VOLUME 4, CHAPTER 6: "PROPERTY, PLANT, AND EQUIPMENT"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by ***bold, italic, blue and underlined font***.

The previous archived versions are:
Volume 4, Chapter 6 - October 2008
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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
060101 060202.A.2 060202.B.4 060202.C 060202.D 060203.B 060204.E 060205.A 060205.M.4 060206.J 060207.C 060208.A 060208.B 060209.B 060209.L	Updated reference from United States Standard General Ledger (USSGL) Treasury Financial Manual to USSGL Standard Financial Information Structure (SFIS) Transaction Library.	Update

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CHAPTER 6

PROPERTY, PLANT, AND EQUIPMENT

0601 GENERAL

060101. Purpose

This chapter prescribes Department of Defense (DoD) accounting policy for Property, Plant, and Equipment (PP&E). The applicable general ledger accounts are listed in the government-wide United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the ***USSGL Standard Financial Information Structure (SFIS) Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund (WCF) activities.

060102. Overview

Within PP&E, two categories have been defined for accounting and reporting purposes. Specific accounting guidance is contained in this chapter for each category of PP&E. These categories are:

A. General PP&E

B. Stewardship PP&E

1. Heritage Assets

2. Stewardship Land

060103. Definitions

There are two categories of PP&E.

A. General PP&E

1. General PP&E consists of tangible assets that meet all of the following criteria:

a. has an estimated useful life of two years or more;

b. are not intended for sale in the ordinary course of operations;

c. are acquired or constructed with the intention of being used or being available for use by the entity; and

d. has an initial acquisition cost, book value, or when applicable, an estimated fair market value (see paragraph 060202 for definitions of these terms) that equals, or exceeds, DoD capitalization threshold. The DoD capitalization threshold is $100,000, except for real property assets. The threshold for real property assets is $20,000. These thresholds are applicable to assets procured by both General and Working Capital Funds. (See Volume 2B, Chapter 9, paragraph 090103.C.8 for an explanation of the difference between DWCF capitalization thresholds for budget versus accounting.)

2. Assets that had previously been classified as National Defense PP&E, i.e. weapons systems and related support equipment are now classified as General PP&E. (These assets were reclassified as General PP&E in the Statement of Federal Financial Accounting Standards No. 23). These weapons systems are referred to as military equipment. In addition to the requirements of 060103.A.1 (a through d), military equipment items are intended to be used by the Armed Forces to carry out battlefield missions, are referred to as military equipment. Examples include: combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles. Additional guidance follows:

a. Military equipment does not ordinarily lose its identity or become a component part of another article; and is available for the use of the reporting entity for its intended purpose.

b. Intangible assets, such as software, are not considered military equipment; however, the cost of the intangible asset shall be included in the cost of the related military equipment.

c. Military equipment assets are generally functionally complete and should be valued based on the cost of the final assembly, including the cost of embedded items.

3. Bulk purchases of General PP&E items that do not individually meet the capitalization threshold will be expensed. Bulk purchases of General PP&E items that individually meet the capitalization threshold, shall be capitalized and recorded in a property accountability system that is capable of computing depreciation or interfaces with a system that is capable of computing depreciation. A bulk purchase for capitalization purposes is defined as:

a. a single acquisition of many separate items that if purchased individually would not be material, but is material when purchased as a single acquisition, or

b. a single acquisition of many separate items; some of which may be individually material.

4. Materiality, as defined by the Statement of Federal Financial Accounting Standards No. 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

5. General PP&E is used in providing goods or services, or supports the mission of the entity, and has one or more of the following characteristics:

a. It could be used for alternative purposes (e.g., by other DoD or federal programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity;

b. It is used in business-type activities;

c. It is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to commercial hospitals).

6. General PP&E also includes:

a. assets acquired through capital leases, including leasehold improvements (see paragraph 060206);

b. property under the accountability of the reporting entity even though it may be in the possession of others (e.g., state and local governments, colleges and universities, or contractors);

c. land, other than Stewardship Land with an identifiable cost that was specifically acquired for, or in connection with, the construction of General PP&E; and

d. land rights, which are interests and privileges held by an entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights and other like interests in land.

7. General PP&E examples include but are not limited to:

a. Real Property including Land, Land Rights, and Facilities (includes Buildings; Structures, and Linear Structures)

b. Construction in Progress

c. General Equipment

d. Assets Under Capital Lease

e. Leasehold Improvements

f. Internal Use Software

g. Military Equipment

8. General PP&E excludes items:

a. held in anticipation of physical consumption such as operating materials and supplies;

b. in which the Department has a reversionary interest. For example, the Department sometimes retains an interest in PP&E acquired with grant money in the event that the recipient no longer uses the PP&E in the activity for which the grant was originally provided and the PP&E reverts to the Department.

c. classified as Stewardship PP&E (as described in Section 0603);

d. classified as stewardship investments (nonfederal physical property);

e. that should be expensed as research, development, test, and evaluation (RDT&E) costs, unless they are associated with the development of an end item that is produced for operational use. Equipment such as special tooling and special test equipment, acquired for research and development, which may have alternative future uses and otherwise meets the criteria for capitalization, should be capitalized accordingly.

9. For all WCF activities, all PP&E used in the performance of their mission shall be categorized as General PP&E, whether or not the PP&E meets the definition of any other PP&E category. For stewardship assets coincidentally located on a WCF installation, those assets shall be reported on the General Fund stewardship report for the Military Department that owns that installation.

10. For further discussion of General PP&E accounting policy, see section 0602.

B. Stewardship PP&E. Stewardship PP&E consists of tangible assets classified as either Heritage Assets or Stewardship Land. For further discussion of Heritage Assets and Stewardship Land, see section 0603.

1. Heritage Assets are PP&E of historical, natural, cultural, educational significance; artistic importance (e.g., aesthetic); or with significant architectural characteristics. Heritage Assets are expected to be preserved.

2. Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with General PP&E. "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. Without exception, all land provided to the Department from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E.

060104. Acquisition of General PP&E

A. General. When acquiring a General PP&E asset, the purchase cost and other costs necessary to bring the asset to an operable condition (see paragraph 060201.B) are capitalized, in accordance with paragraph 060103.A.1.d. With few exceptions, (e.g. bulk purchases of General PP&E items that do not individually meet the capitalization threshold), all items are subject to capitalization and depreciation if the initial book value is equal to or exceeds the thresholds. If the General PP&E acquisition costs, including other costs necessary to bring the asset to an operable condition, do not equal or exceed DoD capitalization threshold, the costs are expensed in the period incurred.

B. Documentation

1. When recording the acquisition cost of a General PP&E asset in the accountable property system of record and/or accounting system, the asset shall be assigned a dollar value as detailed in this chapter. The dollar value will be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 060106.

2. If documentation is not available (written or electronic), estimates of the cost of the PP&E asset shall be made, and documented for reference as well as estimates for any accumulated depreciation/amortization which would have been taken had the asset been recorded at the time it was acquired. The efforts undertaken and the precision achieved, in making PP&E asset cost estimates shall be proportionate to the materiality and relative significance of the value of the asset involved. Estimates shall be based on:

a. the cost of similar assets at the time of acquisition, or

b. the current cost of similar assets discounted for inflation since the time of acquisition (e.g., deflating current costs to costs at the time of acquisition by a general price index).

060105. Recognition of General PP&E

A. General

1. All General PP&E assets acquired by DoD must be recognized for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with depreciation or amortization) and the reporting of capitalized amounts and accumulated depreciation or amortization on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset or the DoD Component in possession of a General PP&E asset, most often will be the DoD Component that must account for and report the asset. The exception to this requirement is based on the concept of the preponderant use and is explained in paragraph 060105.B.

2. Recognition of the asset for financial reporting purposes shall occur upon delivery and acceptance to the acquiring DoD Component even though title passage can occur either at the time of delivery (to the DoD Component or an agent of the DoD Component), or at an earlier contractually specified time.

a. Military Equipment. The recognition date will normally be the date shown on Block 22, Receiver's Use, of the "Material Inspection and Receiving Report" (DD Form 250) or the equivalent date source under Wide Area Work Flow.

b. Real Property. The real property assets or capital improvements to an asset shall be capitalized at the date they are placed in service. The placed in service date varies depending on the acquisition method as depicted in the charts below. On the placed in service date, the government assumes liability and the warranties begin for the asset. For example, in the case of a land purchase, the date of delivery or deed execution represents the acceptance date. However, in the case of a constructed asset, the placed-in service date is the date the asset is substantially complete and available for use. This should be the date on the "Transfer and Acceptance of Military Real Property" (DD Form 1354). The date needs to be supported by a source document such as substantial acceptance of the completed asset. At that point, costs are transferred from the construction in progress (CIP) account to the appropriate PP&E account, triggering capitalization and depreciation of the real property asset.

(1) Placed in Service Date for Acquisition Methods

Acquisition Method	**Source Document**	**Acceptance Evidence**	**Effective Date**	**Acquisition Date**	**Real Property Acceptance Placed in Service Date** (Depreciation Triggering Event[1])	**Amortization Triggering Event**
Condemnation	Judgment document	Signed judgment	Date judgment is signed	Date judgment is signed	Acquisition date	Not applicable
Gifts and donations	Executed acquisition document	Executed acquisition document	Date of acquisition document	Date of acquisition document	Acquisition date	Not applicable
Lease	Lease	Signed lease	Lease start date	Date lease signed	Not applicable	Lease start date
New construction (see section (3) below)	DD Form 1354[2]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction is executed	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.	Not applicable
Occupancy agreement	Occupancy agreement	Executed occupancy agreement	Occupancy agreement start date	Occupancy agreement start date	Not applicable	Not applicable

Acquisition Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Real Property Acceptance Placed in Service Date (Depreciation Triggering Event[1])	Amortization Triggering Event
Purchase[3] (can include Exchange)	Deed	Deed delivery/ execution	Date of delivery/ execution	Date of delivery/ execution	Acquisition date	Not applicable
Reversion	Reversion legal document	Executed reversionary document	Date specified in document	Date reversionary document executed	Re-acquisition date (i.e., date reversionary document executed)	Not applicable
Transfer between Services	DD Form 1354 [2,4]	Executed DD Form 1354 transaction	Date specified in transaction	Date of DD Form 1354 transaction	Original DoD placed in service date	Not applicable
Transfer from one federal entity to another	Transfer letter, SF 1334 or DD Form 1354 [2]	Signed document	Date specified in document	Date document signed	Acquisition date	Not applicable
Withdrawal of public domain land	Letter of withdrawal	Signed letter	Date specified in document	Date specified in document	N/A	Not applicable

[1]Depreciation does not apply to land
[2]DD Form 1354 or other document specified in policy
[3]Purchase acquisition method is associated to both the land purchase and land purchase with facilities acquisition scenarios
[4]Secretarial Memo is the transfer document

(2) Placed in Service Date for Improvement Methods

Improvement Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Capital Improvement Placed in Service Date (Depreciation Triggering Event)	Amortization Triggering Event
Capital improvement	DD Form 1354[1]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction was executed	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.	Not applicable

Improvement Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Capital Improvement Placed in Service Date (Depreciation Triggering Event)	Amortization Triggering Event
Leasehold improvement	DD Form 1354[1]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction is executed	Not applicable	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.

[1]DD Form 1354 or other document specified in policy

3. Construction Projects. Construction in Progress (CIP) is a temporary classification of assets under construction. The costs of new construction and capital improvements are accumulated in a CIP account while the asset is under construction. CIP accounts are only utilized for construction of real property assets and shipbuilding (including ship conversion, alteration, or repair). CIP accounts include all costs incurred to bring the asset to a form and condition suitable for its intended use. The sum of the individual costs in the CIP account will determine the total cost of the asset that is then recorded in the appropriate Property, Plant and Equipment (PP&E) general ledger account.

a. Amounts in the CIP account are transferred to the appropriate PP&E account when the assets are placed in service. Additional costs accumulated in the CIP account after the assets are placed in service will be transferred at the final acceptance of the assets. The original acquisition cost of the asset will be adjusted for this amount and the revised amount will continue to be depreciated over the remaining useful life of the asset.

b. For real property construction projects, such as large-scale capital improvement projects, that are completed in multiple phases, the cost of each phase is transferred from the CIP account to the real property asset account at the time the phase is placed in service. Each facility, therefore, may have one or more placed in service dates, which will be used to initiate the capitalization of each corresponding phase. Each phase shall then be depreciated separately over its estimated useful life.

4. For General PP&E assets acquired by a contractor on behalf of a DoD Component (e.g., the DoD Component that will ultimately hold title to the assets), the assets shall be recognized upon delivery or constructive delivery, whether to the contractor performing the service, or to the DoD Component. Delivery or constructive delivery shall be based on the terms of the contract regarding delivery, receipt and acceptance.

a. Payments, in the form of contract financing payments, made to a contractor prior to delivery or constructive delivery of the General PP&E assets are cash disbursements made to a contractor to finance performance under the contract prior to acceptance of goods or services and do not represent a tangible PP&E asset to the DoD Component. As such, these payments are recorded to USSGL 1410, Advances and Prepayments, until such time as the goods or services are received (see Chapter 5 for additional information).

b. With respect to contractor acquired property, upon completion of the manufacture of the end items for which the contractor acquired property was used and delivery of the contractor acquired property to the Government, contractor acquired property should either be capitalized in the appropriate PP&E account or if the contractor acquired property does not meet the capitalization threshold, such items should be recorded in the appropriate expense account. The amount recognized will be the Contractor's estimated fully burdened unit cost of contractor acquired property at the time of delivery to the Government.

