

**VOLUME 4, CHAPTER 24: “REAL PROPERTY”****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 version dated **June 2019** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo	The Deputy Chief Financial Officer policy memorandum, “Real Property Financial Reporting Responsibilities Policy Update (FPM #19-05),” dated March 15, 2019, was incorporated into the chapter and cancelled.	Cancellation
240204	Revised the accountability and financial reporting requirements for real property assets based on implementation of the Federal Accounting Standards Advisory Board Technical Bulletin 2017-2, “Assigning Assets to Component Reporting Entities.”	Revision
240205.F	Revised the accounting and financial reporting requirements for capital improvements.	Revision
240305.B	Added requirement that the management representation letter and the notes to the financial statements must include a disclosure related to the Department of Defense real property reporting policy.	Addition
Annex 5	Added illustrative examples, journal entries, and note disclosures relating to financial reporting responsibilities for real property.	Addition

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## CHAPTER 24

REAL PROPERTY

## 2401 GENERAL

## 240101. Overview

This chapter prescribes Department of Defense (DoD) accounting policy for real property, which is a subset of General Property, Plant, and Equipment (General PP&E).

A. Description. General PP&E, which includes real property, consists of tangible assets that:

1. Have an estimated useful life of two years or more;
2. Are not intended for sale in the ordinary course of operations; and
3. Are acquired or constructed with the intention of being used or being available for use by the entity.

B. Characteristics of Real Property. Real property items are used in providing goods or services, or support the mission of the entity, and typically have one or more of these characteristics:

1. The item 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;
2. The item is used in business-type activities which are defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue; and/or
3. The item 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).

C. Inclusions. Real property also includes:

1. Items acquired through capital leases, including leasehold improvements (see Chapter 26 for a discussion of accounting for real property acquired through leases);
2. Items under the accountability of the reporting DoD Component even though it may be in the possession of others (e.g., state and local governments, colleges and universities, or contractors);

3. Land, other than Stewardship Land that was specifically acquired for, or in connection with other General PP&E. See paragraph 240204 for election to expense land under Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50.

4. Land rights held by a DoD Component in land owned by others. See paragraph 240204 for election to expense land rights under FASAB SFFAS 50.

D. Examples. Real property examples include:

1. Real property including land, land rights, and facilities (includes buildings, structures, and linear structures) (addressed in this chapter);
2. Construction-in-progress (CIP) (addressed in this chapter);
3. Assets under capital lease (addressed in chapter 26); and
4. Leasehold improvements (addressed in this chapter).

E. Exclusions. Real property excludes items:

1. In which the DoD has a reversionary interest (for example, the DoD sometimes retains an interest in real property acquired with grant money in the event that the recipient no longer uses the real property in the activity for which the grant was originally provided and the real property reverts to the DoD); and
2. Classified as non-Multi-Use Heritage Assets or Stewardship Land (as described in Chapter 28).

240102. Purpose

This chapter prescribes DoD accounting policy for real property, a subset of General PP&E. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the [DoD USSGL Transaction Library](#). Unless otherwise stated, this chapter is applicable to all DoD Components, both General Fund and Working Capital Fund (WCF) activities.

240103. Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

A. FASAB Statement of Federal Financial Accounting Concepts ([SFFAC](#)) 5, “Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;”

- B. FASAB [SFFAC 7](#), “Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording;”
- C. FASAB [SFFAS 1](#), “Accounting for Selected Assets and Liabilities;”
- D. FASAB [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts;”
- E. FASAB [SFFAS 6](#), “Accounting for Property, Plant, and Equipment;”
- F. FASAB [SFFAS 23](#), “Eliminating the Category National Defense Property, Plant, and Equipment;”
- G. FASAB [SFFAS 29](#), “Heritage Assets and Stewardship Land;”
- H. FASAB [SFFAS 40](#), “Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment;”
- I. FASAB [SFFAS 42](#), “Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32;”
- J. FASAB [SFFAS 44](#), “Accounting For Impairment of General Property, Plant, and Equipment Remaining In Use;”
- K. FASAB [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35;”
- L. FASAB [SFFAS 55](#), “Amending Inter-entity Cost Provisions;”
- M. FASAB Technical Bulletin [\(TB\) 2017-2](#), “Assigning Assets to Component Reporting Entities;”
- N. FASAB Technical Release [\(TR\) 13](#), “Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment;”
- O. FASAB [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment;”
- P. FASAB [TR 15](#), “Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation;”
- Q. FASAB [TR 17](#), “Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment;”

