OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
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20 SEP 2013

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
COMPTROLLERS/CHIEF FINANCIAL OFFICERS OF THE DEFENSE AGENCIES
COMPTROLLERS/CHIEF FINANCIAL OFFICERS OF THE DOD FIELD ACTIVITIES

SUBJECT: Elimination of Military Equipment Definition and Increase to Capitalization Thresholds for General Property, Plant and Equipment

Reference: Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "Military Equipment Definition," January 24, 2007

The law requires the Department of Defense (DoD) to assert full financial statement audit readiness by the end of Fiscal Year 2017. To do so, we must refocus our efforts regarding valuation of General Property, Plant and Equipment (GPP&E), including General Equipment (GE), Real Property, and Internal Use Software (IUS). To assist in this effort, please implement the following changes, effective October 1, 2013:

1. Combine Military Equipment (ME) (previously reported as a separate line item for GPP&E) and GE into a single category entitled "General Equipment." The current definition of ME, established in the referenced memo, is rescinded. An update to Note 10 of the financial statements will reflect this change.

2. Increase the capitalization threshold from $100,000 to $1 million for Department of the Air Force and Department of the Navy GE general fund assets. Increase the capitalization threshold from $100,000 to $250,000 for all IUS and other GE assets for all other general and working capital funds. These changes are prospective and apply to asset acquisitions and modifications/improvements accepted by DoD and placed into service October 1, 2013, and after.

3. Increase the capitalization threshold for Real Property from $20,000 to $250,000. These changes are prospective and apply to Real Property assets and modifications/ improvements to assets accepted by DoD and placed into service October 1, 2013, and after.

4. Conduct valuations using adequate supporting documentation (in accordance with the Financial Improvement and Audit Readiness (FIAR) Guidance) for all new GPP&E acquisitions accepted by DoD and placed into service October 1, 2013, and after. Report valuations in accordance with Federal Accounting Standards Advisory Board

Statement of Federal Financial Accounting Standards Number 6 (SFFAS No. 6). If business processes or systems limit full compliance with SFFAS No. 6, report values in accordance with SFFAS No. 35, where applicable.

5. For GPP&E assets acquired prior to October 1, 2013, with a remaining net book value (NBV) on or after September 30, 2017, review the valuation and compile adequate documentation to support the financial reporting of these assets. Complete valuation and supporting documentation for these assets before September 30, 2017. Fully depreciated assets require the same documentation and should be addressed only after establishing values for new acquisitions as well as those assets with a remaining NBV after September 30, 2017. Components should develop execution strategies and methodologies to satisfy this reporting requirement and incorporate these activities into their Financial Improvement Plans.

Our offices will address requirements for DoD intelligence agencies separately. At the earliest opportunity, we will also update the DoD Financial Management Regulation to reflect the changes. Until then, this memorandum stands as policy. The November 2013 revision of Wave 4 FIAR Guidance will incorporate valuation updates.

The changes identified above result from recent studies of financial data contained within the Department's financial statements, taking into consideration DoD's operating and financial reporting conditions. Periodic future reevaluations of the capitalization thresholds should help to satisfy financial reporting objectives and support DoD's mission.

Please direct GE questions and concerns to Mr. Steve Tkac at 703-697-586 or stephen.h.tkac.civ@mail.mil. Direct Real Property issues to Mr. Bob Coffman at 571-372-6840 or robert.a.coffman10.civ@mail.mil.

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