5. WCF activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of General PP&E assets and the depreciation of such assets by WCF activities therefore may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All General PP&E depreciation of WCF activities shall be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Monthly Report of Operations" (AR (M) 1307) reports. Depreciation recorded on General PP&E that was not acquired nor will be replaced through use of Defense WCF resources shall be classified as non-recoverable for rate setting purposes and reported appropriately on the AR (M) 1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

6. To establish proper PP&E financial control when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request from the losing DoD Component or other federal agency, the necessary source information and financial transfer documents, to include unique identifier(s) for the asset(s); location; original acquisition cost(s); cost of improvements; the date the asset was purchased, constructed, or acquired; the estimated useful life; the amount of accumulated depreciation; the condition, if desired; and other relevant information linked to that asset. If this information is not available, the gaining and losing entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14 for further policy on transfers of DoD real property between Military Departments.

B. Treatment When the Preponderant User of an Asset Is Not the Owner or DoD Component that Purchased the Asset. Legal ownership (i.e., having title to a General PP&E asset), usually, but not always, is the determinant factor when determining which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes in financial statements. For examples, see the Preponderance of Use Policy in Annex 1. Likewise, the manner in which an asset was purchased does not determine what entity accounts for and reports a real property asset. For example, buildings used by a WCF activity may not have been constructed or acquired with WCF funds. Such buildings, however, generally should be capitalized and depreciated by the WCF activity and reported on the WCF activity's financial statements. Such accounting and reporting is required by WCF activities regardless of whether title to such buildings is passed to the local installation when construction is completed. When determining which DoD Component must recognize a General PP&E asset for accounting and financial statement reporting purposes, all four of the following criteria must be met by the recognizing DoD Component:

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity" (e.g., the ability of an asset to directly assist the DoD Component in achieving its mission). Service capacity has value because it is consumable or exchangeable for other benefits. For example, a building on a military installation or a piece of equipment provided to a Defense Agency may allow it to achieve the Defense Agency's mission. The Defense Agency also pays for utilities, maintenance and upkeep of the asset. The exchangeability part of the benefit criterion (the ability to sell, trade or donate the property) need not be present for an item to qualify as an asset in the federal sector, if use of the item provides benefit to the DoD Component. The inability of the DoD Component to exchange the benefit for other benefits does not preclude the asset from meeting this criterion.

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on possession or the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances when an entity maintains possession of property through agreements that provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however, as in the case of a base closing where an entity conducts operations or the decommissioning of an aircraft, control no longer exists; hence, the property will no longer meet the control criterion for the asset. For further policy regarding treating assets on military bases slated for closing, see paragraph 060205.

3. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy and use the asset without reimbursement for as long as needed. If the transaction of the event occurs before the end of the reporting period, that DoD Component/predominant user receiving goods or services without reimbursement must impute and record on the financial statements that portion of the asset acquisition costs and associated depreciation expense, as well as the corresponding financing source for the benefits received as outlined in Volume 4, Chapter 17 . This also applies to other DoD agencies that are not the predominant user, however, receiving benefits without reimbursement.

4. DoD Components shall only report predominately used General PP&E assets under the accountability of other DoD Components when the cost of those assets, taken as a whole, are material to the predominant user Component's financial statements. This is in keeping with the concept that each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The recognition of full cost is limited to material items or amounts that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output. Specific examples below illustrate how this policy should be implemented.

a. Military Departments--General Fund. A Military Department shall not recognize or report facilities occupied or assets being predominately used by another Military Department's installation. For example, if the Air Force is a tenant on an Army installation, and the Air Force is the predominant user of a building on that installation, the Army should report the building on the Army's financial statements, not the Air Force. This policy recognizes that the Military Departments routinely use each other's facilities in the normal course of carrying out their missions, and the net effect of this "cross use" of facilities is not material to the Military Departments' financial statements.

b. Defense Agencies--General Fund. The Defense Agencies that produce financial statements and/or are included in the DoD Consolidated Financial Statements (see Volume 6B, Chapter 1) generally must recognize and report the assets used in their operations. When assets, therefore, are material to the performance of their mission, they shall be recorded on the financial statements. Determinations on reporting other assets must be made on a case-by-case basis using the criteria identified above. All facilities used by the Defense Agencies are under the accountability of the Military Departments. Generally, these facilities are significant to the operation of the agencies and form an integral or necessary part of their output. As such, these facilities are material to the Defense Agencies' financial statements and shall be reported on the financial statements of the Defense Agencies and excluded from the financial statements of the Military Departments. The Defense Agencies shall coordinate with the Military Departments to ensure completeness and avoid duplicate reporting of General PP&E.

c. Working Capital Funds

(1) General. When a WCF activity is the preponderant user of a General PP&E asset, that WCF activity shall report and depreciate that asset on its financial statements. This requirement exists without regard to whether the WCF activity belongs to a Military Department or a Defense Agency.

(2) Preponderant Use and Improvements. WCF activities funding capital improvements shall report and depreciate such improvements on their financial statements, whether or not the WCF activity is the preponderant user of the facility improved. For example, if the Defense Logistics Agency (DLA) occupies a facility with an Army activity and occupies less square footage in the facility than the Army, but makes a capital improvement to its portion of the facility, the improvement should be recorded in the applicable property records, and the DLA should report and depreciate the improvement on the DLA

financial statements. The same accounting treatment and reporting requirement shall apply if in the above example DLA is the preponderant user of the facility improved.

d. Medical Facilities and Equipment. The preponderant use policy outlined above shall not apply to DoD medical activities. While most of the funding for medical activities is centralized through the Office of the Under Secretary of Defense (Health Affairs) (OUSD(HA)), the OUSD(HA) does not exercise command and control authority over medical activities. Hospitals, clinics and other medical facilities are typically located on a military installation or are otherwise under the command and control of one of the Military Departments. The essence of the medical mission of such facilities is to serve the personnel and families working at, or living near, military installations. The military installation, therefore, is the preponderant user of the medical facility, and all medical General PP&E equipment and facilities shall be reported on the general fund financial statements of the Military Department that is accountable for the installation upon which a medical facility resides. This policy is applicable to General PP&E purchased with General Funds regardless of Department Fund Code (e.g., TI 17, 21, 57, or 97).

5. Multiple Occupants. When there is more than one user of an asset, the user that has the greater percentage of usage (e.g., square footage for real property) normally will be the preponderant user (providing they meet the criteria identified in 060105.B.1-4).

C. Real Property Financial Reporting

1. Effective Date. This policy will be effective with financial reporting for fiscal year 2011.

2. Reporting of the Real Property Assets on the Balance Sheet

a. As a consequence of provisions within ***Title 10 U.S.C. Chapter 159*** that govern the acquisition of interests in real property by Military Departments, all DoD real property must be under the jurisdiction of a designated accountable entity. Chapter 159 provides that the Military Departments have jurisdiction over all DoD real property assets with the exception of the Pentagon Reservation and certain defense facilities in the national capital region. ***DoD Directive 5110.4*** directs the Washington Headquarters Service to serve as the accountable entity for the Pentagon Reservation and such defense facilities.

b. The DoD entity that funds the acquisition of a real property asset (acquisition entity) will record the acquisition value (recorded cost) (see section 0602) and associated depreciation (see paragraph 060205) of the asset on its financial statements. The acquisition entity may be different than the accountable entity. When two or more Defense entities jointly fund an asset, each acquisition entity will record the acquisition value and associated depreciation of the asset on the financial statements proportionate to their share of the assets funding.

c. If the entity that funded the original acquisition is a Defense Agency or reporting entity other than an accountable entity, and the acquisition entity no longer manages or utilizes the asset, the asset should be financially transferred to the entity currently responsible for funding all or most of the operation and sustainment costs. Journal vouchers should transfer the acquisition value (recorded cost) and accumulated depreciation to report the asset on the new entity's financial statement. Such financial accounting transfers have no impact on asset reporting and accountability in the property system of the accountable entity. If such property becomes vacant but is not taken out of service, then the acquisition entity will financially transfer the asset to the accountable entity using the same procedures described above. Thus the accountable entity reports the acquisition value (recorded cost) of the asset and associated depreciation on its financial statements.

d. The acquisition cost of capital improvements (see paragraph 060204) and associated depreciation are reported on the financial statements of the Defense entity that funded the improvements; such entity may be different than the accountable entity and may be different than the entity that funded the original acquisition of the asset. When two or more Defense entities jointly fund the capital improvements, the acquisition cost of the capital improvements will be reported on the financial statements of each entity proportionate to their share of the funding.

3. Reporting Imputed Cost of Unreimbursed Occupancy Expenses. Statement of Federal Financial Accounting Standards No. 4 (SFFAS No. 4) requires reporting entities to measure and report the full cost of producing outputs (products and services) in general purpose financial reports. SFFAS No. 4 defines the full cost of an output as the sum of (1) the costs of resources consumed by the entity that directly or indirectly contribute to the output, regardless of funding sources and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. To account for the full cost of a program and its output(s), reporting entities should recognize inter-entity contributions through imputed costs when benefits received are not fully reimbursed. For real property, full costs include goods and services received by the reporting entity from a providing entity that is part of the same Department or part of a larger reporting entity. Goods and services in this case include facility acquisition, operation, sustainment, and capital improvement.

a. Definitions

(1) Reporting Entity. An entity that issues general purpose federal financial reports. The DoD reporting entities are identified in Volume 6B, Chapter 1 .

(2) Providing Entity. A reporting entity that provides goods and services to another reporting entity.

(3) Receiving Entity. A reporting entity that receives goods and services from another reporting entity. For real property, this would be the tenant, or in a joint-basing environment, the supported component.

(4) Supporting Component. At a joint base, the Military Department who has the authority and responsibility to provide all installation support services to the supported component or tenants.

(5) Supported Component. At a joint base, Military Department who receives installation support from the Supporting Component.

(6) Tenant. A Military Service, Defense Agency, field activity or other entity that occupies or uses a real property asset where the accountable entity is a different Military Department. At a Joint Base, Military Departments are not tenants, they are either supporting or supported components.

(7) Operation Cost. Includes manpower authorizations, peculiar and support equipment, necessary facilities, contracts, and associated costs to plan, manage, and execute these functions: Fire prevention and protection including crash rescue, emergency response, and disaster preparedness; engineering readiness including explosive ordnance disposal, and Prime Base Engineer Emergency Forces; utilities to include plant operation and purchase of commodity; refuse collection and disposal to include recycling operations; pavement clearance including snow and ice removal from roads, piers, and airfields; lease costs for installation real property including off-base facilities; grounds maintenance and landscaping; real property management and engineering services including special inspections of facilities and master planning; pest control; and custodial services.

(8) Sustainment Cost. Costs incurred for maintenance and repair activities necessary to keep an inventory of facilities in good working order. It includes regularly scheduled adjustments and inspections, preventive maintenance tasks, and emergency response and service calls for minor repairs. It also includes major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle of facilities. (See paragraph 080105 of Volume 2B, Chapter 8)

(9). Imputed Cost. Imputed cost is a reporting entity's share of an expense not incurred directly, but borne by another reporting entity and not reimbursed. Reporting entities which occupy facilities and/or receive associated installation services without reimbursement to the providing entity, will record the imputed costs of the unreimbursed goods and services on their financial statements. The imputed costs include costs associated with the facility acquisition, operation, sustainment, and capital improvement. The amount of imputed cost to be reported will be proportionate to the entity's utilization of the asset. In instances where the receiving entity fully reimburses the providing entity, the receiving entity reports the actual cost reimbursed and there is no imputed cost. Imputed costs are unreimbursed costs, therefore if there is full reimbursement there is no imputed cost.

4. Common Business Scenarios. Annex 4 depicts common business scenarios and illustrates the implementation of this policy for reporting real property and associated costs, including the imputed costs to be reported on the receiving entities financial statements.

D. Facilities and Equipment Outside the Zone of the Interior (United States, Territories and Possessions)

1. Facilities that are occupied, and equipment that is used, outside the Zone of the Interior, by DoD Components shall be recognized as General PP&E of the occupying/using DoD Component for accountability and financial statement reporting purposes, if such occupation/use meets all of the following criteria. If any of the following criteria are not met, the asset shall not be recognized by the DoD Component:

a. The General PP&E are occupied or equipment is used without reimbursement to the host nation.

b. The DoD Component controls access to or use of the facility or equipment.

c. Use of the facility or equipment is for an unspecified length of time.

d. The DoD Component maintains and repairs the facility or equipment.

2. Such facilities and equipment include facilities and equipment that were confiscated during military operations, facilities built or equipment procured with the funds of international organizations (e.g., the North Atlantic Treaty Organization) and facilities that were built or equipment procured with the funds of host countries. The fact that such facilities or equipment may be returned to the host country or international organization when the DoD Component permanently leaves such facilities or returns equipment is not a relevant factor for purposes of accounting and financial statement reporting. Due to the unique nature of this type of property, and the fact that it will eventually be returned, the reporting Component has some latitude in the reporting of such property. Specifically, if the property is recorded in the accountable property system of record or accounting records without a historical purchase cost or estimate, and the property would be substantially or fully depreciated, no effort shall be made to determine an estimated purchase cost. DoD Components, however, must comply with all property accountability policies and requirements, as well as comply with appropriate accounting and reporting requirements when capital improvements are made to such property.

3. Such facilities and equipment are not to be considered assets under a capital lease, unless a specific agreement with the host country exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria for a capital lease as specified in paragraph 060206.

4. The quantity and/or value of such facilities and equipment and the unique convertible nature of them shall be disclosed in the General PP&E narrative section (footnotes) of DoD Component's financial statements.

