

REAL PROPERTY FINANCIAL MANAGEMENT POLICY

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U.S. Department of the Interior
Real Property Financial Management Policy

I. PURPOSE:

This document provides the Department of the Interior's (DOI) real property accounting policies and procedures developed in accordance with Federal Property Management Regulations (FPMR) and Statements of Federal Financial Accounting Standards (SFFAS). These policies are provided to ensure effective financial control over DOI owned and leased real property.

The financial policy cited in this document is intended to provide reasonable assurance that the objectives of the Department are being achieved in the following categories:

- Effectiveness and efficiency of operations, including the use and disposition of the Department's resources.
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
- Accountability and control over all Departmental real property.
- Compliance with applicable laws and regulations.

Real Property is any interest in land, together with improvements, structures and fixtures and improvements of any type located thereon. The term "real" should be associated with realty, land or something attached thereto. Real Property may also include Heritage assets and Land.

When accounting treatment for specific circumstances is not discussed in this document, ask your Financial Management Office for guidance.

II. AUTHORITIES:

This policy is based on and 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 officials, property 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 with close cooperation among all parties. Specific responsibilities of financial and real property managers are listed below. The list focuses on financial-related responsibilities and does not include all responsibilities, e.g., safeguarding assets.

A. Chief Financial Officers of Bureaus and Offices are responsible for:

1. Ensuring that adequate financial controls are in place and financial records and reports

accurately reflect the status of real property in accordance with these policies.
2. Ensuring independent control of data in the accounting system.
3. Reconciling accounting system data to the official real property subsidiary records at least monthly.
4. Maintaining documentation of account reconciliations. This documentation must be available for review by the auditors.
5. Maintaining financial records in cooperation with Real Property Officers and Facility Managers for each capital facility project in progress. These records are the source for entries to the general ledger work in progress accounts. The Contracting Officer or their Representative, in consultation with the Real Property Officer, is responsible for furnishing information to identify costs applicable to construction work in progress.
6. Maintaining close liaison with property management, facilities management and other personnel concerned with real property to provide assurance that values reported are accurate.

B. Persons who manage real property are responsible for:
1. Ensuring that real property accounts are reconciled and inventories are documented.
2. Maintaining all records related to real property, including records of financial transactions related to real property.
3. Reconciling official real property subsidiary to the accounting system data at least monthly.
4. Performing physical inventories. The inventory must be reconciled with financial and property records, and the accuracy of the results must be certified by the accountable officer or designee. These physical inventories must be coordinated with the OIG and outside auditors.
5. Maintaining documentation of physical inventories. This documentation must be available for review by the auditors.
6. Maintaining close liaison with Chief Financial Officers and other personnel concerned with real property to provide assurance that values reported are accurate.

IV. EFFECTIVE DATE:

This policy is effective upon issuance with the exception of capitalization thresholds and useful lives of currently held property .

A. Capitalization thresholds are effective for transactions that occur after October 1, 2003.

B. New useful lives for real property are effective October 1, 2003. The useful lives of currently held property need not be changed to reflect the new useful lives. Depreciation is changed prospectively, thus, no change would be made to accumulated depreciation reported to date.

Early implementation of this policy may be requested by bureaus/offices by following procedures outlined in the Policy section below.

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.

Exceptions to this policy may be granted only by the Director, Office of Acquisition and Property Management (PAM). Consideration of exceptions will be made by the Director, PAM and the Director, Office of Financial Management. Requests for exceptions to this policy must be justified and submitted, in writing, by the Bureau Director to the Director, PAM, with an analysis of the impact of the requested exception on the financial statement.

VI. PROPERTY CLASSIFICATIONS

Real property is defined as 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.

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.** 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 & 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 Land 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 constucts 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.

VII. CAPITALIZATION CRITERIA

Capitalization is defined as recording the total acquisition cost of an item in the general ledger of Interior's financial accounts. The intent of capitalization in the financial records is to provide an accurate and total reflection of Interior's investment in real property over time and to provide information on operating performance by allocating costs to the periods benefited.

