

**Amendments to Accounting for
Property, Plant, and Equipment**

Measurement and Reporting
for
Multi-Use Heritage Assets

Amending SFFAS No. 6 and SFFAS No. 8
Accounting for Property, Plant, and Equipment
and
Supplementary Stewardship Reporting

Statement of Federal Financial Accounting Standards

July 1999

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established in October 1990 by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General. The nine-member Board was created to consider and recommend accounting principles for the Federal Government.

The Board communicates its recommendations by publishing recommended accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and other users of Federal financial information. The Board also considers comments from the public on its proposed recommendations, which are published for comments as "exposure drafts." The Board's sponsors then decide whether to adopt the recommendations. If they do, the standard is published by OMB and GAO and then becomes effective.

The following documents related to the establishment and mission of the Board are available from the FASAB:

- *"Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

EXECUTIVE SUMMARY

- a The purpose of this Statement is to amend certain standards for heritage assets in Statement of Federal Financial Accounting Standards No. 6, Accounting for Property, Plant, and Equipment, (SFFAS No. 6), which was issued in November 1995; and, Statement of Federal Financial Accounting Standards No. 8, Supplementary Stewardship Reporting, (SFFAS No. 8), which was issued in June 1996. Specifically, the amendments affect accounting and reporting standards for heritage assets that serve a dual purpose; that is, heritage assets that 1) have a heritage characteristic, and 2) are used in general government operations.
- b In SFFAS No. 6 and SFFAS No. 8, these heritage assets were referred to as "multi-use heritage assets." To clarify the meaning of the term "multi-use heritage assets," the amendments define "multi-use heritage assets" as being heritage assets whose predominant use is general government operations. Heritage assets having incidental use in general government operations are not referred to as "multi-use heritage assets." Rather, they are simply "heritage assets."
- c In addition, the original standards required the cost of multi-use heritage assets that did not directly relate to operations be accounted for as an expense, while costs that directly support operations be accounted for as general property, plant, and equipment (PP&E). This treatment would have resulted in inconsistent cost measures between agencies using heritage office buildings and those using non-heritage office buildings.
- d To alleviate this inconsistency, the Board decided that ~~the~~ all acquisition, reconstruction, and betterment costs of multi-use heritage assets (i.e., heritage assets whose predominant use is general government operations) be capitalized as general PP&E and depreciated over their service life. This amendment should result in consistent accounting for the cost of PP&E predominantly used in general government operations.

This page intentionally blank

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
Purpose	1
Scope	1
Effective Date	1
AMENDMENTS TO SFFAS No. 6	3
Introduction	3
Heritage Assets.....	3
AMENDMENTS TO SFFAS No. 8	7
Introduction.....	7
Heritage Assets.....	7
APPENDIX A: BASIS FOR CONCLUSIONS.....	9
APPENDIX B: CROSS REFERENCES.....	13
APPENDIX C: GLOSSARY.....	15

This page intentionally blank

INTRODUCTION

Purpose

1 The purpose of this Statement is to amend certain standards contained in Statement of Federal Financial Accounting Standards Number 6 (SFFAS No. 6), Accounting for Property, Plant, and Equipment, and Statement of Federal Financial Accounting Standards Number 8 (SFFAS No. 8), Supplementary Stewardship Reporting.

Scope

2 This Statement specifically affects the accounting standards for heritage assets in SFFAS No. 6, paragraphs 59 and 60 through 63, and SFFAS No. 8, paragraphs 48 through 50.

Effective date

3 The amending accounting standards in this statement are effective for periods beginning after September 30, 1999, with earlier implementation encouraged.

This page intentionally blank

AMENDMENTS TO SFFAS No. 6

Introduction

4 Accounting standards for multi-use heritage assets are presented in paragraphs 5 through 15 that follow. The standards presented in these paragraphs supersede designated paragraphs in SFFAS No. 6 as they relate to multi-use heritage assets. Other paragraphs in SFFAS No. 6, which are not amended by this document or by Statement 11, remain in effect.

Heritage Assets

5 Heritage assets are defined in paragraphs 57 and 58 in SFFAS No. 6. Those paragraphs are not changed. However, accounting for "multi-use heritage assets" is changed. The new provision is provided in paragraph 6 below, which replaces paragraph 59 of SFFAS No. 6.

6 Heritage assets may in some cases be used to serve two purposes--a heritage function and general government operations. In cases where a heritage asset serves two purposes, the heritage asset shall be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building which is a heritage asset used as an office building). The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets shall be capitalized as general PP&E and depreciated.

