

## PROPERTY, PLANT, AND EQUIPMENT

- 1. REASON FOR ISSUE:** This directive provides accounting policy for property, plant, and equipment (PP&E) owned or leased by the Department of Veterans Affairs (VA), deferred maintenance on PP&E, and clean-up costs.
- 2. SUMMARY OF CONTENTS/MAJOR CHANGES:** This directive establishes the PP&E accounting policy for VA.
- 3. RESPONSIBLE OFFICE:** The Accounting Policy Division (047GA1), Office of the Deputy Assistant Secretary for Finance (047), is responsible for the material contained in this directive.
- 4. RELATED HANDBOOK:** VA Handbook 4511, Property, Plant, and Equipment.
- 5. RESCISSIONS:** None

**CERTIFIED BY:**

**BY DIRECTION OF THE SECRETARY  
OF VETERANS AFFAIRS:**

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## PROPERTY, PLANT, AND EQUIPMENT

**1. PURPOSE.** This directive provides accounting policy for property, plant, and equipment (PP&E) owned or leased by the Department of Veterans Affairs (VA), deferred maintenance on PP&E, and clean-up costs.

### 2. POLICY

**a. PP&E Types.** The PP&E of the Department will be categorized as either General or Heritage PP&E. PP&E excludes items held in anticipation of physical consumption such as operating materials and supplies.

(1) **General PP&E.** PP&E consists of tangible assets, including land, that meet the following criteria:

(a) Have estimated useful lives of 2 years or more,

(b) Are not intended for sale in the ordinary course of VA operations, and

(c) Have been acquired or constructed with the intention of being used, or being available for use, by VA.

**1. Real property.** Includes all land, buildings, and other structures, water and sewage systems, roads, sidewalks, and other improvements (Budget Object Code 32). Additionally, real property includes:

**a.** Leased real property whether owned commercially or by the General Services Administration (GSA).

**b.** Building service equipment that is permanently installed in or attached to real property for the purpose of rendering the building or structure usable or habitable. This also includes items that are normally required for the functional use of buildings and structures such as heating/air-conditioning systems, lighting fixtures, elevators, vaults, and fire alarms that, when installed, become an integral part of the real property.

**2. Personal property.** Personal property refers to all property that is not real property. This includes medical equipment, furniture and fixtures, office equipment, automated data processing (ADP) software (both off-the-shelf and internally-developed software), and personal heritage assets such as items of historical significance including the civil war era military uniforms and furniture in historical VA chapels.

**3. Expendable and nonexpendable personal property.** The Office of Acquisition and Materiel Management (OA&MM) categorizes personal property as expendable or nonexpendable.

**a. Expendable property:**

- (1) Has a life expectancy when put to use of less than 2 years, or
- (2) Is converted in the process of manufacture or construction, or
- (3) When put to use, becomes an integral part of another item, thereby losing its individual identity, or
- (4) Is purchased for permanent release to beneficiaries, e.g., wheelchairs, typewriters, tape recorders, and orthopedic and prosthetic appliances.

**b. Nonexpendable property** has:

- (1) An acquisition cost of \$300 or more, and
- (2) A life expectancy of 2 years or more, or
- (3) Is of a sensitive nature, which requires accountability regardless of cost, life expectancy, or maintenance requirements.

4. The Office of Management and Budget (OMB) Circular No. A-11 requires that capitalized and non-capitalized assets be recorded in Object Class 31.0 and 32.0. This includes personal property of a durable nature; that is, property that normally may be expected to have a period of service of a year or more after being put to use without material impairment of its physical condition or functional capacity. It also includes following:

- a. Furniture and Fixtures;
- b. Transportation Equipment;
- c. Tools and implements;
- d. Machinery including construction machinery;
- e. Publications and permanent collections;
- f. Instruments and apparatus;
- g. Information technology hardware or software, custom and commercial off-the-shelf software, regardless of cost such as central processing units (CPUs) modems, signaling equipment, and telephone and telegraph equipment, and large system integration services.