- R. FASAB [TR 18](#), “Implementation Guidance for Establishing Opening Balances;”
- S. FASAB [Staff Implementation Guidance 23.1](#), “Guidance for Implementation of SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment: Classification of Items Formerly Considered National Defense PP&E;”
- T. FASAB [Staff Implementation Guidance 6.1](#), “Clarification of Paragraphs 40 – 41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as Amended;”
- U. Office of Management and Budget ([OMB Circular No. A-136](#)), “Financial Reporting Requirements;”
- V. DoD Directive ([DoDD 4165.06](#)), “Real Property;”
- W. [DoDD 5110.04](#), “Washington Headquarters Services (WHS);”
- X. DoD Instruction ([DoDI 1015.15](#)), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;”
- Y. [DoDI 4000.19](#), “Support Agreements;”
- Z. [DoDI 4165.14](#), “Real Property Inventory (RPI) and Forecasting;”
- AA. [DoDI 4165.70](#), “Real Property Management;”
- AB. [DoDI 4165.71](#), “Real Property Acquisition;”
- AC. [DoDI 4165.72](#), “Real Property Disposal;”
- AD. Treasury Financial Manual ([TFM Volume 1, Part 2, Chapter 4700](#)), “Federal Entity Reporting Requirements for the Financial Report of the United States Government;”
- AE. Title 10, United States Code, section 2674 ([10 U.S.C. § 2674](#))
- AF. [10 U.S.C. § 2682](#);
- AG. [10 U.S.C. § 2721](#); and
- AH. Title 41, Code of Federal Regulations, part 102-75 ([41 CFR 102-75](#))

## 2402 ACCOUNTING FOR REAL PROPERTY

## 240201. Definitions

A. Facility. A facility is a building, structure, or linear structure whose footprint extends to an imaginary line surrounding a facility at a distance of five feet from the foundation that, barring specific direction to the contrary such as a utility privatization agreement, denotes what is included in the basic record for the facility (e.g., landscaping, sidewalks, and utility connections). This imaginary line is commonly referred to as the “5-foot line.” A facility will have a Real Property Unique Identifier (RPUID) received from the Data Analytics & Integration Support platform, which is entered into an Accountable Property System of Record (APSR) as a unique real property record.

B. Funding DoD Component. The funding DoD Component is the entity paying to acquire the real property asset or improvement, regardless of the specific types of funds used (e.g., appropriation or working capital funds).

C. Installation Host. Installation Host is a term used by the DoD to describe the Military Department (i.e., Department of the Army, Department of the Navy which includes the U.S. Marine Corps, or Department of the Air Force) or Washington Headquarter Services (WHS) on whose installation a real property asset is located. An Installation Host may be either a General Fund or a WCF operation.

D. Materiality. Materiality, as defined by the SFFAS 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 omission or the misstatement.

E. Net Realizable Value (NRV). NRV is the estimated amount that can be recovered from selling, or any other method of disposing, of an item less estimated costs of completion, holding, and disposal.

F. Real Property. Real property assets consist of buildings, structures, linear structures (collectively called facilities), land, and land rights.

1. A building is a roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions and that protects human beings and their properties from direct harsh effects of weather such as rain, wind, sun and other natural factors.

2. A structure is a facility, other than a building or linear structure that is constructed on or in the land.

3. A linear structure is a facility whose function requires that it traverse land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed or reported by a linear unit of measure at the category code (commonly known as CATCODE) level.

