

Reclamation Manual

Directives and Standards

**SUPPLEMENT TO THE
DEPARTMENT OF THE INTERIOR
DEPARTMENTAL ACCOUNTING MANUAL**

FILE: 07 CASH AND OTHER ASSETS
20 Property, Plant, and Equipment
10 Capitalization and Valuation

Subject(B)(9): Plant Accounting - Non-Traditional Assets

Purpose: Establishes policy and documents procedures for consistent accounting treatment of costs incurred for non-traditional assets.

Authority: Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* and the U.S. Treasury Standard General Ledger (SGL).

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Scope. Reclamation specific guidance on construction in progress (CIP) is provided in the Reclamation Manual (RM) FIN 07-20-10(B)(6), *Plant Accounting - Construction in Progress (CIP)*, issued on July 31, 2001. Reclamation has policy and procedures for project plant construction costs. This proposed guidance establishes policy and procedures for the accounting for non-traditional assets.

9. Non-Traditional Assets.

A. Non-Traditional Assets; Definition and Costs.

- (1) Non-traditional assets are defined as programs that result in tangible or intangible assets owned by Reclamation, which are not typical Reclamation plant¹ features. Reclamation accomplishes work through many mechanisms including using its own employees, contracting out, or entering into cooperative agreements or grants. Generally, the nature of the work being performed determines the accounting treatment of the costs, regardless of the instrument used to accomplish the work. Non-traditional Reclamation Programs that may not perform typical plant construction include some of the following:

¹Reclamation plant consists of land and land rights; structures and improvements, such as roads, reservoirs, dams, waterways, lines, substations, and switch yards; and conductors and devices.

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- Drought Emergency Assistance (1327)
 - Reclamation Recreation Management Act, Title 28 (1710)
 - Endangered Species Recovery Act (1745)
 - Efficiency Incentives Program (1775)
 - Water Management Conservation (1316)
 - Wetlands Development (1608)
- (2) Some examples of work performed under these programs includes construction of facilities for drought emergency; fish passages; fish screens; development, rehabilitation, and expansion of recreational facilities; environmental compliance; terrestrial and wetland habitat restoration; research and monitoring; program administration; acquisition of water to increase streamflows; and investigations and studies.

B. Operating Expenses.

- (1) Per FASAB SFFAS No. 6, expenses are "outflows or other using up of assets or incurrences or liabilities (or a combination of both) during a period of providing goods, and rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period."
- (2) Generally, costs incurred for a program's administration, or costs incurred for such activities as environmental studies or reviews that do not provide future benefit to a Reclamation-titled asset and are not directly related to the costs incurred to bring an asset to a form and location suitable for its intended use should be recorded as an operating expense (SGL 610A) in the current accounting period. If costs are incurred to construct a capital asset, but that asset is not federally owned, the costs should be expensed in the period incurred.
- (3) If the cost of an activity not directly construction related (such as investigations, surveys, wildlife relocation, or wildlife studies) is incurred prior to the decision to pursue construction of a Reclamation-owned asset or prior to construction authorization, if applicable, the cost should be expensed in the current accounting period.

C. Capitalized Costs.

- (1) **Analysis of Capitalized Costs.**
- (a) FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, defines assets as "tangible or intangible items owned by the Federal

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Government which would have probable economic benefits that can be obtained or controlled by the Federal Government." Per SFFAS No. 6, the costs of an asset may include all costs incurred to bring the asset to a form and location suitable for its intended use.

- (b) Where Reclamation incurs costs of an activity directly attributable to acquiring, constructing, replacing, enhancing, improving, or extending the life of a federally owned asset, those costs should be capitalized when incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- (c) For example, costs for goods and services such as engineering and supervision, labor, materials, and supplies that are directly attributable to construction or that will result in the acquisition or construction of a federally owned asset should be capitalized when incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- (d) If the cost of an activity not directly construction related (such as investigations, surveys, wildlife relocation, or wildlife studies) is incurred after the decision to pursue construction of a Reclamation-owned asset or after construction authorization, if applicable, and the activity is clearly attributable to that asset, the cost should be capitalized.
- (e) Costs for other activities such as environmental studies and wetlands development may be capitalized, if clearly attributable to pre-construction, construction, or acquisition of a federally owned asset, and if incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- (f) Initial establishment of the cost authority is the point where the decision is made regarding whether costs should be capitalized or expensed. The regional finance office should be closely involved in this process and must approve the final cost authority. A form may be used to provide for coordination with program personnel. Whatever form is used, at a minimum the following issues or questions should be addressed and thoroughly documented:
 - (i) Description of work and reporting requirements.
 - (ii) Is this cost authority established for "program expenses," "construction costs," or "investigation/study costs?"