RECOGNITION AND MEASUREMENT

7 Paragraphs 8 through 12 below replace paragraphs 60 through 62 of SFFAS No. 6.

8 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 cost¹ shall include all costs incurred during the period to bring the item to its current condition at its initial location (See paragraph 26 of SFFAS No. 6 for examples of the costs to be considered).

9 The cost of acquisition, betterment, or reconstruction of multi-use heritage assets shall be capitalized as general PP&E and depreciated, with an appropriate footnote disclosure explaining that "physical quantity" information for the multi-use heritage assets is included in supplemental stewardship reporting for heritage assets. The multi-use heritage assets shall be depreciated over their useful life.

10 With the exception of multi-use heritage assets, as stated in paragraph 11 below, no amounts for heritage assets acquired through donation or devise² 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.

11 Multi-use heritage assets acquired through donation or devise shall be recognized as general PP&E at the assets' fair value, and the amount shall also be recognized as "nonexchange revenues" as defined in SFFAS No. 7, Accounting for Revenue and Other Financing Sources.

¹For a full discussion of cost, including full cost, direct cost and indirect cost, see SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* (June 1995). Also, see pars. 94-95, Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

²A will or clause of a will disposing of property.

- 12 Additional reporting requirements are provided in SFFAS No. 8, *Supplementary Stewardship Reporting*.

IMPLEMENTATION GUIDANCE

- 13 Paragraph 14 below replaces paragraph 63 of SFFAS No. 6. Paragraph 15 provides additional guidance on multi-use heritage assets. (Paragraphs 64 and 65 of SFFAS No. 6 remain in effect.)
- 14 Heritage assets (excluding multi-use heritage assets) previously recognized as assets for balance sheet reporting and their related contra amounts (e.g. accumulated depreciation) shall be removed from the balance sheet and charged to the net position of the entity. The amount of the adjustment shall be reported as a "prior period adjustment" in the statement of changes in net position.
- 15 Implementation guidance for general PP&E, in paragraph 40 through 44, SFFAS No. 6, is applicable to multi-use heritage assets. Entities that implemented the multi-use heritage asset standard in SFFAS No. 8 in prior years for stewardship assets, will need to capitalize those amounts upon implementation of this amendment. That amount shall be added to the balance sheet and reported as a "prior period adjustment" in the statement of changes in net position.³

³ SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, paragraph 76.

This page intentionally blank

AMENDMENTS TO SFFAS No. 8

Introduction

- 16 Accounting standards for multi-use heritage assets are presented in paragraphs 17 and 18 that follow. The standards presented in these paragraphs supersede designated paragraphs in SFFAS No. 8 as they relate to multi-use heritage assets. Other paragraphs in SFFAS No. 8, which are not amended by this document, remain in effect.

Heritage Assets

- 17 Paragraphs 48 and 49 in SFFAS No. 8 are rescinded. The reader should refer to paragraphs 6 through 15 in this document for guidance on multi-use heritage assets. Paragraph 18, which is presented below, is added as a reporting requirement in paragraph 50 of the Heritage Assets **Minimum Reporting** requirements in SFFAS No. 8. Other paragraphs on heritage assets in SFFAS No. 8 remain in effect.
- 18 A footnote shall explain that financial information for multi-use heritage assets is presented in the principal statements.

The provisions of this statement need not be applied to immaterial items.

This page intentionally blank

APPENDIX A: BASIS FOR CONCLUSIONS

- 19 This appendix summarizes the Board's considerations in recommending modifications to amend SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and SFFAS No. 8, *Supplementary Stewardship Reporting*, as they relate to heritage assets.

MULTI-USE HERITAGE ASSETS

Background

- 20 In the original PP&E Exposure Draft (February 1995), renovation, improvements, restoration or reconstruction costs for that portion of the heritage asset used in general government operations were to be capitalized and depreciated. Meanwhile, the costs that primarily related to the preservation of the asset for a heritage purpose (e.g., excess cost of maintaining original design and construction materials) rather than general government operations were to be excluded from general PP&E (i.e., expensed in the period incurred). The response to this proposal contained in the ED was that costs could not be divided between heritage and general PP&E in this manner.
- 21 In the existing standards (SFFAS No. 6 and No. 8), costs of renovation, improvement, restoration, or reconstruction that can be directly related to government operations (e.g., modification or improvement of office space, upgrading of electrical or communication equipment/wiring) are to be capitalized and depreciated. Meanwhile, the costs to renovate, restore, or reconstruct the heritage asset itself (the shell) were to be excluded from general PP&E (i.e., expensed in the period incurred). Again, comments the Board received pertaining to implementing this requirement were that the distinction for the costs cannot be made and that it produces inconsistent results.