Capitalization in the financial records is not to be confused with accountability. Accountability is maintaining records of and control over assets determined to be important because of their use, value or significance in meeting Interior's mission and fiduciary responsibilities. Capitalization and accountability of assets will overlap, but should not be considered synonymous.

A. General Capitalization Criteria. In general, items to be capitalized include Land and Land Rights, Land Improvements, Construction-in-Progress, Buildings, Building Improvements and Renovations, Lease-hold Improvements, Roads, Bridges, and Utility Systems. These are discussed more fully below.

When determining whether any specific real property item will be capitalized, the following criteria must be considered:

1. Any asset designated as stewardship or heritage is not capitalized.
2. Any asset that has an estimated useful life of less than two years is not capitalized.
3. Any asset that has an acquisition cost below the established capitalization threshold is not capitalized.

In addition, 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 Interior and/or its bureaus/offices.

B. Capitalization Thresholds. The Department of the Interior's capitalization threshold for real property is $100,000. This capitalization threshold applies to all real property, including roads, modifications, improvements, etc. Bureaus and offices may retain their current capitalization threshold for real property if that threshold is less than $100,000. Bureaus and offices opting to retain their current lower capitalization threshold shall notify, in writing, the Director, Office of Acquisition and Property Management (PAM) and the Director, Office of

Financial Management of their real property capitalization threshold.

Bureaus and offices may choose to implement more stringent thresholds. Consideration of exceptions will be made by the Director, PAM and the Director, Office of Financial Management. Requests for exceptions to this policy must be justified and submitted, in writing, by the Bureau Director to the Director, PAM, with an analysis of the impact of the requested exemption on the financial statement. The Bureau Director must receive approval before implementing a threshold different from the Department's.

The application of the general capitalization criteria to specific situations is addressed below.

C. Buildings, Structures and Facilities

1. New Acquisitions of Real Property.
Interior bureaus and offices must capitalize individual items of real property which meet the general capitalization criteria above.

2. Assets comprised of individual units:

- **a.** If an asset, as originally installed, is an aggregate of individual components, each of which could stand alone as functional asset, those components should be individually subjected to the capitalization criteria.
- **b.** If an asset as originally installed, is an aggregate of components that function only as a part of the whole, the asset in total is treated as a single item subject to the capitalization criteria.

3. Capital Improvements.

- **a.** **Capital improvements** are modifications to existing real property which: 1) extend its useful life by two years or more, or 2) enlarge or improve its capacity or otherwise upgrade it to serve needs different from, or significantly greater than, those originally intended. Capital improvements which meet the general capitalization criteria are capitalized and recorded in the general ledger.

  At times there is a fine line between repair and maintenance, which are expensed, and capital improvements, which are capitalized. In general, capitalized improvements increase useful life or functionality of the underlying asset.

  To establish whether an asset or capital improvement is capitalized, the dollar values for modifications are not added to the value of the original assets. The asset acquisition and the capital improvement are treated as separate transactions and the capitalization criteria are applied separately to each transaction. If a single subsequent modification meets the capitalization criteria, that modification will be capitalized at its acquisition cost.

- **b.** **Replacements.** Where a replacement occurs due to a capital improvement, the accounts should be adjusted to remove the cost and accumulated depreciation of the assets replaced. The costs of replacements due to maintenance are expensed and no change is made to the records of the original asset.

c. **Disposals.** The disposal of an asset (i.e., removal of an asset's recorded cost and accumulated depreciation) should be treated separately from any additions or replacements. Costs associated with disposing of existing property would be treated as a component of the capital improvement; e.g., destroying an old parking lot to build a new one in its place.

4. Transfers. "Transfers" of property occur only between Federal agencies. These policies apply to transfers both within Interior and with other Federal agencies. Transactions with the public or state, local and tribal governments are discussed elsewhere. As always, capitalization of any asset is contingent upon meeting the general capitalization criteria.

a. **Transfers without Reimbursement between Interior 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. Incidental payments or costs associated with the transfer, including documentation, transfer fees, etc., are not considered reimbursement for the value of the asset. Transfers without reimbursement are recorded in Interior's accounts at the net book value of the transferor plus all associated incidental costs. If the transferor's net book value is not determinable, the estimated fair market value of the property plus all associated incidental costs should be recognized.