4. Land is defined as a portion of the earth's surface distinguishable by boundaries. Land must be accountable by parcel starting when the parcel was transferred into an [Installation Host's](#) custody and control. 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.

5. A land right is an interest and privilege held by DoD or a 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.

G. [Value-In-Use](#). SFFAC 7 describes value-in-use as the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life.

240202. Relevant USSGL Accounts

A. [Land and Land Rights \(USSGL 171100\)](#). The amount of identifiable cost of land and land rights of unlimited duration acquired for or in connection with [General PP&E](#) used in general operations and permanent improvements are recorded in this account.

B. [Construction-in-Progress \(USSGL 172000\)](#). The CIP is used to accumulate the costs of new construction of [General PP&E](#) (except for internal use software) and capital improvements while the asset is under construction. CIP accounts include all costs (e.g., direct labor, direct material, supervision, inspection and overhead) incurred in construction. Upon completion, these costs will be transferred to the appropriate [General PP&E](#) account.

C. [Buildings, Improvements, and Renovations \(USSGL 173000\)](#). The Buildings, Improvements, and Renovations account is used to record the cost of buildings acquired and improvement(s) to them, [under the legal jurisdiction of the Installation Hosts](#), which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement, or restoration of multi-use heritage assets classified as buildings after transfer from the CIP account.

D. [Accumulated Depreciation on Buildings, Improvements, and Renovations \(USSGL 173900\)](#). The Accumulated Depreciation on Buildings, Improvements, and Renovations account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 173000 account.

E. [Other Structures and Facilities \(USSGL 174000\)](#). The Other Structures and Facilities account is used to record the cost or appraised value of structures and linear structures and improvements to them, [under the legal jurisdiction of the Installation Hosts](#), which are used in providing DoD services or goods. This account also includes the cost of renovation, improvement,



or restoration of multi-use heritage assets classified as structures or linear structures after transfer from the CIP account.

F. Accumulated Depreciation on Other Structures and Facilities (USSGL 174900). The Accumulated Depreciation on Other Structures and Facilities account is used to record the amount of accumulated depreciation charged to expense for assets and improvements recorded in the USSGL 174000 account.

G. General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed (USSGL 199500). The General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed account is used to record the value of General PP&E assets, which have been permanently removed from service **but not yet disposed**. Upon permanent removal from service, General PP&E assets must be recorded at their expected NRV and must cease to be depreciated.

H. Financing Sources Transferred In Without Reimbursement (USSGL 572000). The amount determined to increase the financing source of a reporting Federal entity that occurs as a result of an asset being transferred in. The amount of the asset is recorded at book value of the transferring Federal entity.

I. Financing Sources Transferred Out Without Reimbursement (USSGL 573000). The amount determined to decrease the financing source of a reporting Federal entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date.

J. Depreciation, Amortization and Depletion (USSGL 671000). The expense recognized by the process of allocating costs of an asset (tangible or intangible) over the period of time benefited or the assets useful life is recorded in this account.

#### 240203. Valuation of Acquisitions and Transfers

A. Recorded Cost. When acquiring a real property asset, the recorded cost must be recognized in accordance with paragraph 240204. The recorded cost of a real property asset is the basis for computing depreciation. The recorded cost must include all amounts paid to bring the real property asset to its form and location suitable for its intended use. This subparagraph defines and prescribes the use of acquisition cost, net book value (NBV), fair value, and ancillary cost when recording the cost of newly acquired real property assets. The funding source (e.g., appropriation and WCFs) is not a factor in determining whether or not an item should be capitalized.

1. Acquisition Cost. For purposes of this chapter, acquisition cost refers to the original purchase or construction cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must not be included as a cost of the asset; rather, such costs must be recognized as operating expenses. Although the measurement basis for valuing real property remains historical cost, for purposes of establishing auditable opening balances, DoD Components should use the Plant Replacement Value as the methodology for calculating deemed cost as a surrogate for the historical cost for real property as described in SFFAS 6 as amended by SFFAS 50 (see Annex 4 for additional guidance).