E. Recognition Uncertainty

1. It is important that the overall accounting records of the Department of Defense and the federal government are not duplicative. Defense Agencies that possess and control (have preponderant use of) PP&E assets that materially contribute to the Defense Agencies' mission should maintain accounting and financial reporting for such PP&E, regardless of the organization that originally acquired the items or provided the funding for the PP&E. If a Defense Agency prepares financial statements, such PP&E assets should be reported in its financial statements. In situations where doubt exists as to which DoD Component should recognize an asset, DoD Components involved shall reach agreement with the other applicable DoD Components or Federal agencies as to which entity will recognize the PP&E.

2. If an agreement cannot be reached, the matter shall be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), for resolution. Requests for resolution shall be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

060106. Supporting Documentation

Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary accountable property records and/or systems must:

A. Be supported by source documents that reflect all transactions affecting the Component's investment in the PP&E, including:

1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the DoD Component takes custody of the PP&E. The following documents, where applicable, shall be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement:

Evidence	Examples
Unique Identification	Assignment of unique identifier
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1) For contracts, contract modifications, or change orders, the following information is utilized: • Statement of Work, • Dollar Amount of Contract, • Location, • Source of Funds, • Parties to the Contract, and • Signature Page [Signature of All Parties]. 2) Documentation of troop labor hours 3) Approved Work Order
Payment Submitted	Such as, but not limited to: 1) Approved last invoice reflecting the total amount submitted for payment and received to date. 2) Evidence of in-house construction costs, including labor 3) Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement
Acceptance	Such as, but not limited to: 1) "Material Inspection and Receiving Report" (DD Form 250); 2) "Request for Transfer of Excess Real and Related Personal Property" (GSA Form 1334); 3) Interim or final "Transfer and Acceptance of Military Real Property" (DD Form 1354) with associated source documentation retained by the responsible party. Note: All cost information transferred from the CIP account to the real property asset account at the time the asset is placed in service, will be supported by the DD Form 1354.; 4) Executed acquisition document and appraisal results for the donated assets; 5) Signed judgment documents for condemnations; 6) Deed; 7) Signed lease for leased property; 8) Letter of withdrawal for property withdrawn from public domain; 9) Executed Occupancy agreement; 10) Executed reversionary document; 11) Transfer letter and documents for transferred assets; and 12) Collection voucher
Project Closeout	Such as, but not limited to a Final DD Form 1354 with associated source documentation retained by the responsible party.

2. All disposals or retirements when the PP&E leaves the custody of the DoD Component. The following supporting documentation is required to provide an adequate audit trail for the disposal of a real property asset. The execution of certain disposal events will generate financial or administrative accountability transactions.

a. 'Declaration of excess' document.

b. Approval documentation (to include disposal of land).

c. Original acquisition documents.

d. Legal instruments (such as a deed or contract) to indicate legal obligation to dispose of an asset.

e. Document showing the disposal start date.

f. Receipt documentation.

g. Transfer documents for transferred assets or as otherwise stated.

3. Document Retention That Supports Cost and Accountability. Documents that support the recorded cost of General PP&E assets shall be retained by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9 or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. The documentation must also be linked to the appropriate unique identifier(s). Supporting documentation may include, but is not limited to, the documentation as outlined above. Component real property asset managers will maintain all applicable documentation for a period, currently 10 years, after disposal as required by the U.S. National Archives and Records Administration.

B. Include sufficient information indicating the physical quantity, location, and unit cost of the PP&E. The accountable property records shall be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess PP&E that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

C. Enable periodic, independent verification of the accuracy of the accounting and accountable property records through periodic physical counts/inventories of PP&E (existence and completeness--"book to floor and floor to book"). Such periodic inventories also shall include reconciling the subsidiary property accountability records and/or systems with the general ledger accounts and physical accounts. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements. See ***DoDI 5000.64***, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," Paragraph 6.11.

D. Identify and classify PP&E that was capitalized, recorded in the accountable property system of record or accounting system, and reported in the financial statements. DoD PP&E that does not meet the capitalization threshold (see paragraph 060103.A.1.d) shall be expensed for accounting and financial reporting purposes.

E. Be based on the same documents to ensure that entries to the accounting and accountable property records are the same. This will ensure that the property accountability records are integrated and subsidiary to the accounting system, and that such records can be reconciled with the accounting system.

F. Include documents used to accumulate the cost of construction or developmental projects in either the construction in progress general ledger account for posting to the applicable PP&E accounts when construction (or construction phase) is accepted and placed in service or to the appropriate expense accounts if the construction project is terminated prior to completion. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the construction, see Annex 2.

G. Include all PP&E possessed by the Department (to include property held by others) and PP&E of others held by DoD through seizure, forfeiture, loss, or abandonment.

H. Provide information to identify and account for leased PP&E, regardless of whether the PP&E was acquired by a capital lease or operating lease or whether the value of the PP&E exceeds DoD capitalization threshold.

I. Provide information to identify and account for capitalized improvements to PP&E. For examples of capitalized improvements, see Annex 3.

060107. Physical Inventories of PP&E

DoD Components must perform periodic physical inventories of PP&E in accordance with ***DoDI 5000.64***, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," for tangible equipment, and ***DoDI 4165.14***, "Real Property Inventory and Forecasting," for real property.

060108. Deferred Maintenance

DoD Components must report deferred maintenance on PP&E as Required Supplemental Information (RSI) to the financial statements. The specific RSI reporting requirements are contained in Volume 6B, Chapter 12 .

A. Definitions

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

2. For purposes of this policy, maintenance is described as the act of keeping PP&E assets in an acceptable condition. Maintenance 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 service and achieves its expected life.

3. Maintenance excludes activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

B. Policy

1. Deferred maintenance amounts that have a cost that equals or exceeds DoD capitalization threshold (see paragraph 060103.A.1.d) must be reported in the financial statements as Required Supplemental Information for General PP&E.

2. If a DoD Component incurs a material amount of deferred maintenance on General PP&E personal property, then such amounts should be reported in the DoD Component's financial statements.

3. Maintenance of General PP&E military equipment is accomplished by two different, yet complementary components—depot-level maintenance activities and field-level maintenance activities. For the purposes of this policy, the term "field-level maintenance" includes all nondepot-level maintenance activities (e.g., organizational, intermediate and regional).

a. Depot-Level Maintenance. Depot-level maintenance includes: major repair, overhaul or complete rebuilding of weapons systems, end items, parts, assemblies, and subassemblies, manufacture of parts, technical assistance, and testing. Material amounts of depot-level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the Department's budget process by the Military Departments. Such amounts are provided annually to the Congress in the President's Budget submission and also satisfy the intent of the federal accounting standard definition. The same budget submission amounts shall be reported in the financial statements of the Military Departments.

b. Field-Level Maintenance

(1) Field-level maintenance comprises maintenance activities at lower organizational levels than depot-level. The Military Departments may or may not separate this level of maintenance into intermediate and organizational maintenance activities when describing the field-level maintenance structure and capability.

(a) Intermediate field-level maintenance includes limited repair of commodity-oriented components and end items; job-shop, bay and production line operations for special mission requirements; repair of printed circuit boards; software maintenance; and fabrication or manufacture of repair parts, assemblies, and components. The intermediate maintenance mission is to sustain the combat readiness and mission capability of supported activities by providing quality and timely materiel support at the nearest location with the lowest practical resource expenditure.

(b) Organizational field-level maintenance is normally performed by an operating unit on a day-to-day basis in support of its own operations. The organizational maintenance mission is to maintain assigned equipment by performing functions such as inspections, servicing, preventive maintenance, and corrective maintenance.

(2) Generally, any year-end amounts of field-level deferred maintenance on General PP&E military equipment whether at the intermediate field-level or organizational field-level, have been determined to be immaterial in amount when compared to depot-level amounts of deferred maintenance. Therefore, the Military Departments shall not report field-level deferred maintenance amounts.

C. Method for Measuring Deferred Maintenance. The method used to determine the estimated amounts of deferred maintenance must be reported in the narrative statement to the Required Supplementary Information Deferred Maintenance Report in DoD Component financial statements. The federal-wide accounting standard permits the use of condition assessment surveys or life cycle cost forecasts to measure deferred maintenance.

1. Condition Assessment Surveys. Condition assessment surveys are periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied.

2. Life-Cycle Cost Forecasts. Life-cycle costing is an acquisition or procurement technique, which considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in a forecast of maintenance expense, these forecasts may serve as a basis against which to compare actual maintenance expense and estimate deferred maintenance.

D. Required Supplementary Information. The specific RSI reporting requirements related to deferred maintenance on PP&E are contained in Volume 6B, Chapter 12.

060109. Environmental Liabilities/Cleanup Costs

The accounting policy for environmental liabilities/cleanup costs pertaining to PP&E is contained in Chapter 13.

0602 ACCOUNTING FOR GENERAL PP&E

060201. Asset Recognition

A. General. The recorded cost of General PP&E assets is the basis for computing depreciation or amortization and may be greater than the purchase cost, book value, or fair market value, since the recorded cost may include additional ancillary costs. See paragraph 060201.B for examples of ancillary costs. The following defines and prescribes the use of recorded cost, book value and fair market value when recording the cost of newly acquired General PP&E assets.

1. Acquisition Cost. Acquisition cost is the original purchase, construction or development cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses shall not be included as a cost of the asset; rather, such costs shall be recognized as operating expenses.

2. Book Value. Book value is the recorded cost of a General PP&E asset, less its accumulated depreciation.

3. Fair Market Value/Fair Value. Fair market value (also known as fair value) is an unbiased, equitable or just value based on the cost of a similar asset or the price that an impartial buyer would be willing to pay for the asset or a similar asset.

B. Recorded Cost. The recorded cost (also referred to as acquisition value) shall include all amounts paid to bring the property to its form and location suitable for its intended use. In addition to the amount paid to the vendor, additional ancillary costs that are identifiable shall be included in the recorded cost. Examples include the following:

1. government-furnished property installed in end items, e.g., engines installed in aircraft;

2. an appropriate share of the cost of government-furnished materials used in the production of end items;

3. transportation charges to the point of initial use;

4. handling and storage costs;

5. labor and other direct or indirect production costs (for assets produced or constructed);

6. engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

7. acquisition and preparation costs of buildings and other facilities;

8. an appropriate share of the cost of the equipment and facilities used in construction work;

9. fixed equipment and related installation costs required for activities

in a building or facility;

10. direct costs of inspection, supervision, and administration of construction contracts and construction work;

11. direct cost of maintaining the Program Management Office, if material;

12. legal and recording fees and damage claims;

13. fair value of facilities and equipment donated to the Department;

14. interest paid (not including late payment interest penalties); and

15. prorated share of nonrecurring cost associated with the development and production of the equipment. When documentation to support the original acquisition value is unavailable, estimates based on the latest cost of similar assets (at the time of acquisition) should be used, or the latest cost of similar assets or replacement value discounted for inflation since the time of acquisition. Such methods and/or sources when used shall be applied consistently.

C. Method of Acquisition Determines Recorded Cost

1. Purchased PP&E. The cost to be recorded for General PP&E acquired by purchase from a third party (private, commercial, or government) shall be its purchase contract cost plus applicable ancillary costs. For purposes of this guidance, purchase includes procurements of General PP&E by cash, check, or installment or progress payments on contracts.

2. Constructed PP&E. The costs of General PP&E real property assets while under construction, as described in Annex 2, are recorded to the USSGL construction in progress account. These costs include the costs of project design and actual construction such as labor, materials, and overhead costs. Upon the asset's placement in service, these costs shall be transferred to the proper General PP&E asset account as the recorded cost of the asset. During the construction of General PP&E, if it is determined that the cost will not exceed DoD capitalization threshold (see paragraph 060103.A.1.d), the costs of the construction project shall be expensed in the period the determination is made. Generally, the cost of demolition of a building is expensed; however, if an existing building is razed as part of site preparation for a new building, the cost of the demolition is included in the cost of the new building.

3. Donated PP&E. The cost to be recorded for General PP&E acquired through donation, execution of a will or judicial process excluding forfeiture, shall be its estimated fair value at the time acquired by the Department. The fair market value (also known as fair value) is an unbiased, equitable value based on the cost of a similar asset or the price that an impartial buyer would be willing to pay for the asset or a similar asset.

4. Exchanged PP&E. The cost to be recorded for General PP&E acquired through exchange between the Department and a nonfederal entity shall be the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair market value of the PP&E acquired. If the fair value cannot be determined, the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered, net of any accumulated depreciation. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of General PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the PP&E acquired is less than that of the PP&E surrendered, the PP&E acquired shall be recognized at its cost, as described previously and subsequently reduced to its fair value. A loss shall be recognized in an amount equal to the difference between the cost of the PP&E acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or federal agency shall be accounted for as a transfer.

5. Capital Leases. A lease meeting any of the criteria at 060206.E and meeting the capitalization thresholds at 060103.A.d. shall be classified as a capital lease. The cost recorded for 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, plus any cash paid or other consideration given. Specific guidance on capital leases is provided at paragraph 060206.

6. Seized and Forfeited PP&E. The cost recorded for General PP&E acquired through seizure or forfeiture shall be its fair market value, less an allowance for any liens or claims from a third party.

7. Vested and Seized Property During Times of War. See Volume 12 for discussion of vested and seized property during times of war.

8. Transferred PP&E. The cost recorded for General PP&E transferred from another DoD Component or federal agency shall be the cost recorded on the transferring entity's books for the PP&E, net of any accumulated depreciation. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset shall be its fair value at the time of transfer.

9. PP&E Acquired by Trade-In. The cost to be recorded for a General PP&E asset acquired when trading in another General PP&E asset shall be equal to the sum of the book value of the asset traded plus any cash paid or liabilities assumed for the new asset. The book value is the recorded cost of a General PP&E asset, less its accumulated depreciation.

060202. Real Property

See section 060105.A.2 for detail on acquisition or improvement methods for real property assets.