The date the transferor originally acquired the real property should be obtained for calculation of depreciation. If the original date of acquisition cannot be obtained, it shall be estimated in coordination with appropriate technical and property officials.

b. **Transfers without Reimbursement between Interior Entities:**
Real property transferred without reimbursement to another Interior bureau or location will be recorded as a decrease to the asset and accumulated depreciation accounts of the transferring bureau or office and as an increase to the asset and accumulated depreciation accounts of the receiving bureau or office at the same amount.

c. **Transfers with Reimbursement between Interior and Another Federal Entity:**
Real property transferred to or from another Federal entity with reimbursement to that entity for the value of the property is recorded at the amount of reimbursement to the transferor plus all associated incidental costs. Incidental payments and costs associated with the transfer, including documentation, transfer fees, etc., are not considered reimbursement for the value of the asset, but are treated as a component of the costs.

d. **Transfers with Reimbursement between Interior Entities**:
Real property transferred with reimbursement to another Interior 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. However, such

transfers must be reviewed with the Office of Financial Management and the auditors to ensure that the financial records of Interior as a whole are not impacted.

5. **Donations and other property received from the public without reimbursement.** Real property acquired by donation, devise (bequeath), or confiscation which meets the general capitalization criteria will be recorded in the appropriate asset account at estimated fair market value at the time acquired by Interior.

   a. Forfeited real property should be valued at fair market value less an allowance for any liens or claims from a third party.
   b. Assets built by volunteers with little or no cost to the Government are considered to be donated property.
   c. Seized property, i.e. property taken under law enforcement action, is not considered to be Real Property. Rather, seized assets are treated as inventory in accordance with SFFAS #3 until adjudication.

6. **Borrowed and Loaned Assets.** Real property borrowed from other organizations is not recorded in Interior's financial records. Real property loaned to another organization without transfer of title remains an asset of Interior. However, appropriate accountability should be maintained over all borrowed and loaned property.

7. **Heritage Assets.**
   Costs of improving, reconstructing or renovating heritage assets shall be expensed in the period incurred.

8. **Multi-Use Heritage Assets**.
   Multi use heritage assets have both operating and heritage characteristics, however, the predominant use of the asset is in government operations. All acquisition, construction and renovation costs of multi-use heritage assets that meet the capitalization threshold are capitalized and depreciated.

9. **Earthen Structures.** Earthen structures are composed of earth and similar materials that retain water. Dikes, levees, and ditch plugs are examples of earthen structures. The accounting treatment of earthen structures is discussed below (subject to the general capitalization criteria above).
   a. Water projects subject to user charges are capitalized and depreciated regardless of construction material.
   b. Earthen structures related to Stewardship Land and permanent improvements to Stewardship Land are expensed as acquisition of stewardship land.
   c. Other earthen structures related to bureau operations are capitalized and depreciated.

10. **Leasehold Improvements.**
    Interior-funded costs of improvements to buildings, structures and facilities leased by the Interior are capitalized, subject to the general capitalization criteria above. Notwithstanding useful lives discussed elsewhere, the useful life of leasehold improvements on federal buildings leased from GSA must not exceed the expected period

of occupancy. The useful life of leasehold improvements on 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 Interior will be included in Buildings or Other Structures and Facilities as appropriate.

11. Capital Leases.
Certain lease arrangements effectively give the lessee an ownership interest in the leased property. In these cases, the property is capitalized as an Interior asset. A lease is considered to be a capital lease when any one of four criteria is met. These criteria are established by accounting standards and are quite complex, specifically:

a. Ownership of the property is transferred to the lessee at the end of the lease.
b. The property may be purchased at a bargain price at the end of the lease term.
c. The lease term is greater than 75% of the estimated economic useful life of the property.
d. 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 acquisition because of the possible budget score-keeping (OMB Circular A-11) that may be required. Consultation with the servicing accounting organization regarding OMB Circular A-11 requirements should be done prior to any commitment on the part of Interior.