(2) **Heritage PP&E.** Heritage PP&E are generally expected to be preserved indefinitely. Heritage PP&E is property that is unique for one or more of the following reasons:

- (a) Historical or natural significance,
- (b) Cultural, educational or artistic importance, and/or,

(c) Significant architectural characteristics.

b. **Capitalization Policy.** The Department's capitalization threshold is \$100,000. The Enterprise Fund's capitalization threshold is also \$100,000. VA will capitalize all PP&E acquired by construction, purchase, transfer, donation, trade-in, or exchange when the acquisition cost or fair value is \$100,000 or more and the assets meet all requirements for general PP&E category.

c. **Documentation.** Facilities are required to maintain basic documentation that supports the cost of each asset, the date the asset was placed into service, the asset's useful life, and any subsequent acquisition (addition or betterment), disposal, or transfer impacting the recorded value of the item. The appropriate documentation may be in written or electronic form. Basic documentation will be maintained at the facility level for the life of the asset, and then for 3 fiscal years after disposal or transfer of the asset as required by the records control schedule (RCS).

d. **Capital Leases.** PP&E acquired under capital leases are purchased on an installment plan, and the purchase price must satisfy the Department's capitalization criteria. A capital lease may be for real or personal property. The amount to be capitalized is the net present value of the leased asset (principal payments of lease only).

(1) For budgetary purpose, the total costs of a capital lease must be obligated in the year that the commitment is made.

(2) A lease that satisfies any one of the following criteria is a capital lease:

(a) The lease transfers ownership of the property to VA at the end of the lease term.

(b) The lease contains an option for VA to purchase the leased property at a bargain price.

(c) The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

(d) The present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property.

(e) PP&E acquired for use by means of an operating lease will be recorded as an expense regardless of cost.

e. **Depreciation.** Depreciation expense will be accumulated in a depreciation contra-asset account. The expense will be recorded monthly based on the straight-line method of depreciation with a salvage value of zero. The acquisition date will be the earlier of either the date VA technically accepts title to the asset or when the asset is delivered to and accepted by VA. In the case of constructed PP&E, the PP&E shall be

recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

(1) Costs for projects that extend the service life or capacity of an asset will be capitalized and depreciated over the remaining life of the associated PP&E.

(2) The useful life for a leasehold improvement for depreciation computations may not be greater than the remaining term of the lease.

f. **Useful Life.** The following factors must be considered in determining the useful lives of general PP&E:

(1) Legal, regulatory, or contractual provisions that may limit the maximum useful life of the asset.

(2) Physical wear and tear and technological change; e.g., obsolescence.

(3) Provision for renewal or extension that may alter a specified limit on useful life.

(4) Effect of economic factors that may reduce a useful life.

(5) Expected actions of competitors and others that may restrict present competitive advantage.

g. **Disposition of Property.** PP&E that a station disposes of via transfer, sale, trade-in, abandonment, or demolition will be removed from the station's asset and accumulated depreciation general ledger accounts and subsidiary capitalization records as of the date the event occurs. Disposal costs and any amounts realized from the sale, transfer, or salvage of the PP&E will be considered in determining the gain or loss on retirement or disposal.

h. **Subsidiary Records.** Stations must maintain subsidiary records to support each PP&E standard general ledger account in accordance with the Department's Document Management System. The subsidiary records will be reconciled on a monthly basis to the corresponding standard general ledger control account. Entries for both the general ledger and the subsidiary ledger will be made from the same source document and will be recorded in the same accounting month.

i. **Clean-up Costs.** Clean-up costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary sites that are scheduled for closure or shutdown of associated PP&E. Clean-up may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. Stations will recognize an estimated cumulative liability for the clean-up costs of hazardous waste associated with Departmental capitalized assets when all the following conditions are met:

- (1) A past event has occurred; i.e., a condition that requires future clean-up,
- (2) A future outflow or other sacrifice of resources is probable; i.e., it is more likely than not that VA will expend resources for the clean-up, and
- (3) The future outflow or sacrifice of resources for the clean-up is measurable.

j. **Deferred Maintenance**

(1) Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be, and is put off or delayed for a future period. For purposes of this directive, maintenance is defined as the act of keeping capitalized assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Maintenance excludes activities aimed at expanding the capacity or significantly upgrading the asset to a different form than it was originally intended.

(2) VA policy is to ensure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner. Deferred maintenance for medical equipment and critical facility equipment systems is not an option. Technical requirements are established by the National Fire Protection Association (NFPA) publication NFPA-99, "Health Care Facilities," and program requirements are established by the Joint Commission on Accreditation of Healthcare Organizations Accreditation Manual for Hospitals.