A. Land and Land Rights (Account 1711)

1. The Land and Land Rights account is used to record the purchase cost of DoD-controlled land. When the purchase cost cannot be determined, the estimated fair market value shall be used. Land and Land Rights accounts include not only the land but also the rights to it, such as easements. Land is regarded for accounting purposes as a non-wasting asset. As such, land is not subject to depreciation. The purchase cost of land includes the purchase price, broker's commission, fees for examining and recording the title and surveying, and any razing and removal costs (less salvage proceeds) of structures on the land. Periodic DoD payments for land rights are accounted for as a period operating expense.

* 2. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***. Sources of entries to this account include invoices, payment vouchers, documented estimates indicating source of estimates, sales records, and documented transfers and losses. See paragraph 060106.A for a more complete list.

B. Construction in Progress (Account 1720)

1. See paragraph 060105.A.3 for definition and additional information for construction projects.

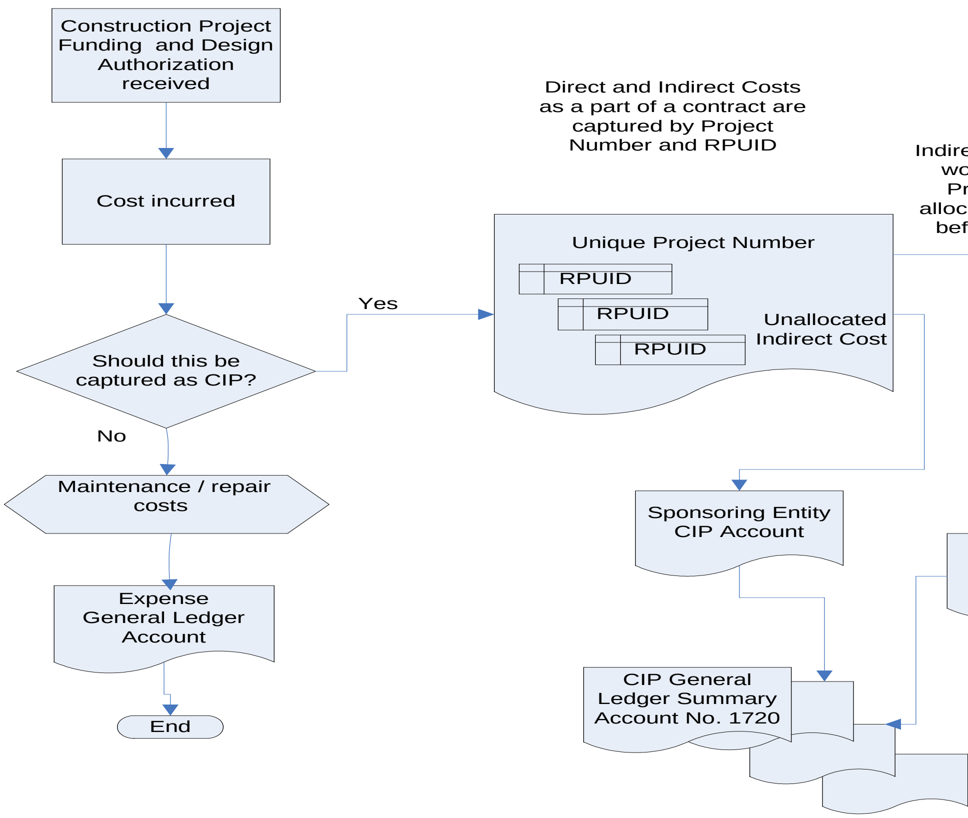
2. Real Property CIP Process. A CIP account will be created when either of the following triggering events occurs: (1) work order and funding authorizations are received for an in-house minor construction project; or (2) design and fund authorizations are received for construction projects performed by an agent. Either of these triggering events could affect work to be completed on an existing facility or a new construction project. Note that preliminary planning cost accumulated prior to design authorization must be expensed and not be captured in the CIP account.

A service-unique project number will be assigned by the Component to each approved real property construction project. At least one Real Property Unique Identifier (RPUID) will be assigned or obtained by the real property accountable Component when the CIP account is created. Upon receiving official authorization to perform work on a real property construction project, the sponsoring entity will obtain and assign an RPUID from the real property accountable Component for each real property asset that will result during the construction. A sponsoring entity is defined as the military department, DoD agency or combatant command that sponsors the construction project. DoD agencies and combatant commands are not authorized to own real property; as such, these assets are under the jurisdiction and held in the inventory of the real property accountable Component for the site where the asset is located. CIP costs will be tracked by both the Service-unique project number and the RPUID to ensure visibility, traceability, and accountability. A project may include one or more real property asset and corresponding RPUIDs. All costs to be capitalized for a construction project will be accumulated in the CIP account. A CIP account must be linked to at least one primary RPUID but may be linked to multiple RPUIDs to provide traceability for all construction costs incurred. A reasonable allocation methodology should be established to assign project costs periodically as the costs are incurred to all corresponding RPUIDs, no later than the time the assets are placed in service (interim acceptance).

Any indirect project cost must be allocated across CIP accounts periodically as they are incurred, and no later than final acceptance based on the direct cost of the asset as a percentage of the total direct cost of all assets in the project. Thus, the full cost of real property assets can be adequately captured and reported.

The relationship among projects, RPUID and the CIP accounts are provided in Figure 6-1.

FIGURE 6-1: RELATIONSHIPS AMONG A CONSTRUCTION PROJECT, RPUID AND CIP ACCOUNTS



3. Real Property CIP Business Rules. The following encapsulates the business rules that shall be applied in managing CIP throughout its life cycle:

a. Creation of Real Property CIP Account. When a DoD entity is constructing a real property asset to be transferred to another DoD entity under allocations or allotments, the constructing entity must accumulate cost in a CIP account for the benefit of the fund owner. When a DoD entity is constructing a real property asset to be transferred to another DoD entity on a cost reimbursable basis, the constructing entity must accumulate cost in an accounts receivable to be billed to the sponsoring entity since project inception. The billed costs are recorded in the corresponding CIP account by the sponsoring entity.

(1) When there is a cost-shared project between Federal and non-federal entities, a CIP account must only be created if the asset is federally owned. Only the Federal share of construction costs for real property being constructed on federal property, in conjunction with a non-federal project (e.g. state or other entity), should be captured in a CIP account. In the case of a cost-shared project between DoD and another Federal agency (e.g. Department of State), only the DoD share of construction costs for real property being constructed on DoD property should be captured in a CIP account within DoD's financial statements. At the time the asset is placed in service, the asset shall be recorded at its full value in the appropriate general PP&E account of the accountable Component, when the asset is constructed on a federal property.

(2) For cost-shared projects where the Federal Government is the construction agent and constructing a non-federal asset, the cost is accumulated in an accounts receivable to be billed to the customer. If the Federal Government is not the construction agent and the asset is not federally owned, the Federal Government's share of construction cost must be expensed as incurred. If the asset's final ownership was not determined at project design, this cost must be relieved from the CIP account and expensed to the general ledger, when it is determined that the asset will not be federally owned.

b. Relief of the Real Property CIP Account. The CIP account is relieved when an asset or an improvement to an asset is placed in service, at which point the cost accumulated to date in the CIP account must be transferred to the appropriate General Property Plant and Equipment (PP&E) account and recorded in the real property inventory. Once the asset is placed in service, each additional cost incurred must be recorded in the CIP account until final acceptance, and then transferred by RPUID to the appropriate General PP&E account. After real property final acceptance, each additional project cost must be expensed and must not be included in the CIP account. For a real property construction project, all costs for improvements that increase the useful life, efficiency, capacity, or size of an existing asset, or modifies the functionality or use of an asset, shall be capitalized.

(1) To ensure the real property asset is recorded at its full cost, the recorded cost of the asset placed in service must equal the sum of all construction and design costs. A comprehensive list of cost types are outlined in Annex 2. In addition, the sponsoring entity of a real property construction project must ensure that all costs incurred by the sponsoring entity are provided to the construction agent on a formal document for inclusion in the full cost of the asset, prior to acceptance by real property accountable Component.

(2) The real property accountable officer will provide a copy of the executed "Transfer and Acceptance of Military Real Property" (DD Form 1354) to the sponsoring entity at the acceptance transaction, if the sponsoring entity is not the real property accountable Component for the asset. For an accepted real property asset, and for

the purpose of an audit trail, the government's project construction agent and/or the sponsoring entity must provide the real property accountable officer with the list of auditable supporting documentation that must be provided, including their location. The accountable officer, in turn, must ensure the documentation is retained in accordance with applicable laws, regulations and instructions.

(3) If a construction project is cancelled, each cost accumulated in CIP accounts must be expensed. When a portion of a project is cancelled or decreased in scope, the cost directly associated to that portion of the project, and an allocated portion of the common cost in the CIP, must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation during the review cycle.

c. Reporting of Real Property CIP Account. The sponsoring entities shall continue to report CIP on their financial statements, proportionate to their shares of investment, until the real property asset is accepted by the accountable Component. The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the Customer Project Number, Project Fund Code(s), Project Detail Cost, Project Organization Code(s), Programmed Amount, and RPUID(s).

When portions of CIP for the same project are reported by multiple entities (construction agent and sponsoring entity), the portions must tie to the total amount of CIP reported for the project. To ensure traceability, CIP costs must be tracked by both the Service-unique project number and the RPUID; the same project number must be used for all phases of the construction project regardless of the performing entity. For a specified project, and for the purpose of an audit trail of the CIP account, the government's project construction agent and/or the sponsoring entity must retain the supporting documentation for their respective portion(s) of the project to which they have fiscal accountability. For additional information regarding representative documentation for a construction project, refer to section 060106.

* 4. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

* C. Buildings, Improvements and Renovations (Account 1730). The Buildings, Improvements and Renovations account is used to record the purchase cost of DoD-controlled buildings, improvements and renovations. When the purchase cost cannot be determined, the estimated fair market value of buildings and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. Reference paragraph 060201.C. for assistance in determining recorded costs or acquisition value. The account also is used to record capitalized improvements or renovations to existing buildings. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

* D. Other Structures and Facilities (Account 1740). The Other Structures and Facilities account is used to record the cost of DoD-controlled utilities and improvements to structures and facilities not classified as buildings. Examples include, but are not limited to,

fences, roads, bridges, utilities, rail lines, and fuel storage facilities. When the acquisition cost cannot be determined, the estimated fair market value and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The account also is used to record capitalized improvements to other structures and facilities. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

060203. Equipment (Account 1750)

The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services. Equipment also is referred to as personal property. This account excludes computer software (SGL Account 1830), but includes Automated Data Processing (ADP) systems and hardware (computers and peripherals).

A. ADP Systems/Hardware

1. Definition. An ADP system for accounting and financial statement reporting purposes consists of dedicated equipment or components linked together and used in the performance of a service or function in support of a mission of a DoD Component, command or installation. This definition should not be confused with budgetary or property accountability policy and/or regulations which may be different. ADP systems for the purpose of this definition and the requisite accounting treatment are typically referred to as mainframe or mini computer systems and generally, do not include personal computers linked to a central server and used in an office environment. ADP systems shall be capitalized and depreciated when the total cost of the system (considering the individual components as a whole system) equals or exceeds the DoD capitalization threshold (see paragraph 060103.A.1.d) and has an expected useful life of two years or more.

2. Personal Computers (PCs). PCs that are not organic to an ADP system (attached PCs and used solely for the operation of the ADP system) are excluded from the accounting and financial statement reporting definition of an ADP system. The cost of such PCs, therefore, is not included in the capitalized cost of an ADP system. Such nonorganic PCs are expensed in the year acquired, since the cost of the individual PCs does not equal or exceed the DoD capitalization threshold.

* B. Accounting Entries. The Equipment account is used to record the cost of ADP hardware/systems (personal property) and other equipment in use by DoD Components. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***. The account also is used to record the cost of improvements to equipment/personal property that meet DoD capitalization threshold. The policy for improvements is provided in paragraph 060204.

060204. Improvements to Existing General PP&E

A. Definition. The costs to improve a General PP&E asset shall be capitalized when the costs of the improvement increase the General PP&E asset's capability, size, efficiency, or useful life. In addition, the cost of an improvement shall be capitalized only when the cost of the improvement equals or exceeds DoD capitalization threshold (see paragraph 060103.A.1.d), regardless of funding source. Applicable improvements shall be capitalized and depreciated in accordance with the criteria described in Annex 3. Capital improvements which extend the life of the asset will be depreciated over the revised remaining extended useful life of the asset. Capital improvements which do not extend the useful life of the asset but have the same useful life as the remaining useful life of the General PP&E asset will be depreciated over the remaining useful life of the asset. Capital improvements which increase the asset's capability, size or efficiency but have an expected useful life that differs from the useful life of the General PP&E asset are depreciated separately. Capital improvements to assets which have already been fully depreciated will be depreciated based on the recovery periods identified in Table 6-1. For real property, improvements shall be capitalized and depreciated in accordance with the business rules for Construction in Progress (CIP) identified in Section 060202.B or the capital improvement depreciation cases presented in Annex 3. For depreciable periods, see Table 6-1 "DoD Standard Recovery Periods for Depreciable General PP&E Assets. Improvements that do not increase an asset's capacity, size, efficiency, or useful life, regardless of the cost of the improvement, shall be expensed. Improvement policy applicable to specific types of property follows:

B. Maintenance. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds DoD capitalization threshold. Maintenance is the work required to preserve and maintain equipment or real property in such condition that it may be effectively used for its designated functional purpose. Maintenance costs associated with personal property (e.g., maintenance contracts for equipment and software) shall be expensed. Maintenance also includes cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting).