Exposure Draft

- 22 In February 1998, the Board issued an exposure draft (ED), *Amendments to Accounting for Property, Plant, and Equipment*, proposing amendments to SFFAS No. 6 and No. 8. In the proposed amendments, the costs of acquisition, betterment, or reconstruction of multi-use heritage assets (i.e., heritage assets used in general government operations) were to be treated as general PP&E and depreciated. The Board believes that this treatment would be consistent with the full cost standards, eliminate the need to adjust cost amounts presented in the government-wide consolidated financial statements, and be consistent with the predominant use notion.
- 23 The proposed modification for multi-use heritage assets is based on various entities' accounting for and reporting on multi-use heritage assets. The current accounting standards created inconsistent treatment of assets that were ultimately used in the same ways. For example, because the general PP&E category includes all PP&E used in a business-type activity, the General Services Administration (GSA) will capitalize the full cost of its buildings because they are used in business. Meanwhile, entities performing non-business-type entities (i.e., providing a service without receiving value in return) will not show the full costs of their building because of its multi-use heritage asset status. This is inconsistent accounting that is not justified by the uses of the assets.
- 24 The Board found that consolidation of entities accounting for similar assets differently also could add unnecessary complexity to the consolidation process. Since a monumental office building accounted for by GSA as general PP&E and entirely capitalized by GSA becomes a multi-use heritage asset at the government-wide level the asset, cost of heritage assets, and depreciation expense amounts would have to be adjusted on consolidation (subject to materiality limitations). The Board believes that this change to the accounting for multi-use heritage assets will also correct this unnecessary complexity.

Responses to ED

- 25 Thirty written responses were received in regard to the ED. Of the thirty responses received, fifteen respondents commented on the proposed amendments for multi-use heritage assets. Thirteen of the respondents who commented on the proposed amendments for multi-use heritage assets agreed with the proposed amendments, while the other 2 respondents who commented on them disagreed.

Board Decisions

- 26 To allow for full costing on assets used in general government operations, the Board believes that the costs of acquisition, betterment, or reconstruction of multi-use heritage assets should be capitalized and depreciated to allow for full costing in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. Thus, the Board decided to capitalize and depreciate multi-use heritage assets and allocate the depreciation based on function.
- 27 Some respondents to the ED asked if multi-use heritage assets reported as general PP&E on the balance sheet should also be reported in supplemental stewardship reporting, in order to recognize them as heritage assets. It was observed by the Board that it would be desirable to report all material heritage assets in stewardship reporting, including those multi-use heritage assets reported on the balance sheet, to show a complete picture for stewardship purposes of all material assets classified as heritage assets. This is consistent with the Board's decision in SFFAS No. 8 to specifically note that some land might be included in heritage assets and in stewardship land. Different information is captured under the reporting for each category.
- 28 This dual reporting of multi-use heritage assets is highlighted through note disclosures directing readers from the balance sheet to the stewardship reports and vice versa. The amended standards require balance sheets to have a note disclosure which

explains that "physical quantity" information for the multi-use heritage assets is included in supplemental stewardship reporting for heritage assets. In addition, for multi-use heritage assets reported in stewardship reporting, an appropriate note disclosure is required to explain that financial information for multi-use heritage assets is presented in the principal statements.

- 29 The ED also added the predominant use notion for multi-use heritage assets because the Board agreed that incidental office use should not determine the accounting treatment; that the predominant use should prevail. An example of incidental office use would be administrative offices or shop space in the Jefferson Memorial. In this case both uses are incidental and the Jefferson Memorial should be treated as a heritage asset and not be capitalized and depreciated.
- 30 One respondent to the ED suggested that "predominant use" be defined in the standard. During its deliberations, however, the Board noted that the terminology "predominant use" is already used in SFFAS No. 8 without any questions or problems being raised about its definition. Therefore, the Board believed that if it did define the term, that action may create a problem where no problem exists.

Board Approval

- 31 The Board approved this recommendation by a vote of 8 members approving its issuance and 0 member(s) opposing its issuance. Although the Board is comprised of 9 members, only 8 members cast a vote on SRAS 16. This is because the term of one Board member had expired and the appointment of a successor had not been finalized.