12. Collateral equipment.
Collateral equipment includes building-type equipment, built-in equipment, and large substantially affixed equipment, normally installed as a part of a facility project, whether it is an original facility construction or modification. Collateral equipment is considered part of the facility project in which it is installed and shall be included in the value of the project in making the determination as to whether the project meets the capitalization criteria. The cost of replacements of or additions to the collateral equipment in an existing facility will be treated as either a capital improvement or maintenance, in accordance with the Capital Improvements section of this document.

D. Construction in Progress

1. **Construction in Progress** For assets acquired or constructed over a period of time, the decision on whether to capitalize an asset should be based on the expected total cost (see list in 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. Note, if the final cost upon completion does not meet the capitalization threshold, the item would be expensed rather than capitalized at that point.

   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 projects shall be conducted with cognizant 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. This review should be completed regularly throughout the year to meet the Department's three day close period.

2. **Construction in Abeyance.** Certain long-term construction projects may be 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 of this decision, amounts related to the project recorded in CIP will be transferred to Construction in Abeyance, and presented as a sub-category of construction in progress. Costs to protect the project from deterioration are considered operating expenses and are not capitalized.

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

E. Land

1. **General PP&E Land.** Land is considered to be permanent and does not depreciate over time. Therefore, the cost of land, other than stewardship land, is capitalized in bureau financial records. No depreciation is recognized.

2. **Stewardship Land.** Stewardship land consists of public domain land, and land acquired for use as parks, wildlife refuges and similar objectives. Public domain land remains stewardship land even if it is used for operating purposes. The cost of acquiring stewardship land is expensed in the period the land is acquired. Costs associated with stewardship land are not capitalized as assets.

3. **Incidental Costs.** Incidental Costs associated with the acquisition of land, such as costs to relocate current tenants, demolish unnecessary structures, etc. are considered part of the acquisition cost of the land. These costs are capitalized if associated with General PP&E Land and expensed if associated with stewardship land.

4. **Improvements to Land.** Improvements to land are capitalized if the overall capitalization criteria are met.

5. **Improvements to Stewardship Land.** Improvements designed to protect or preserve stewardship land are expensed as acquisition of stewardship land. Assets constructed to meet other program needs will be capitalized.

6. **Roads, Roadbeds and Related Property.** The accounting treatment of roads and roadbeds is made after consideration of a number of factors, including the nature of the underlying land and the pavement material.

a. **Roadbeds** tend to become permanent features of the land, (e.g., some roads built by the Roman Empire still exist). Thus, the construction of a roadbed is treated as a permanent land improvement. Permanent improvements to stewardship land are expensed, thus roadbeds constructed on stewardship land are expensed. 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 the general capitalization criteria are met. Note, while the estimated useful life of most paved roads is well in excess of two years, in certain locations the estimated useful life is expected to be less than 2 years (e.g., Alaska). In accordance with the general capitalization criteria, these roads would be expensed.

c. **Bridges** for purposes of this document are defined at those bridges that meet the engineering standards for minimum length and width and that are expected to comply with the bridge safety inspection standards in Title 23, Code of Federal Regulations, Part 650, Subpart C. Culvert crossings are not considered to be bridges. Bridges are capitalized if the general capitalization criteria in above are met.

d. **Roads and bridges incidental to the 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** are considered to be improvements to stewardship land. In addition, some trails are in themselves heritage assets. Trails earthen in nature and the cost of constructing and maintaining trails are expensed.

f. **Roads on Stewardship Land** are treated in the same manner as paved and gravel roads on non-stewardship land.

VIII. RECORDS

A. Standard General Ledger (SGL) Accounts. 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 procedures contained in this document. The standard general ledger accounts for real property are:

SGL Accounts:
Property Accounts

LAND

1711 Land and Land Rights
1712 Improvements to Land
1719 Accumulated Depreciation - Land Improvements

BUILDING, STRUCTURES AND FACILITIES

1730 Buildings, Improvements & Renovations
1739 Accumulated Depreciation-Buildings & Improvements

1740 Other Structures & 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 - Inv in NonFed Phys Prop
690E Non Prod Costs - Inv in Stew Assets
690F Non Prod Costs - Inv in Heritage Assets

B. Physical Inventories
Bureaus must physically verify the presence and condition of property on a regular basis, to ensure that all real property is inventoried over a five year period. The physical inventory must include location of items, assessment of utilization and confirmation of accuracy subsidiary records. The accuracy and completeness of the physical inventory must be certified in writing by the appropriate property officer or program manager. Physical inventories are a significant component of the annual financial audit. Accordingly, it is imperative that external auditors be consulted as physical inventory procedures are planned.