C. Repair. Generally, PP&E personal and real property repair costs shall be expensed. When repair is by replacement, the repair may be expensed or it may be capitalized. According to USC Title 10, Subtitle A, Part IV, Chapter 169, Subchapter I, § 2811 Repair of Facilities, "the term "repair project" means a project to restore a real property facility, system, or component to such a condition that it may effectively be used for its designated functional purpose." When repairing a real property facility, the components of the facility may be repaired by replacement, and the replacement can involve upgrading to current building standards and codes. Such replacements (repairs) may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement is a repair or an improvement is the intent behind the replacement. Repair by replacement that is expensed, occurs when a facility or facility component has failed, is in the incipient stages of failing or is no longer performing the functions for which it was designated. Replacements falling into this category shall be expensed. If the replacement was undertaken to improve or expand the efficiency of an asset that was in good working order, then the replacement is an improvement. A roof or a heating and air conditioning system that is replaced due to the failing of the existing asset shall be classified as a repair and shall be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit. Repair by replacement does not include rebuilding entire structures within the same physical area (footprint).

D. Per Unit Costs. The cost of improvements to more than one General PP&E asset as identified by a unique identifier, when performed under a single contract or work order and that cannot be specifically identified by asset, shall be capitalized only if the allocated cost per General PP&E asset equals or exceeds the DoD capitalization threshold. When more than one improvement is made to a single building and the improvements are part of one overall effort to increase the building's capacity, size, or useful life; the sum of the costs of the improvements shall be capitalized, if the summed costs equal or exceed DoD capitalization threshold. This is required even when the improvements are funded separately. Once a determination has been made that the aggregate costs of the improvements will be capitalized, each improvement should be capitalized and depreciation placed in service.

***** E. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060205. Depreciation

***** A. General. DoD General PP&E assets are those assets that have a recorded cost (see 060201.B) that equals or exceeds DoD capitalization threshold and have a useful life or two years or more--often called "capital assets" or "fixed assets." DoD General PP&E includes all capital assets that are not Heritage Assets or Stewardship Land. DoD General PP&E shall be capitalized and, with the exception of land and land rights of unlimited duration, shall be depreciated. Land rights that are for a specified period of time shall be amortized (depreciated) over that time period. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, shall be reflected in DoD financial statements. Accounting entries for depreciation accounts are specified in the ***USSGL SFIS Transaction Library***.

B. Definition of Depreciation for Military Equipment. Depreciation is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life. Estimates of useful life of military equipment must consider factors such as usage, physical wear and tear and technological change.

C. Method of Depreciation. Department of Defense policy permits the use only of the straight-line method of depreciation, except for military equipment. For military equipment, an activity-based method of depreciation, which recognizes the change in an asset's value as a result of use rather than time, may also be used.

D. Salvage Value. The salvage value, also known as the residual or scrap value, is the amount that would be expected to be obtained from selling the asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoD Component. Typically, personal property (e.g., vehicles, ADP and equipment) will not have a salvage value. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. For purposes of computing depreciation, military equipment and real property assets (e.g., buildings, facilities and structures) do not have salvage values.

E. Depreciable Basis. The depreciable basis of a General PP&E asset is the recorded cost reduced by the asset's salvage value, if such salvage value exceeds 10 percent of the asset's cost. If the salvage value is 10 percent or less of the asset's cost, the salvage value is not considered material for purposes of calculating depreciation, and therefore, should not be considered when determining the depreciable basis. (In other words, if the salvage value is less than or equal to 10 percent of the asset's cost, the depreciable basis should be the same as the recorded cost.) Land is not subject to depreciation. Land rights that are for a specified period of time shall be amortized over the specified time period. When land and a building are purchased together, the depreciable basis for the building is the total purchase cost less the actual cost, or estimated value of the land.

F. Useful Life. For purposes of computing depreciation on DoD General PP&E assets, specific recovery periods are prescribed. Table 6-1 reflects the recovery periods to be used for DoD General PP&E, except for military equipment. With respect to military equipment:

1. Depreciation of military equipment and the estimated useful life for military equipment will be based on data provided by the military equipment Program Managers and valued by the OUSD (AT&L) Property, Plant and Equipment Policy Office.

2. Proper supporting documentation must be retained by the program office to justify the estimated useful life of the program. Examples of proper documentation are engineering estimates, operational requirements documents, mission needs statements, commercial industry-equivalent information, contracts, and acquisition documents (such as the Select Acquisition Report).

G. Commencement of Depreciation. In the case of tangible assets, the event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document or the date installed and placed in service (regardless of whether it is actually used). In the case of constructed PP&E, the costs of constructing the PP&E shall be recorded as construction in progress until it is placed in service, at which time the balance (total construction costs) shall be transferred to General PP&E in accordance with the tables presented in Section 060105.A.2.b. For real property assets, depreciation shall commence when the facility is placed in service, regardless of whether the facility is fully occupied or in use. The actual commencement of depreciation shall be based on either of the following methods:

1. Month Available for Service Method. Under the Month Available for Service Method, the month the asset was available for use, regardless of whether it was actually used, is the month used to commence the calculation of depreciation expense for the first year.

2. Mid-Year Convention Method. Under the Mid-Year Convention Method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life, regardless of the actual month the asset was placed in, or removed from, service.

H. Excess of Useful Life. If an asset remains in use longer than its estimated useful life, it shall be retained in the accountable property system of record, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

I. Calculation of Depreciation. Except for military equipment, depreciation expense shall be calculated and accumulated using the straight-line method based on the recorded cost less salvage value and divided equally among accounting periods during the asset's useful life based on recovery periods in Table 6-1. Salvage value will be used in the calculation only if it exceeds 10 percent of the cost of the asset. Depreciation of military equipment and the estimated useful life for military equipment will be based on data provided by the military equipment Program Managers and valued by the OUSD (AT&L) Property, Plant and Equipment Policy Office.

J. Recovery Periods. Table 6-1 prescribes the recovery periods (useful lives) that shall be used for depreciable General PP&E assets.

TABLE 6-1 DOD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS

DoD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS (Excludes Military Equipment and Heritage Assets)	
Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks and Buses); ADP Systems and Hardware (Computers and Peripherals); High Tech Medical Equipment; Equipment used in Research, Development, Test and Evaluation (RDT&E); Radio and Television Broadcasting Equipment; and Software Improvements to 5-Year Recovery Period Property (Personal Property)	5 Years*
All Other Equipment, Machinery and Software** Improvements to 20-Year Recovery Period Property	10 Years
Vessels, Tugs, Barges and Similar Water Transportation Equipment (Non-Military Equipment vessels/ships) Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more), Sewers and Other Utilities (including such things as fiber optic cable) Fences, Roads, Bridges, Towers, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities and Other Real Property Structures. Improvements to 40-Year Recovery Period Property	20 Years

Buildings, Hangers, Warehouses, Fuel Storage Buildings, Air Traffic Control Towers, and Other Real Property Buildings	40 Years
Improvements to Leased Buildings and Other Real Property (Leasehold Improvements)	Remainder of Lease Period or 20 Years Whichever Is Less
Land Rights of Limited Duration	Over the Specified Duration

* A recovery period of less than 5 years is permitted when the acquiring DoD Component is certain that the useful life of an asset is at least 2 years but less than 5 years. In such circumstances, the recovery period shall be the known useful life (2-4 years, as appropriate).

** Depending on the nature of the software, it may be depreciated over a period of less than 5 years, 5 years or 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

K. Recovery Period of Less Than Five Years. If a DoD Component determines that a newly acquired General PP&E asset costing more than the DoD capitalization threshold has a useful life of at least 2 years, but less than 5 years, the Component can elect to depreciate the asset over a recovery period that more accurately reflects its useful life (2-4 years, as appropriate). The DoD Component making this election must document the basis for that decision and cannot change the recovery period once depreciation/amortization has been started.

L. Disposal of Depreciable PP&E

1. General PP&E shall be removed from general PP&E accounts and transferred to Other General PP&E (Account 1890) along with associated accumulated depreciation/ amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. The net realizable value amount is defined as the expected earnings from the disposal of a real property asset less any costs necessary to complete and dispose of the asset. 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.

2. General PP&E assets that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. See 060205.M for further guidance. The triggering event for disposal is the time/date the asset no longer provides service in the operations of the entity and is identified for disposal. Depreciation/amortization of General PP&E assets will stop on this date. This date

shall also represent the date on which the General PP&E asset and its associated depreciation/amortization and accumulated depreciation/amortization are no longer reported under the General PP&E account on the financial statements and the depreciation/amortization calculation is discontinued.

3. The disposal start date is defined as the calendar date of a legally enforceable and recognizable obligation to complete the disposal action or the date the operation has ceased, whichever comes later. On this date, the asset is no longer depreciated, its book value is removed from the financial records, and the corresponding gain/loss from disposition is recorded. For demolitions, this represents the demolition contract's start date. For transfers and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident.

4. The Disposal Total Proceed Amount is the total amount of money or other consideration received from the disposal of the General PP&E asset. The difference between this amount and the net book value at the time of disposal is recorded as gain or loss. This value must be assigned to each disposal property.

5. General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use. This policy is applicable to WCF activities and also applies to General PP&E sent to a depot for temporary storage. Depreciation shall cease on General PP&E assets awaiting disposal that are damaged, obsolete, or excess (assets no longer providing the intended service to the entity's operation) or are retired before their intended disposal date based on useful life.

M. Other General PP&E (Account 1890)

1. When a General PP&E asset is identified for other than normal removal from service, such as would be the case for assets that are part of a Base Realignment and Closure (BRAC) or an asset identified as not serving its intended purpose and awaiting disposal actions, the asset shall be removed from the PP&E accounts, along with its associated accumulated depreciation/amortization and be recorded in the Other General PP&E account (1890) at its net realizable value (NRV). Oftentimes the NRV will be zero. Any difference between the book value of the PP&E asset and its expected NRV shall be recognized as a gain or loss in the period of adjustment. For assets that are part of BRAC, the disposal date is the operation closure date as established by BRAC law.

2. The Disposal Net Realizable Value Amount is defined as the expected earnings from the disposal of a real property asset less any costs necessary to complete and dispose of the asset. The net realizable value is used for assets that will be held for a period of time and disposed of at a future date such as those properties that are part of a BRAC or declared as excess under a special legislation. The net realizable value is an accounting method used to calculate the present value of future earnings the asset is expected to generate, less the cost of owning, holding, developing, and operating the asset. For special legislation (BRAC) properties, the difference between this amount and the net book value at the time a property is identified for disposal is used to post GL account 7110 (Gains on Disposition of Assets-Other) or

7210 (Losses on Disposition of Assets-Other). The Disposal Start Date must calculate this value.

3. The Other General PP&E account shall not be used to record assets that have been removed from service and sent to a depot for storage with the intent to use the assets again in the future or for other assets taken out of service on a temporary basis. Those assets shall remain recorded in the appropriate general ledger account and shall continue to be depreciated. Normal disposal transactions shall not be processed through account 1890 and shall not be accounted for using account 5730, Financial Sources Transferred Out Without Reimbursement.

* 4. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060206. Assets Under Capital Lease (Account 1810)

A. Definitions

1. Lease Term. For non-operating leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

2. Noncancelable. Noncancelable means the lease is cancelable only on the occurrence of a remote contingency. Funds that are not appropriated by the Congress in future years to cover the lease are considered a remote contingency.

3. Bargain Purchase Option. A lessee’s option to purchase leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that, at inception of the lease, makes the exercise of the option reasonably assured.

4. Estimated Economic Life. The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

5. Minimum Lease Payments. The payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from the minimum lease payments.)

6. Fair Value. The price for which the property could be sold in an arm’s-length transaction between unrelated parties.

7. Interest Rate Implicit in the Lease. The discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

8. Renewal or Extension of a Lease. The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

B. The Assets Under Capital Lease account is used to record the present value of the leased asset and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes paid to the lessor under terms of the lease.

C. A lease conveys the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have capital or operating leases while lessors have sales-type, direct financing or operating leases. Capital, sales-type, and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee.

D. When a lease is a capital lease, the lessee shall record the applicable asset and liability at lease inception. The amount to be recorded under a capital lease is the present value of the rental property and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor. If the present value amount, however, exceeds the fair value of the leased property at the inception of the lease, the amount recorded shall be the fair value. If the executory costs portion of the minimum lease payments cannot be determined, the amount should be estimated. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. All other leases should be accounted for as operating leases with no balance sheet recognition.

E. Lessees shall classify a lease as a capital lease if one of the following four criteria is met:

1. The lease transfers ownership of the property to the lessee by, or at, the end of the lease term;

2. The lease contains an option to purchase the leased property at a bargain price (see paragraph 060206.A.3);

3. The lease term (non-cancelable portion plus all periods, if any, representing renewals or extensions that can reasonably be expected to be taken) is equal to or greater than 75 percent of the estimated economic life of the leased property; and

4. The present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of the minimum lease payments using the interest rate as of January 1 each year of the Treasury Instrument (bill, note or bond) that matches the term of the lease (for example, the interest rate for a 12.5-year capital lease would be the average of the interest rates for a 10-year T-Bill and a 15-year T-Bill) unless:

a. It is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor, and

b. The implicit rate computed by the lessor is less than the Treasury Instrument Rate.

F. The criteria cited in 060206.E.3 and 060206.E.4 , do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. (While leases with the GSA typically do not meet the capital lease criteria, if such a lease does meet the criteria it should be capitalized.)

G. If a lease does not meet at least one of the above four criteria, it should be classified as an operating lease. Operating leases of PP&E are leases in which the entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.

H. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability using the effective interest rate method. (Interest is calculated on the balance of the lease obligation for each period, and the remainder of the payment is applied as a reduction of the lease obligation.) The periodic payment amount allocated to interest expense shall be computed based on the interest rate used to compute the present value of minimum lease payments, unless the lease is recorded at fair value. For such leases, trial and error must be used to compute the interest rate for application to the balance of the lease obligation.