**APPENDIX B: CROSS REFERENCES
FROM PARAGRAPHS IN SFFAS NO. 6 AND NO. 8
TO PARAGRAPHS IN THESE AMENDMENTS**

Table I: References Related to Standards in SFFAS No. 6

PAR. NUMBERS IN SFFAS NO 6	STATUS AND REFERENCE TO PARAGRAPHS IN THESE AMENDMENTS
Multi-use heritage assets, par. 59	Par. 6
Heritage assets measurement and recognition, par. 60 through 62	Par. 8 through par. 12
Heritage assets implementation, par. 63	Par. 14

Table II: References Related to Standards in SFFAS No. 8

PAR. NUMBERS IN SFFAS NO 8	STATUS AND REFERENCE TO PARAGRAPHS IN THESE AMENDMENTS
Multi-use heritage assets par. 48 and 49	Par. 6 through 15
Heritage Assets Minimum Reporting Requirements, par. 50	Add par. 18

This page intentionally blank

APPENDIX C: GLOSSARY

BETTERMENT - An expenditure having the effect of extending the useful life of an existing asset, increasing its normal rate of output, lowering its operating cost, increasing rather than merely maintaining its efficiency or otherwise adding to the worth of benefits it can yield. A betterment is distinguished from repair or maintenance in that the latter have the effect of merely keeping the asset in its customary state of operating efficiency without the expectation of added future benefits. (*Kohler's Dictionary for Accountants.*)

CAPITALIZE - To record and carry forward into one or more future periods any expenditure the benefits or process from which will then be realized. (*Kohler's Dictionary for Accountants*)

CONDITION - The physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a momentous tragic event ranging from extreme misfortune to utter ruin), disasters (a sudden calamitous event bringing great damage, loss, or destruction), and obsolescence.

COST - Defined in SFFAC No. 1, *Objectives of Federal Financial Reporting* as the monetary value of resources used (para. 195). Defined more specifically in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service (page 105). Depending on the nature of the transaction, cost may be charged to operations immediately, i.e., recognized as an expense of the period, or to an asset account for recognition as an expense of subsequent periods. In most contexts within *Accounting for Revenue and Other Financing Sources*, "cost" is used synonymously with expense. See also "Full Cost."

DIRECT COST - The cost of resources directly consumed by an activity, and is specifically identified with a cost object. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities.

EXPENDITURE - With respect to provisions of the Antideficiency Act (31 U.S.C. 1513-1514) and the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C.622(i)), a term that has the same definition as outlay. (*GAO Budget Glossary*)

FAIR VALUE (Or fair market value) - Value determined by bona fide bargain between well-informed buyers and sellers, usually over a period of time; the price for which an PP&E item can be bought or sold in an arm's length transaction between unrelated parties; value in a sale between a willing buyer and a willing seller, other than in a forced or liquidation sale; an estimate of such value in the absence of sales or quotations. (*Kohler's Dictionary for Accountants*)

FULL COST - The total amount of resources used to produce the output. More specifically, the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the responsibility segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities. (SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, para. 89) All direct and indirect costs to any part of the Federal Government of providing goods, resources, or services. (OMB *Circular A-25*).

GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E) - PP&E used to provide government services or goods. The cost of general PP&E is capitalized, i. e. recorded as an asset on the balance sheet. For detailed characteristics of and accounting for general PP&E, see paragraphs 23 through 34, SFFAS No. 6.

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 (e.g., aesthetic) importance; or, significant architectural characteristics.

INDIRECT COST - A cost that cannot be identified specifically with or traced to a given cost object in an economically feasible way.

MULTI-USE HERITAGE ASSETS - Heritage assets whose predominant use is general government operations.

RECOGNITION (OR RECOGNIZE) - The term recognition, as used in this Statement, bears the same meaning as used by the Financial Accounting Standards Board in its conceptual statements. Recognition is the process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition comprehends both initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item. (Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 5, *A Replacement of FASB Concepts Statement No. 3*, para. 6.)

STEWARDSHIP - The Federal Government's responsibility for the general welfare of the nation in perpetuity.

USEFUL LIFE - The normal operating life in terms of utility to the owner.

FASAB Board Members

David Mosso, Chairman

Dr. Linda J. Blessing, through February 1999

James L. Blum, through December 1998

Barry B. Anderson, from February 1999

Philip T. Calder

Donald H. Chapin

Norwood J. Jackson

Gerald Murphy, through September 1998

Donald V. Hammond, from October 1998 through June 1999

Robert N. Reid, from July 1999

James E. Reid, through December 1998

Kenneth J. Winter, from February 1999

Nelson E. Toye

Wendy M. Comes, Executive Director

Project Staff:

Rick Wascak

Richard Mayo

Andrea Palmer

Federal Accounting Standards Advisory Board

441 G Street N.W.

Suite 3B18

Washington, DC 20548

Telephone (202) 512-7350

FAX (202) 512-7366

www.financenet.gov/fasab.htm