C. Indian Fiduciary Trust Records Related to Real Property
Any Real property records associated with Indian Trust activities are subject to guidance provided by the Office of the Special Trustee for American Indians.

IX. VALUATION

Each real property acquisition, addition, improvement, alteration, rehabilitation or replacement will 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 on multiple contracts.

Detailed property records maintained by Real Property Officers should support the financial data maintained in the accounting records.

Capitalized values of assets purchased or constructed by Interior shall include all costs paid for the property, the value of other assets surrendered to obtain the property and all other costs incurred to bring real property to a form and location suitable for its intended use, i.e., the total cost to Interior. 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 designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the 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.

Donations - Assets donated to Interior are recognized at the fair market value of the property plus any other costs incurred by the government illustrated above.

Capital Leases - The value assigned to property obtained by 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 a 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.

Trade-Ins - 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.

Discounts - The capitalized value will be net of discounts taken.

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 are recognized at the fair market value of property surrender or property received, whichever is more readily determinable. Property acquired in a barter transaction is capitalized in accordance with appropriate guidance elsewhere in this document for the property received.

X. DEPRECIATION

Capitalized 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.

A. Methodology

Depreciation is computed using the straight-line method or other acceptable method approved by the Director, PAM. Depreciation is calculated and accounted for by recognizing an entry to depreciation expense and accumulated depreciation.

1. **Frequency** – Depreciation will be computed and recognized on a monthly basis.

2. **Depreciation of New Assets** - Depreciation of capitalized real property will begin the month that the assets are placed in service.

3. **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 assets value assumed to be salvage value is not depreciated. Generally, federal assets are used as long as possible and are rarely sold by the agency to the public for a price. Thus, the salvage value of Interior Real Property is assumed to be $0 unless documentation supporting an expected specific salvage value for an asset is included in the asset's official file.

B. Exceptions

Land, land rights and permanent improvements to land such as roadbeds do not lose value over time and are not subject to depreciation. No depreciation is recognized for these assets.

Water Projects Subject to User Charges - the computation of depreciation on these projects must be determined in accordance with 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 financial management office to determine the appropriate period. The method of computing depreciation on a project and/or its components must be documented and consistently applied within the limits of the statutory and regulatory framework.

XI. ESTIMATED USEFUL LIFE

Depreciation of an asset is calculated considering the estimated useful life of the asset. Useful lives apply to assets acquired in new condition. Assets acquired in used condition would be depreciated over their expected remaining useful life. Interior has made a determination of the standard range of useful lives for the following major asset types. Examples of individual asset types are provided.

Buildings Structures and Facilities:

A. Buildings, Structures, Facilities, Improvements, and Renovations: 10 to 40 Years

Examples include:

1. Offices and Warehouse buildings (including commercial, governmental, air traffic control towers and centers)
2. Residential properties
3. Electrical Power and Distribution Systems
4. Plumbing Fixtures and Accessories
5. Heating, Air Conditioning and Ventilation
6. Industrial Boilers
7. Dryers, Dehydrators, and Anhydrators
8. Architecture and Related Metal Products
9. Wood Building and Structures
10. Mobil Homes (permanently affixed to land)
11. Metal and Prefab Buildings/Structures
12. Masonry Buildings and Structures
13. Earthen Structures

B. Capital improvements, Facility Modifications, Leasehold Improvements: 10 to 15 years (or expiration of lease, whichever comes first). (KPMG suggests we rethink this.)

Examples include:

1. Temporary Buildings and Structures
2. Leasehold improvements - Improvements (or expiration of lease, whichever comes first).
3. Other Structures (i.e., Roads, Sidewalks, Parking Lots, etc.)