I. For leases with a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the amortization method in Volume 4, Chapter 7, paragraph 070207.F generally should result in a liability balance that will equal the amount of the guarantee or penalty at the end of the lease term. If a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised lease agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

* J. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060207. Accumulated Depreciation on Assets Under Capital Lease (Account 1819)

A. The Accumulated Depreciation on Assets Under Capital Lease account accumulates the annual/periodic depreciation expense for assets under capital lease. The depreciation recovery period (useful life) to be used to depreciate personal or real property acquired by a capital lease is the recovery period designated for the type of property indicated in Table 6-1, unless the lease period is less than the recovery period in the table. For example, if a capital lease is used to acquire a fire truck (which has a 5-year recovery period), then the fire truck would be depreciated over five years if the lease period is for at least five years. In the same example, if the lease period is only four years, the fire truck would be fully depreciated over four years.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements.

* C. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation. Financial record retention requirements for such vouchers are contained in Volume 1, Chapter 9. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060208. Leasehold Improvements (Account 1820)

* A. The Leasehold Improvement account is used to record the value of capitalized improvements to leased property. When leasehold improvements meet or exceed DoD capitalization criteria (see paragraph 060103.A.1.d), such improvements shall be capitalized and amortized for the remainder of the lease period or 20 years whichever is less. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

★ B. Accumulated Amortization on Leasehold Improvements (Account 1829). The account, Accumulated Amortization on Leasehold Improvements, is used to accumulate the periodic amortization expense for leasehold improvements. Sources for entries to this account include journal vouchers with work papers supporting the computation of the amounts to be amortized over the life of the lease. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060209. Internal Use Software (Account 1830)

A. Definition. Internal Use Software includes application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program that is used for operational or other internal use. Normally, software is an integral part of an overall system having interrelationships between software, hardware, personnel, procedures, controls, and data. Internal Use Software does not include software embedded in military equipment, nor does it include software used in Special Test Equipment. Internal Use Software is software that is:

1. Purchased from commercial off-the-shelf (COTS) vendors or ready for use with little or no changes;

2. Developed by employees of DoD, including new software and

existing or purchased software that is modified with or without a contractor's assistance;

3. Contractor-developed software that DoD paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software; and

4. Includes acquisition, finance, logistics, personnel or other business related systems.

* B. Recognition, Measurement. Internal Use Software is recognized and capitalized if it has a useful life of two years or more, provides a significant increase in functionality that is visible to the user (in the case of enhancements) and the cost of the software or enhancement equals or exceeds DoD capitalization threshold. An upgrade is not necessarily a capital improvement. If an upgrade modernizes an operating system, it is normally expensed since the user does not see a significant increase in functionality. As development work accumulates, the costs will be entered into an Internal Use Software In Development account (Account 1832). When the software is accepted, the accumulated costs shall be removed from this "In Development" account, and the cost of the software or enhancement shall be transferred to the Internal Use Software account (Account 1830). Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

1. COTS Software. The capitalized cost of COTS software shall be the actual purchase price, plus any costs incurred for implementation.

2. Contractor-Developed Software. The capitalized cost of contractor-developed software shall include the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred for implementation.

3. Internally Developed Software. The capitalized cost of internally developed software shall include the full cost (direct and indirect costs) incurred during the software development phase. Full cost includes the costs of new software (e.g., contract cost, salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation. The development of technical documentation and manuals is capitalized. The costs of mass-producing manuals are expensed. Project management (direct labor) costs are those cost specifically associated with a particular project and is capitalized. Program management (indirect labor) costs are labor costs associated with an entire program consisting of several individual projects. The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition project shall be expensed or capitalized depending on their materiality to overall costs of individual software development projects and each phase and/or preponderance of development or acquisition work. Capitalized costs shall be limited to costs incurred after the preliminary design phase. Table 6-2 provides a matrix of software acquisition and development costs and provides additional guidance regarding whether such costs will be expensed or

capitalized. The various types of costs incurred during software acquisition and development are explained below:

(a) Direct Labor Costs. Direct labor costs are typically the labor costs of project teams (e.g. programmers, engineers, managers) and are capitalized as part of the costs of the software project. Direct labor costs shall be tracked by project managers and/or program managers and allocated to individual software projects. The allocation methodology must be consistent between projects and must be auditable.

(b) Indirect Labor Costs. Indirect labor costs are typically the labor costs associated with the Program Management Office (PMO) personnel responsible for overseeing more than one software project. In many instances, PMO indirect labor costs are immaterial when compared with the overall costs of a software project, and if determined to be immaterial, will be expensed. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall costs of individual software development projects and 2) in which phase the costs were incurred. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented and must stand up to audit scrutiny. If indirect labor costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(c) Overhead Costs. Overhead costs are those costs associated with utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a software project and if determined to be immaterial, will be expensed. Decisions regarding the materiality of overhead costs when such costs are to be expensed must be justified, documented, and must stand up to audit scrutiny. If overhead costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(d) Contractor Costs. Contract costs must be evaluated to determine whether the costs are to be expensed or capitalized. Such determination is based on the type of work performed by the contractors. Table 6-2 provides a breakdown of the various work activities and whether the cost of such activities must be expensed or capitalized.

TABLE 6-2 SOFTWARE ACQUISITION PHASES

PRELIMINARY DESIGN PHASE	SOFTWARE DEVELOPMENT PHASE	POST-IMPLEMENTATION/ OPERATIONAL PHASE
EXPENSE COSTS	**CAPITALIZE COSTS**	**EXPENSE COSTS**
Activities: • Determination of existence of needed technology • Conceptual formulation of alternatives • Evaluation and testing of alternatives • Final selection of alternatives	Activities: • Design of chosen path, including software configuration and software interfaces • Coding • Technical documentation • Development of user manuals • Installation on hardware • Testing, including parallel processing • Training development	Activities: • Data conversion (includes cleansing, deleting, and repackaging data) • Application maintenance • Implementation assistance (e.g., troubleshooting, system analysis, producing and printing users manuals desk procedures, and similar support to the project's customers)
This phase includes all actions leading to source selection of a COTS or other commercial source. For internally developed software, this phase includes all actions prior to System Requirements Specification (SRS).	Software development starts after the Preliminary Design Phase and includes all development actions such as design, programming, and installation.	Post-implementation includes all operational testing and evaluation, as well as other functional testing conducted after technical acceptance and includes costs incurred to make customer ease of use changes.
PROGRAM MANAGEMENT The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition are indirect costs. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall cost of individual software development projects and 2) in which phase the costs were incurred.		

4. Software Developed by One Activity and Used by Others Without Reimbursement. Software that is developed by one activity and used by another activity or activities without reimbursement shall be capitalized and depreciated by the developing activity (if it meets the capitalization criteria). For example, if the Tricare Management Activity (TMA), of the Defense Health Program, develops software (that meets the capitalization criteria) and installs the software at multiple DoD medical treatment facilities, the TMA shall capitalize and depreciate the software. The cost of the software shall not be allocated to the using activities.

C. Data Conversion Costs. All data conversion costs incurred for internally developed, contractor developed or COTS software shall be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new/or additional data.

D. Costs Incurred After Final Acceptance Testing (Cutoff). Costs incurred after final acceptance testing has been successfully completed shall be expensed. Acceptance testing is that testing undertaken to verify if a software product meets specifications. Operational testing and evaluation and other functional testing conducted to ease customer use after technical acceptance shall be expensed. When the software is to be installed and capitalized at multiple sites, the capitalization phase ends after acceptance testing is complete at each of those sites.

E. Integrated (Embedded) Software. Computer software that is integrated into (embedded) and necessary to operate equipment (rather than perform an application) shall be considered part of the equipment of which it is an integral part and capitalized and depreciated as part of the cost of equipment (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software shall be used to determine whether to capitalize or expense the costs.

F. Bundled Products and Services. The cost of software purchased as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements) shall be allocated as capitalizable and non-capitalizable (expensed) costs based on a reasonable estimate of the value of the individual products or services. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.

G. Bulk Purchases of Software. Bulk purchases of software programs and modules or components of a total software system that individually meet DoD capitalization threshold shall be capitalized. If the per item cost of a bulk purchase (e.g., numerous copies of spreadsheets and word-processing programs) does not meet DoD capitalization threshold, the bulk purchase shall be expensed in the period acquired.

H. Enhancements

1. The acquisition cost of enhancements to existing Internal Use Software (and modules thereof) shall be capitalized when such costs exceed DoD capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. For example, if existing software is modified for making ad hoc queries, the cost shall be capitalized if it exceeds the capitalization threshold. The cost of routine or minor changes or modernizations that do not significantly add functionality shall be expensed in the period incurred. Examples include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Also, the cost of enhanced versions of software for a nominal charge is expensed in the period incurred.

2. Enhancements normally require new software specifications and may require a change of all or part of the existing software specifications as well.

3. The cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding new capabilities shall be expensed. This includes updating the technical platform of a system.

I. Impairment

1. Post Implementation/Operational Software

a. Impairment shall be recognized and measured when one of the following occurs and is related to post implementation/operational software and or modules, thereof:

(1) The software is no longer expected to provide substantive service potential and will be removed from service.

(2) A significant reduction occurs in the capabilities, functions or uses of the software (or a module thereof).

b. If the impaired software is to remain in use, the loss due to impairment shall be measured as the difference between the book value and either:

(1) The cost to acquire software that would perform similar remaining functions (e.g., the unimpaired functions) or, if that is not feasible;

(2) The portion of the book value attributable to the remaining functional elements of the software. The loss shall be recognized upon impairment, and the book value of the asset reduced accordingly. If neither (a) nor (b) above can be determined, the book value shall continue to be amortized over the remaining useful life of the software.

c. If the impaired software is to be removed from use, the loss due to impairment shall be measured as the difference between the book value and the net realizable value (NRV), if any. Typically, the NRV will be zero (0). The loss shall be recognized upon impairment and the book value of the asset reduced accordingly. The NRV, if any, should be transferred to an appropriate asset account until such time as the software is disposed of and the amount is realized.

2. Termination of Software Under Development. When it is determined that software under development (or a module thereof) will not be completed and placed in service, the related book value accumulated for the software (or the balance in a work-in-process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized. The following are indications of this:

a. Expenditures are neither budgeted nor incurred for the project;

b. Programming difficulties cannot be resolved on a timely basis;

c. Major cost overruns occur;

d. Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project;

e. Technologies that supersede the developing software product are introduced; or

f. The responsibility unit for which the product was being created is being discontinued.

J. Amortization/Depreciation

1. Software that is capitalized shall be amortized/depreciated as provided for in this chapter. The DoD Standard Recovery Period used for depreciation shall be consistent with that used for planning the software's acquisition. See Table 6-1, "DoD Recovery Periods for Depreciable General PP&E Assets" for the specific recovery periods (useful lives) for software.

2. For each module or component of a software project, amortization/depreciation should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization/depreciation of that module shall begin when both that module and the other module(s) have successfully completed testing.

3. When Internal Use Software is replaced with new software, the undepreciated cost of the old software shall be expensed when the new software successfully completes testing. No adjustments will be made to the previously recorded amortization/depreciation. Any additions to the book value or changes in useful life should be treated prospectively. The change should be accounted for during the period of the change and future periods.

4. Internal Use Software must be accounted for in an automated property accountability system.

5. Figure 6-2 provides a decision tree to assist in determining if an Internal Use Software project shall be capitalized.

K. Disclosures. Financial statement disclosures required for Internal Use Software are the same as that for other General PP&E. Thus, the following should be disclosed in the financial statements:

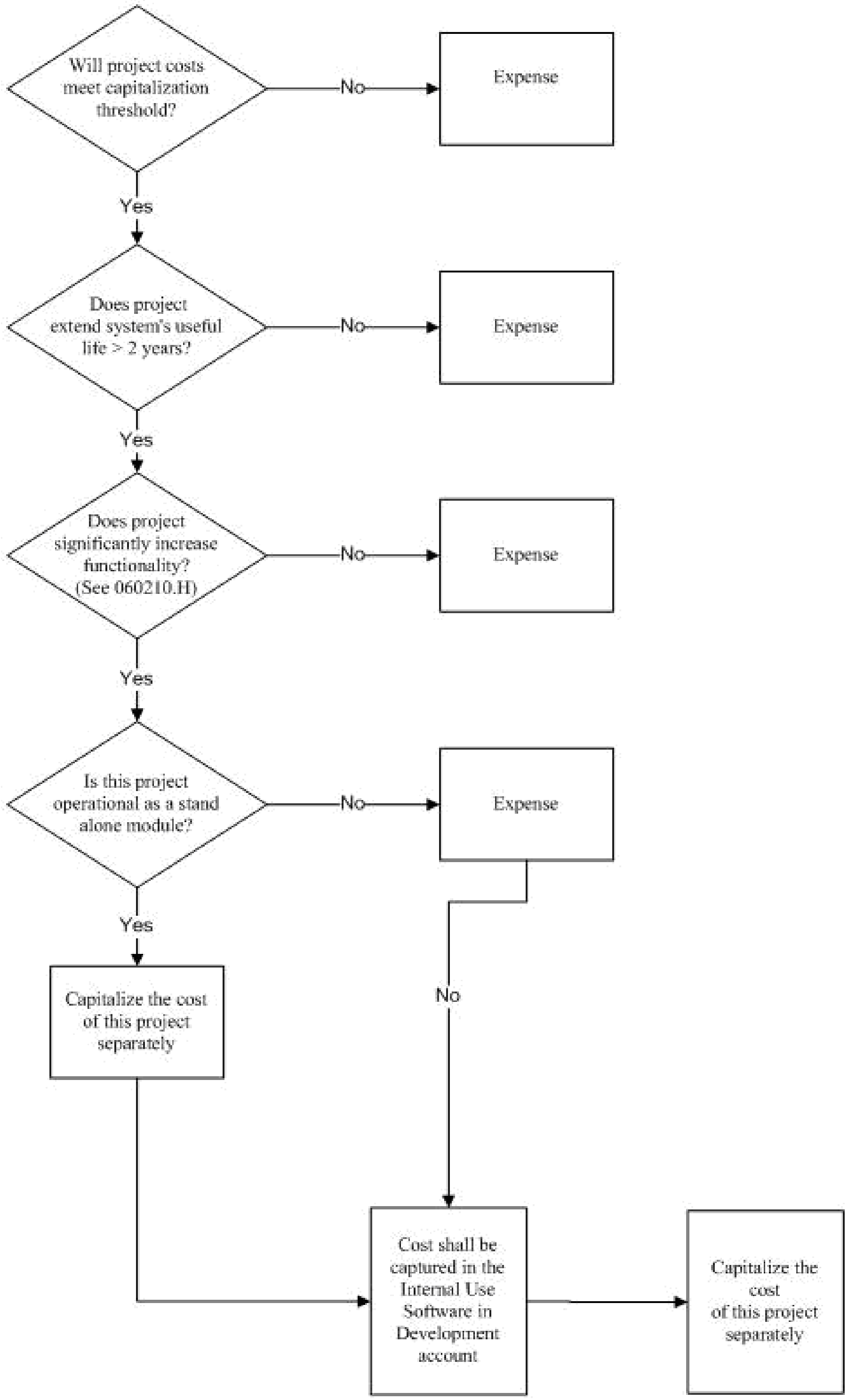
1. The cost, accumulated depreciation, and net book value.