(3) Examples of non-critical facility items that may be subject to deferred maintenance include parking lots, exterior lighting, loading docks, landscaping, etc. For purposes of deferred maintenance reporting, estimates for these items may be aggregated from non-recurring maintenance projects not funded.

k. **Internal Use Software Capitalization**

(1) **Overall Requirements.** All capitalized costs of VA's internal use software must satisfy the following criteria:

- (a) Meet the criteria for general PP&E,
- (b) Have estimated useful lives of 2 years or more,
- (c) Not be intended for sale in the ordinary course of VA operations,
- (d) Have been acquired with the intention of being used or being available for use by VA,
- (e) Meet VA's capitalization threshold requirements of \$100,000, and

(f) Occur in the development phase of the software lifecycle in accordance with the SFFAS Number 10, "Accounting for Internal Use Software," as published by the Federal Accounting Standards Advisory Board.

(2) **Software lifecycles.** Software lifecycles generally are divided into three phases: planning, development, and operations. The planning phase generally consists of conceptual formulation, evaluation, testing of alternatives, and selection of a specific alternative. The development phase generally includes configuration, coding, hardware installation, and testing, including parallel processing. The operations phase includes data conversion and application maintenance.

**3. RESPONSIBILITIES.** Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, and Accounting Chiefs are responsible for ensuring proper accounting of VA's PP&E assets.

#### **4. REFERENCES**

a. Statement of Federal Financial Accounting Standards Number 6, Accounting for Property, Plant, and Equipment.

b. Statement of Federal Financial Accounting Standards Number 10, Accounting for Internal Use Software.

c. Statement of Federal Financial Accounting Standards Number 16, Amendments to Accounting for Property, Plant, and Equipment.

d. VA Handbook 4520, General Ledger.

e. VA Handbook 7127, Materiel Management Procedures.

#### **5. DEFINITIONS**

a. **Amortization.** The gradual extinguishments of any amount over a period of time through a systematic allocation of the amount over a number of consecutive accounting periods such as the retirement of a debt by serial payments to a sinking fund.

b. **Assets.** Tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by a federal government entity.

c. **Capital Leases.** Leases that transfer substantially all the benefits and risks of ownership to the lessee.

d. **Capitalize.** To record an expenditure or contribution that may benefit a future period as an asset rather than to treat the expenditure as an expense of the period in which it occurs. In general, expenditures subsequent to acquisition of the asset are

capitalized only if they are material in amount and if they meet at least one of the following three conditions: (1) the useful life of the asset is increased as a result of the expenditure; (2) the quantity of units/services produced from the asset is increased; and (3) the quality of units/services produced from the asset is enhanced.

e. **Clean-up Costs.** The costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.

f. **Cost.** The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform an activity or service.

g. **Deferred Maintenance.** 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.

h. **Depreciation.** The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage value or residual value, over its estimated useful life.

i. **Economic Life.** The period during which a fixed asset is capable of yielding services of value to its owner.

j. **Expense.** Outflows or other using up of assets and/or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to VA's programs and missions, in which the benefits do not extend beyond the present operating period.

k. **Fair Market Value.** The estimated amount that can be realized by disposing of an item through arm's length transactions in the marketplace; the price at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time.

l. **Hazardous Waste.** A solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical chemical or infectious characteristics may cause, or significantly contribute to, an increase in mortality or an increase in serious, irreversible or incapacitating reversible illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

m. **Heritage Assets.** Property, plant, and equipment that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic (i.e., aesthetic) importance; or significant architectural characteristics.

n. **Land.** Land is the solid part of the surface of the earth. Excluded from the definition of land are the natural resources (that is, depletable resources such as

mineral deposits and petroleum, renewable resources such as timber, and the outer-continental shelf resources) related to land.

o. **Leasehold Improvements.** Improvements made to properties leased by VA. Included in this is property leased from the GSA.

p. **Maintenance.** The act of keeping fixed assets in useable condition. It includes preventable maintenance, normal repairs, replacement of parts and structural components, 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.

q. **Net Book Value.** The recorded cost of an asset less any recorded accumulated depreciation.

r. **Obligations.** Amounts of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or a future period.

s. **Operating Lease.** An agreement conveying the right to use property for a limited time in exchange for periodic rental payments.

t. **Research and Development.** Federal investment in research and development refers to those expenses incurred in support of the search for new or refined knowledge and ideas. It also includes the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of basic research, applied research, and development.

u. **Stewardship Land.** Land owned by a Federal entity that was not acquired with the intent to construct general PP&E.

v. **Useful Life.** The normal operating life in terms of utility to the owner.