C. Water Projects Subject to User Charges: 60 to 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 ranges 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 a project and/or its components must be documented and consistently applied within the limits of the statutory and regulatory framework.

If an asset has special considerations or is not listed, a memorandum from a qualified facility management professional to document an alternative useful live should be placed in the property file of record.

Implementation guidance – 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 FY04 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. 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 Interior. Title shall be considered to be passed when a cognizant 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 responsible official.

B. Construction in Progress.

In the case of real property constructed for Interior, it shall be recorded in the general ledger as construction work in progress until it is placed in service by Interior, at which time the balance will be transferred to real property. The cognizant government official accepting such 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 that any assets meeting the timing of capitalization criteria are capitalized regardless of whether there are costs remaining to be paid. The amount capitalized should be the costs incurred to date that meet requirements in Section IX. Valuation. However, all appropriate costs (as defined in Section IX "Valuation"), 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. Obsolete or Unserviceable.

Real property which no longer provides service in the operations of the entity will be removed from the accounts. Obsolete 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 a 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. Real Property Not in Use.

Real property disposed of, retired or removed from service by Interior will be removed from the real property accounts. The Real Property Officer shall notify the Deputy Chief Financial Officer when real property for which Interior is accountable is no longer being used for Interior 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. Based upon this notice, the Deputy Chief Financial Officer shall remove the capitalized cost of the real property and related accumulated depreciation from the accounting records. The Real Property Officer shall also notify the Deputy Chief Financial Officer in the unlikely event the real property is returned to active Interior use, so it can be returned to capitalized status in the accounting records.

E. Disposal.

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 record 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 (FPMR) 101-47.

F. Substance versus form.

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. If a building or structure is complete and in use by Interior for its intended purpose, delays in paperwork are not a justification for failure to recognize the asset. 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 an Interior asset.

XIII. MAINTENANCE

A. Maintenance is the act of keeping assets in usable condition, including preventive maintenance, normal repairs, replacement of parts and structural components (such as a roof) and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.

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. Maintenance activities shall be expensed.

B. Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.

1. **Measurement.** Amounts reported for deferred maintenance will be determined using the "Condition Assessment Survey" method.

2. **Condition Assessment Survey.** A Condition Assessment Survey is the periodic inspection of real property to determine its current condition and provide a cost estimate to make necessary repairs.

3. **Deferred Maintenance Supplemental Stewardship Reporting Requirements.** The following information shall be presented as Required Supplementary Information:
   - 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 class include, among others, buildings, structures, and land.
   - Method of measuring deferred maintenance for each major class of real property.
   - If the Condition Assessment Survey Method of measuring deferred maintenance is used, the following must be presented:
     a. description of requirements or standards for acceptable operating condition
     b. any changes in the condition requirements
     c. asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

XIV. Glossary

Glossary

Accountability

Property accountability includes responsibilities for such tasks as tracking the movement of assets, recording changes in physical condition and verification of physical counts. The property managers must exercise this responsibility and maintain proper control over an organizations assets through record keeping, effective policies and procedures, and appropriate security controls.

Capital Asset

Land, structures, equipment, and intellectual property, including software, that are used by the Federal Government and have an estimated useful life of 2 years or more. The cost of a capital asset includes both its purchase price and all other costs incurred to bring it to a form and location suitable for its intended use. Capital assets may be acquired in different ways: through purchase, construction, or manufacture; through lease-purchase or other capital lease, regardless of whether title has passed to the Federal Government; through an operating lease for an asset with an estimated useful life of 2 years or more; or through exchange. Capital assets include the assets as initially acquired but also additions, improvements, replacements, rearrangements and reinstallations, and major repairs, but not ordinary repairs and maintenance.

Capital Lease

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory costs, equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

Certificate of Delivery and Acceptance

A document that is signed by the lessee to acknowledge that the asset to be leased has been delivered and is acceptable. Many lease agreements state that the actual lease term commences once this document has been signed.

Deferred Maintenance

Maintenance that was not performed when it should have been or when it was scheduled and which, therefore, was put off or delayed for a future period.