2. The estimated useful life.

3. The method of depreciation (straight-line).

* L. Accounting Entries. Internal Use Software Account 1830 shall be used to record the cost of Internal Use Software. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

FIGURE 6-2 INTERNAL USE SOFTWARE CAPITALIZATION DECISION TREE



0603 ACCOUNTING FOR STEWARDSHIP PP&E

060301. General

A. Stewardship PP&E is property owned by DoD that meets the definition of one of the following two categories:

1. Heritage Assets. PP&E of historical, natural, cultural, educational or artistic significance (e.g., aesthetic); or with significant architectural characteristics. Heritage Assets are expected to be preserved. Heritage Assets consist of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. The nature of these items, however, differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.

2. Stewardship Land. Land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost.

B. The Statement of Federal Financial Accounting Standards 29 (SFFAS 29) reclassifies the reporting of all Heritage Assets and Stewardship Land from Required Supplemental Stewardship Information (RSSI) to basic information in the financial statements. The standard requires that entities reference a note on the balance sheet that discloses information about Heritage Assets and Stewardship Land, but does not require the reporting of acquisition cost. This standard is effective for reporting periods beginning after September 30, 2005.

C. The costs of acquiring Heritage Assets (except for Multi-Use Heritage Assets) and Stewardship Land are expensed in the period incurred.

060302. Heritage Assets

A. Heritage Assets are PP&E that are unique for one or more of the following reasons:

1. historical or natural significance;

2. cultural, educational, or artistic (e.g., aesthetic) importance; or

3. significant architectural characteristics.

B. Heritage Assets are generally expected to be preserved indefinitely.

C. The cost or value should not serve as a precursor when deciding if an item should be classified as a Heritage Asset. DoD Components should refer to published registers, and their own judgment, when making this assessment. Designation of a PP&E item as a heritage asset can be done at any time in its life-cycle, based on application of evaluation criteria. DoD Components should assess the importance of an item relative to the ideals of the nation, its citizens and institutions. Display equipment, defined as old or obsolete military equipment which is not considered to warrant museum-level heritage significance, but is on outside display at military installations, is not a Heritage Asset. Similarly, a park bench dedicated to the memory of a person or group is not considered a Heritage Asset. Historic significance may be identified if a property/asset meets at least one of the following criteria used by the National Register of Historic Places as determined by the relevant DoD Component with concurrence by the relevant State Historic Preservation Officer, or as determined by the Keeper of the National Register:

1. Association with historic events or activities (e.g., battles, development of military technology, prehistoric cultural patterns);

2. association with important persons (e.g., important military leaders, political leaders, inventors);

3. distinctive design or physical characteristics (e.g., work of a master architect, landscape architect, planner, or engineer; work representative of a particular approach to military design or a particular type or style of architecture or engineering; a formative example of standardized planned military housing); or

4. potential to provide important information about prehistory or history (e.g., an archeological site on a military installation).

D. Heritage Assets may in some cases serve two purposes: (a) a heritage function and (b) a government operations function. In cases where a Heritage Asset serves two purposes, the Heritage Asset shall be considered, and classified as, a Multi-Use Heritage Asset. An example of a Multi-Use Heritage Asset is the Pentagon, which has been listed on the National Register of Historic Places and also is used as an office building. The full cost of acquisition, betterment or reconstruction of assets classified as Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated. If a Heritage Asset is not predominantly used in general government operations, it shall be referred to, or classified as, a Heritage Asset and shall not be capitalized as General PP&E.

060303. Recognition and Measurement

A. Heritage Assets

1. The cost of acquiring, improving, reconstructing, or renovating Heritage Assets, other than Multi-Use Heritage Assets, shall be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. The cost shall include all costs incurred to bring the asset to its current condition and location.

2. Except for assets classified as Multi-Use Heritage Assets, no amounts for Heritage Assets acquired through donation or devise (a will or clause of a will disposing of property) shall be recognized in the cost of Heritage Assets.

3. Transfers of Heritage Assets, except for Multi-Use Heritage Assets, from one component to another do not affect the net cost of operations or net position of either component. In some cases, assets included in General PP&E may be transferred to a component for use as Heritage Assets. In this instance, the transferring component should recognize a transfer-out of capitalized assets.

B. Multi-Use Heritage Assets

1. The costs of acquisition, improvement, or reconstruction of Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated if the costs equal or exceed DoD capitalization threshold. Such Multi-Use Heritage Assets shall be depreciated over their useful life or the period of time they are expected to be used in government operations, whichever is shorter.

2. Assets classified as Multi-Use Heritage Assets and acquired through donation or devise shall be recognized as General PP&E at the fair value of the assets at the time received and the amount shall also be recognized as non-exchange revenues on the Statement of Financing.

3. Transfers of Multi-Use Heritage Assets from one Federal entity to another are transfers of capitalized assets. The receiving entity shall recognize a transfer-in as an additional financing source and the transferring entity shall recognize a transfer-out. The value recorded should be the transferring entity's book value of the Multi-Use Heritage Asset. If the receiving entity is not provided the book value, the Multi-Use Heritage Asset shall be recorded at its estimated fair value.

060304. Disclosures

DoD Components with Heritage Assets should reference a note on the balance sheet that discloses information about Heritage Assets. See Volume 6B for the specific reporting requirements.

060305. Stewardship Land

The following are definitions of Stewardship Land:

A. Land and land rights owned by the Federal Government but not acquired for, or in connection with, items of General PP&E is Stewardship Land.

B. "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.

C. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources) related to land.

D. Land and land rights owned by DoD, or DoD Component, and acquired for or in connection with items of General PP&E shall be accounted for and reported as General PP&E.

E. Land rights are interests and privileges held by DoD, or DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

F. Land and land rights owned by DoD, or DoD Component, but not acquired for or in connection with items of General PP&E shall be reported as Stewardship Land. Land that is standing idle and not used to fulfill mission responsibilities is Stewardship Land. Such land generally should be viewed as an independent, stand-alone asset and not an integral part of operations.

G. Without exception, all land provided to the Department from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E.

060306. Recognition and Measurement

Land classified as Stewardship Land shall be reported as basic information within the financial statements of the DoD Component responsible for such land. The cost of the acquisition of Stewardship Land shall be recognized on the Statement of Net Cost for the period in which the cost is incurred. The cost should include all costs to prepare Stewardship Land for its intended use (e.g., razing a building). In some cases, land may be acquired along with existing structures. The following treatments shall apply:

A. If the structure would be deemed a heritage asset and is significant in and of itself, the DoD Component shall use its judgment as to whether the acquisition cost shall be treated as the cost of Stewardship Land, Heritage Asset or both.

B. If the structure is to be used in operations (e.g., as General PP&E), but

1. the value of the structure is insignificant, or

2. its acquisition is merely a byproduct of the acquisition of the land, the cost in its entirety shall be treated as an acquisition of Stewardship Land.

C. Significant structures that have an operating use (e.g., a constructed hotel or employee housing block) should be treated as General PP&E by identifying the cost attributable to General PP&E and segregating it from the cost of Stewardship Land acquired.

D. Amounts for Stewardship Land acquired through donation or devise shall not be recognized in the cost of Stewardship Land.

E. Transfers of Stewardship Land from one component to another, does not affect the net cost of operations or net position of either entity. In some cases, land included in General PP&E may be transferred to a component for use as Stewardship Land. In this instance, the transferring component shall recognize a transfer-out of capitalized assets.

060307. Disclosures

DoD Components with Stewardship Land shall reference a note on the balance sheet that discloses information about Stewardship Land. See Volume 6B for the specific reporting requirements.

ANNEX 1 PREPONDERANCE OF USE POLICY

This section illustrates the preponderance of use policy as discussed in section 060105. B.

Case I: General Fund Military Services Criteria:

- Army is a tenant on an Air Force Installation.
- Army is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case II: General Fund Military Services Criteria:

- Army is a tenant on an Air Force Installation.
- Army is not the preponderant user of the facility
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case III: General Fund Defense Agency Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Reporting Defense Agency***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Reporting Defense Agency***

Case IV: General Fund Defense Agency Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case V: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*DLA*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	*DLA*

Case VI: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*Air Force*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	*DLA*

Case VII: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - DLA 50 percent - WCF
  - DeCA 30 percent - WCF
  - Air Force 20 percent- GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*DLA*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement - *DLA* *Air Force 20% share is reported by the preponderant user* - *DeCA*	*Amount per Entity* *$50,000 + $20,000* *$30,000*

Case VIII: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is NOT the preponderant user of the facility.
- Air Force is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - DLA 50 percent - WCF
  - DeCA 30 percent - WCF
  - Air Force 20 percent - GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*Air Force*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement	*Amount per Entity*
- DLA	*$50,000*
- DeCA	*$30,000*
- Air Force	*$20,000*

ANNEX 2 CONSTRUCTION-IN-PROGRESS COST MATRIX

Cost Type	Description
Cost of contract work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct cost of labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct cost of materials and supplies	The purchase price, the cost of inspection, and loading assumed by the carrier.
Cost of Supervision, Inspection, and Overhead (SIOH)	Support associated with the administration of contracts for facility projects. May include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Amount paid for packaging and storing the materials and supplies and equipment used in the construction project.
Cost of injuries and damages	Costs incurred as a result of injuries to people or property incurred directly as a result of the construction project.
Cost of legal and recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys. May include design reviews, environmental impact studies, and soil testing for the new construction projects.
Cost of facility and site preparation	Amounts paid to prepare the site for new construction, such as soil removal and restoration. Includes amount paid to prepare the asset for its intended use, such as installation of utilities in a facility.
Cost of installed equipment	Fixed equipment and related installation costs required for activities in a facility.
Cost of government furnished equipment or material (GFE, GFM)	An appropriate share of the cost of the government furnished equipment and material and facilities used in construction work.
Cost of donated assets	The fair market value of facilities and equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

ANNEX 3 CAPITAL IMPROVEMENT DEPRECIATION

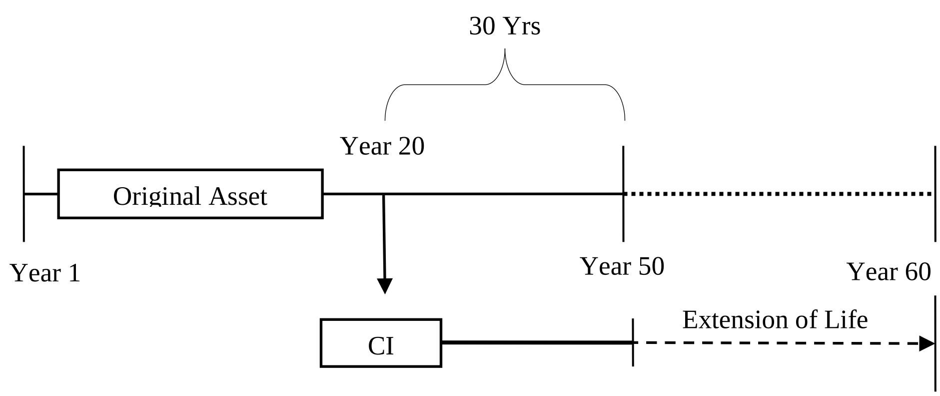
The following Cases I through VIII illustrate depreciation methodology for capital improvements more closely in compliance with the FASAB requirements.

Case I: The Capital Improvement <u>Extends</u> <u>the</u> <u>Useful</u> <u>Life</u> of Existing PP&E

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
(*Using the Straight Line Depreciation Method*)	
Remaining Useful Life After 20 Years (Yrs.)	
	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	
	$120,000
Capital Improvement – Year 20	
Capital Improvement Cost	$200,000
Useful Life of the Capital Improvement (Yrs.)	40
Impact on total useful life by the Capital Improvement	+10
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value* + *Capital Improvement Cost*	$320,000
Revised Remaining Estimated Useful Life (Yrs.): *30 + 10*	40
Revised Annual Depreciation Expense	$8,000

Examples – Extends the Useful Life:

Major replacements or reconstruction to restore facilities damaged by a natural disaster (i.e., reconstruction of a new building on an existing foundation).