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- aa. **Program Expenses:** Normal recurring expenses that do not meet the criteria of a "construction cost", or only benefit the current period.
 - bb. **Construction Costs:** If the work being performed will result in a capital asset when construction is complete, then it is a construction cost. Capital assets are economic resources that are expected to provide future benefits and are used in the process of providing goods and services. Construction costs include labor, construction equipment, materials, supplies, installed equipment, land and water rights, and engineering and related services that contribute to the original value of the constructed asset. Costs that do not increase the value or useful life of an asset should be classified as a program expense.
 - cc. **Investigations/Study Costs:** Normally incurred as general investigation work, for example to provide start-up analysis and reports.
- (iii) What functions will benefit from these expenses or costs (i.e., multi-purpose or single-purpose)?
 - (iv) Will this activity be reimbursable or non-reimbursable to the Federal Government?
 - (v) If this activity will result in a constructed or acquired asset, who will retain title or will have vested ownership of the asset?
 - (vi) Will there be any contributions made by another party toward a Reclamation-owned asset? If so, will this contribution be in the form of a tangible asset, "in-kind" services, or cash?

(2) Treatment of Capital Costs.

- (a) Costs incurred to bring a federally owned asset to a form and location suitable for its intended use will first be recorded in CIP (SGL 1720). The costs of land, land rights, and easements attributable to land should be recorded in land and land rights (SGL 1711). At least annually, in accordance with RM FIN 07-20-10(B)(6), *Plant Accounting - Construction in Progress (CIP)*, an analysis should be performed to determine if construction of the asset is substantially complete. Key criteria for transferring CIP to other structures and facilities is the point at which (i)

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construction work on a feature is substantially complete, (ii) the feature is providing benefits and services for the intended purpose(s), and (iii) the feature is generating project purpose revenue, where applicable. Until these criteria are met, costs should remain in CIP.

- (b) For substantially completed construction, the balance will be transferred in accordance with guidance in RM FIN 07-20-10(B)(6) to the appropriate completed plant SGL account as follows:
- SGL 1730, Buildings, Improvements, and Renovations: Government-owned buildings under Reclamation's control, used in providing Government services or goods.
 - SGL 1740, Other Structures and Facilities: Cost of Government-owned structures and facilities that are under the Bureau's control.
 - SGL 1890, Other General Property, Plant, and Equipment: The value of general property, plant, and equipment not otherwise classified above.
 - SGL 199A, Other Assets: This account consists of primarily intangible assets which may be amortized over their useful lives. Some examples of costs that should be recorded in this account include power rights, settler's assistance costs, and future years capacity provisions.
- (c) In instances where non-Federal entities provide part of the cost of a federally owned asset, the full cost of the completed asset should be capitalized in Reclamation's accounting records and subsequently depreciated. At a minimum, the non-Federal share of the cost of the asset should be recorded upon final completion of the asset.
- (d) For capitalized costs, adequate documentation will be maintained in the regional finance offices to support the disposition of the costs, and that the asset is federally owned.

D. **Depreciation.** Costs transferred to the above accounts, with the exception of land and land rights, must be depreciated or amortized over the useful life of the asset.

E. **Related References.**

- FIN 07-20-10(B)(6), *Plant Accounting - Construction in Progress (CIP)*

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- Commissioner's Memorandum dated August 3, 1993, *Policy, Recovery of Operation, Maintenance, and Replacement Expenses (O&M Status)*
- *Replacements - Units, Service Lives, Factors, Limited Update - July 1995* (a joint publication of Reclamation and the Western Area Power Administration)
- 18 CFR Chap. 1, Part 101, Subchapter C - *Accounts, Federal Power Act*
- FIN 07-20-20(A), *Plant Depreciation*
- FIN 07-20-10(A), *Interest During Construction (IDC)*
- FIN 06-30(C), *Interest on Investment (IOI)*
- FIN 03-20-20(B), *Reconciliation of Standard General Ledger*
- FIN 04-20-10(A), *Standard General Ledger (SGL) Chart of Accounts*