Depreciation
A reasonable allowance for exhaustion, wear and tear, and obsolescence, that is taken by the owner of the property and by which the cost of property is allocated over time. Depreciation decreases the balance sheet assets and is also recorded as an operating expense for each period.

Early Termination
Occurs when the lessee returns the lease equipment to the lessor prior to end of the lease term as permitted by the original lease contract or subsequent agreement. At times this may result in a penalty to the lessee.

Earthen Structures
Composed of earth or other suitable material that retain water. Dikes, levees, and ditch plugs are examples of earthen structures. Earthen structures are not usually capitalized.

Economic Life of Leased Property
The estimated period during which the property is expected to be economically usable by one or more users, with nominal repairs and maintenance for the purposes for which it was intended at the inception of the lease.

End-of-Term Options
Options stated in the lease agreement that give the lessee flexibility in its treatment of the leased asset at the end of lease term. Common end-of-term options include purchasing the equipment, renewing the lease or returning the equipment to the lessor.

Fair Market Value
The estimated price that both a buyer and seller would willingly agree to when neither party is under undue pressure to complete the transaction.

Fair Market Value Lease
A lease which includes an option for the lessee to either renew the lease at a fair market value renewal or purchase the asset for its fair market value at the end of the lease term.

Fixed Purchase Option
An option given to the lessee to purchase the leased asset from the lessor on the option date for a guaranteed price. Both the date and the price must be determined at the inception of the lease. A typical fixed purchase option is 10% of the original cost of the asset.

Incidental Costs
Incidental Costs associated with the acquisition of land, such as costs to relocate current tenants, demolish unnecessary structures, etc., are considered part of the acquisition cost of the land. These costs are capitalized if associated with General PP&E Land and expensed if associated with stewardship land.

Lease
A contract through which an owner of an asset (the lessor) conveys the right to use its asset to another party (the lessee) for a specified period of time (the lease term) for specified periodic

payments.

Net Book Value
The net amount at which an asset or a liability is carried on the books of account. Net book value is the acquisition cost of the asset less the accumulated depreciation.

Placed in Service
In the case of real property constructed for Interior, it shall be recorded in the general ledger as construction work in progress until it is placed in service by Interior, at which time the balance will be transferred to real property. The cognizant government official accepting such property is normally the Contracting Officer, or that Officer's designated representative, who is responsible for notifying the Real Property Officer of the acceptance.

Present Value
The discounted value of a payment or stream of payments to be received in the future, taking into consideration a specific interest or discount rate. Present Value represents a series of future cash flows expressed in today's dollars.

Purchase Option
An option given to the lessee to purchase the asset from the lessor, usually as of a specified date.

Real Property Accountability Record
Information captured to support the entire life cycle of real property from acquisition through disposal. This data includes, but is not limited to, original acquisition cost, description, useful life, depreciation start date, accumulated depreciation, etc.

Residual Value
The book value that the lessor depreciated a piece of equipment down to during the lease term, typically based on an estimate of the future values, less a safety margin.

Salvage Value
Salvage value is the expected sale price of an asset at the end of its usefulness to the agency.

Stewardship
Stewardship Property, Plant, and Equipment (PP&E) - property owned by the Federal Government and meeting the definition of one of the following categories:

- Heritage Assets - property, plant, and equipment of historical, natural, cultural, educational, or artistic significance.
- Stewardship Land - land other than that acquired for in connection with general PP&E.

Land not acquired for or in connection with items of general PP&E, that is, stewardship land, shall be reported as required supplementary stewardship information accompanying the financial statements of the Federal Government and the separate reports of component units of the Federal Government responsible for such land. ("Acquired for or in connection with" is defined as including land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E's common grounds.) Stewardship land shall be reported in terms of physical units rather than cost, fair value, or other monetary values.

Straight Line Depreciation
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 the asset subtracted by the salvage value and divided by the asset's useful life.

Upgrade
To trade in a leased asset for a newer, more advanced model during the lease term.

Useful Life
The period of time during which an asset will have economic value and be usable. The useful life of an asset is sometimes called the economic life of the asset.