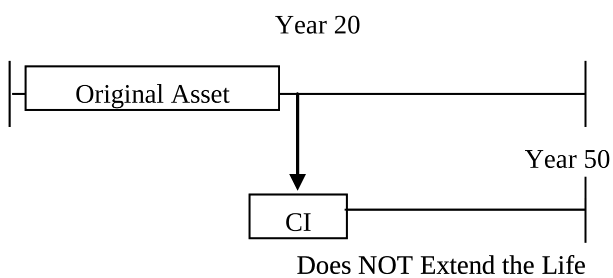


Case II: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, Efficiency, or Modifies the Functionality/Use

The improvement has the same expected useful life as *the remaining useful life of the* PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
(Using the Straight Line Depreciation Method)	
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Useful Life of the Capital Improvement (Yrs.)	30
Impact on total useful life by the Capital Improvement	0
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$220,000
Remaining Estimated Useful Life (Yrs.): *Unchanged*	30
Revised Annual Depreciation Expense	$7,300

Examples
Increase Capacity
Raising the roof of the warehouse to increase cubic feet.



Increase Size
Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency
Install building insulation.

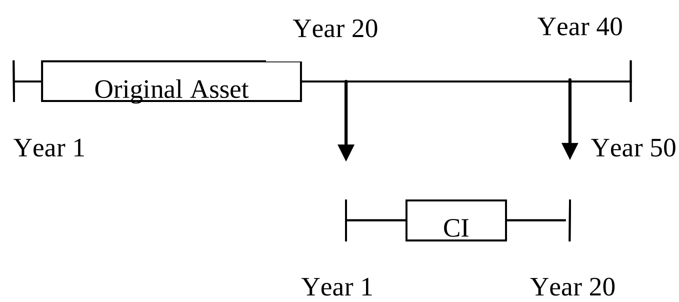
Modify Functionality
Convert an office to a warehouse.
Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.

Case III: The Capital Improvement Increases the General PP&E Asset's Capacity, Size and Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs.)	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 20	
Record I:	
Cost Baseline for Depreciation: *Net Book Value* of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs.)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: *Capital Improvement Cost*	$100,000
Estimated Useful Life of Capital Improvement (Yrs.)	20
Revised Annual Depreciation Expense	$5,000

Examples
Increase Efficiency
Install HVAC system where none existed.
Modify Functionality
Install elevator where none existed.

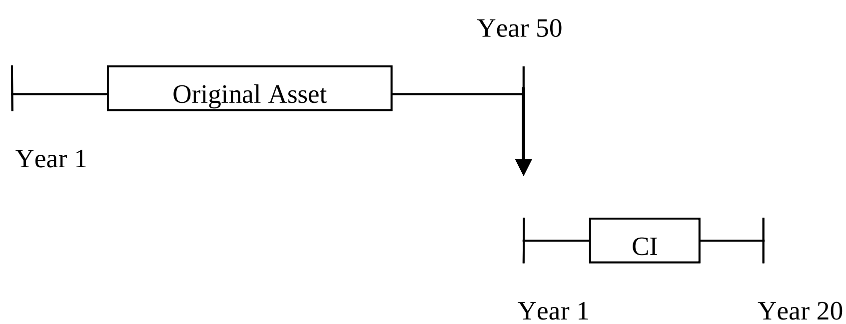


Case IV: The Original Asset Is Fully Depreciated

The capital improvement increases the original asset's size, capacity, and efficiency or modifies the functionality. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs.)	0
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	*$0*
Capital Improvement – Year 50	
Capital Improvement Cost	$100,000
Extension of the Useful Life of the Associated Asset	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 50	
Record I:	
Cost Baseline for Depreciation: *Net Book Value* of Facility	$0
Remaining Estimated Useful Life of Facility (Yrs.)	0
Revised Annual Depreciation Expense	$0
Record II:	
Cost Baseline for Depreciation: *Capital Improvement Cost*	$100,000
Remaining Estimated Useful Life (Yrs.)	20
Revised Annual Depreciation Expense	$5000

Examples
Increase Size
Extend utility system (e.g., power lines) to the previously un-served areas.
Modify Functionality
Construct office space within a warehouse

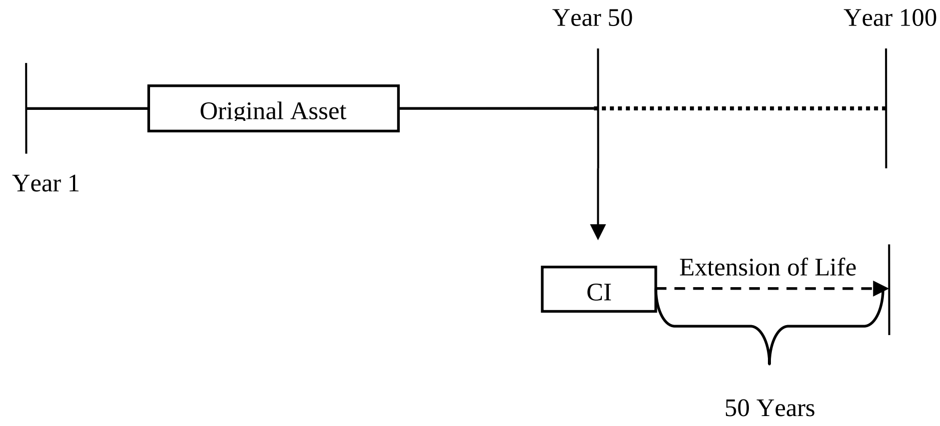


Case V: The Original Asset Is Fully Depreciated

The improvement (major renovation) extends the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs.)	0
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	*$0*
Capital Improvement – Year 50	
Capital Improvement Cost	$1,000,000
Extension of the Useful Life of the Associated Asset (Yrs.)	50
Depreciation Expense Baseline Starting In Year 50	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$1,000,000
Revised Remaining Estimated Useful Life (Yrs.): *0 + 50*	50
Revised Annual Depreciation Expense	$20,000

Examples
Extends the Useful Life
Pentagon renovation project.

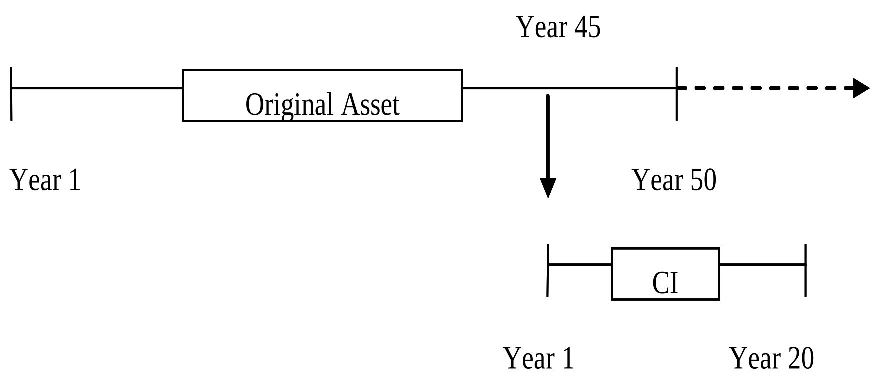


Case VI: The Capital Improvement Increases the General PP&E Asset's Capacity, Size and Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset. However, it is assumed that the original asset will continue to be used past its estimated economic life of 50 years.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 45 Years (Yrs.)	5
Accumulated Depreciation for 45 Years: 45*$4,000	$180,000
Net Book Value: $200,000 - $180,000	*20,000*
Capital Improvement – Year 45	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs.)	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 45	
Record I:	
Cost Baseline for Depreciation: Net Book Value of Facility	$20,000
Remaining Estimated Useful Life of Facility (Yrs.)	5
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs.)	20
Revised Annual Depreciation Expense	$2,500

Examples
Increase Efficiency
Install HVAC system
where none existed.
Modify Functionality
Install elevator
where none existed.



Case VII: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, and Efficiency or Modifies the Functionality/Use

The capital improvement is funded by the WCF activity that is not the preponderant user of the facility improved. The associated asset will be reported by the preponderant user of that facility when the capital improvement is reported and depreciated by the WCF activity funding that improvement.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 20	
Record I:	
Reported by the Preponderant User	
Cost Baseline for Depreciation: Net Book Value of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs.)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Reported by the WCF Activity (*Not a Preponderant User*)	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs.)	20
Revised Annual Depreciation Expense	$2,500

Examples:
Increase Capacity
Raising the roof of the warehouse to increase cubic feet.

Increase Size
Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency
Install building insulation.
Install HVAC system where none existed.

Modify Functionality
Convert an office to a warehouse.
Construct office space within a warehouse.
Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.
Install

ANNEX 4: REAL PROPERTY FINANCIAL REPORTING COMMON BUSINESS SCENARIOS

This annex depicts common business scenarios and illustrates the implementation of this policy for reporting real property and associated costs, including the imputed costs to be reported on the receiving entities financial statements.

Scenario One

1. The accountable entity funded acquisition of the asset.
2. The accountable entity funds the sustainment, operation, and capital improvements to the asset.
3. The asset is solely used/occupied by receiving entity(ies).
4. The receiving entity(ies) does not reimburse the accountable entity for use of the asset.

Financial Reporting Component	**Acquisition Cost (Capitalized) & Depreciation Expense**	**Sustainment Cost (Expensed)**	**Operation Cost (Expensed)**	**Capital Improvement Cost (Capitalized) & Depreciation Expense**
Accountable Entity	1) Asset Acquisition Cost 2) Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity(ies) *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Imputed Cost for Sustainment	Imputed Cost for Operation	Imputed Cost for Capital Improvements and associated Depreciation Expense

Scenario Two

1. The accountable entity funded acquisition of the asset.
2. The receiving entity(ies) funds operation and sustainment (either through direct payment or reimbursement).
3. The receiving entity(ies) funds capital improvements.
4. The asset is solely occupied/used by the receiving entity(ies).

Financial Reporting Component	**Acquisition Cost (Capitalized) & Depreciation Expense**	**Sustainment Cost (Expensed)**	**Operation Cost (Expensed)**	**Capital Improvement Cost (Capitalized) & Depreciation Expense**
Accountable Entity	1) Asset Acquisition Cost 2) Acquisition Depreciation Expense			
Receiving Entity(ies) *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense

Scenario Three

1. An entity other than the accountable entity funded acquisition of the asset.
2. The original acquisition funding entity funds operation and sustainment (either through direct payment or reimbursement).
3. The original acquisition funding entity funds capital improvements.
4. Asset is solely occupied/used by the original acquisition funding entity.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense

Scenario Four

1. An entity other than the accountable entity funded acquisition of the asset.
2. The original acquisition funding entity funds operation and sustainment (either through direct payment or reimbursement).
3. The original acquisition funding entity funds capital improvements.
4. The asset is occupied/used by the original acquisition funding entity and a receiving entity.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity *(Proportionate to entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements

Scenario Five

1. The accountable entity funded acquisition of the asset.
2. The asset is solely occupied/used by two receiving entities (A & B).
3. Entity A funds operation and sustainment (either through direct payment or reimbursement) without any reimbursement from Entity B.
4. The accountable entity funds capital improvements without reimbursement from either receiving entity.

Financial Reporting Component	**Acquisition Cost (Capitalized) & Depreciation Expense**	**Sustainment Cost (Expensed)**	**Operation Cost (Expensed)**	**Capital Improvement Cost (Capitalized) & Depreciation Expense**
Accountable Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense			1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity A *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Actual Sustainment Expenditure	Actual Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements
Receiving Entity B *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements

Scenario Six

1. The accountable entity funded acquisition of the asset.
2. The asset is solely occupied/used by two receiving entities (A & B).
3. The accountable entity funds operation and sustainment costs and is fully reimbursed by each receiving entity.
4. Both receiving entities fund capital improvements to the asset.

Financial Reporting Component	**Acquisition Cost (Capitalized) & Depreciation Expense**	**Sustainment Cost (Expensed)**	**Operation Cost (Expensed)**	**Capital Improvement Cost (Capitalized) & Depreciation Expense**
Accountable Entity	1) Actual Asset Acquisition Cost 2) Actual Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	
Receiving Entity A *(Proportionate to each entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Actual Sustainment Expenditure as Reimbursed	Actual Operation Expenditure as Reimbursed	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense
Receiving Entity B *(Proportionate to each entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Actual Sustainment Expenditure as Reimbursed	Actual Operation Expenditure as Reimbursed	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense

Scenario Seven

1. A Defense Agency or Activity other than an accountable entity funded the original acquisition.
2. The acquisition funding entity is no longer managing or utilizing the asset.
3. The asset is now solely utilized by two other entities (receiving entities A & B). Entity A manages the asset and is responsible for funding all of the operation and sustainment costs without reimbursement from Entity B.
4. Both entities fund capital improvements to the asset.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity				
Receiving Entity A	1) Actual Asset Acquisition Cost 2) Actual Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense
Receiving Entity B *(Proportionate to entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense

Scenario Eight

1. Two entities (acquisition funding entities) other than the accountable entity jointly fund acquisition of the asset.
2. The two acquisition funding entities jointly fund operation and sustainment.
3. The two acquisition funding entities jointly fund capital improvements.
4. The asset is solely occupied/used by the two acquisition funding entities (A&B).

Financial Reporting Component	**Acquisition Cost & Depreciation Expense (Capitalized)**	**Sustainment Cost (Expensed)**	**Operation Cost (Expensed)**	**Capital Improvement Cost & Depreciation Expense (Capitalized)**
Accountable Entity				
Acquisition Funding Entity (A) *(Proportionate to entity's share of funding.)*	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Acquisition Funding Entity (B) *(Proportionate to entity's share of funding.)*	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2)Actual Capital Improvement Depreciation Expense