2. NBV. NBV is the recorded cost of a real property asset, less its accumulated depreciation.

3. Fair Value. Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

4. Ancillary Cost. Ancillary costs are included in the recorded cost in addition to the acquisition cost of the asset. These costs are identifiable and necessary to bring the asset to its form and location suitable for its intended use including other direct and indirect costs. Examples include:

- a. Labor and other direct or indirect production costs (for assets produced or constructed);
- b. Engineering, architectural, and other outside services for designs, plans, specifications, and surveys after funding and design authorization;
- c. Acquisition and preparation costs of buildings and other facilities;
- d. An appropriate share of the cost of the equipment used in construction work;
- e. Fixed equipment and related installation costs required for activities in a building or facility;
- f. Allowable direct costs of inspection, supervision, and administration of construction contracts and construction work;
- g. Legal and recording fees and damage claims;
- h. Fair value of facilities and installed equipment donated to the DoD;
- i. Interest paid directly to providers of goods or services related to the acquisition or construction (not including late payment interest penalties).

B. Method of Acquisition or Transfer Determines Recorded Cost

1. Purchased Real Property. The cost to be recorded for real property assets acquired by purchase from a third party (private, commercial, or state or local government) is its purchase contract cost plus applicable ancillary costs. Examples of ancillary costs are included in the listing in subparagraph 240203.A.4. For purposes of this guidance, purchase includes procurements of real property by cash, check, or installment or progress payments on contracts or purchase agreements.

2. Constructed Real Property. The cost to be recorded for constructed real property asset(s) is the sum of all the costs incurred to bring the real property asset(s) to a form and condition suitable for its intended use. These costs include the costs of project design and actual construction such as labor, materials, and overhead costs (see Annex 1 for a list and description of the costs to be accumulated for constructed assets). Note that preliminary planning and design costs accumulated prior to funding and design authorization must be expensed and not be captured as part of the recorded cost of constructed assets. The cost of real property under construction must be recognized in accordance with the CIP guidance prescribed in subparagraph 240204.G.

3. Donated Real Property. The cost to be recorded for real property received through donation, execution of a will, or judicial process excluding forfeiture must be its estimated fair value at the time received by the DoD and any costs incurred by the DoD to bring the asset into service (e.g., legal fees).

4. Exchanged Real Property. The cost to be recorded for real property acquired through exchange between the DoD and a nonfederal entity is the fair value of the consideration surrendered at the time of exchange. If the fair value of the real property acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the real property acquired. If neither fair value can be determined, the cost of the real property acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation/amortization. Any difference between the net recorded amount of the consideration surrendered and the cost of the real property acquired must be recognized as a gain or loss. In the event that additional cash consideration is included in the exchange, the cost of real property acquired will 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 real property acquired is less than that of the consideration surrendered, the real property acquired will be recognized at the amount of consideration surrendered, as described previously and subsequently reduced to its fair value. A loss must be recognized in an amount equal to the difference between the amount of consideration surrendered for the real property 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 must be accounted for as a transfer.

5. Capital Leases. The recorded cost of real property acquired under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory costs (e.g., insurance,

maintenance and taxes) to be paid by the lessor. The present value is the value of future cash flows (e.g., lease payments) discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded will be the fair value. If the portion of minimum lease payments representing executory costs is not determinable from the lease provisions, the amount should be estimated. [See Chapter 26 for additional guidance on capital leases.](#)

6. Seized and Forfeited Real Property. The cost recorded for real property acquired through seizure or forfeiture is its fair 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, Chapter 29, for discussion of vested and seized property during times of contingency operations.

8. Transferred Real Property from a non-DoD Federal agency to DoD. The cost recorded for real property transferred from a non-DoD Federal agency to a DoD Component is the cost recorded on the transferring entity's books for the real property, net of any accumulated depreciation/amortization. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer.

9. Transfer of Capitalized Real Property between DoD Components. DoD Components must adhere to the following:

a. The cost recorded for real property transferred from one DoD Component to another DoD Component shall be the gross cost recorded net of accumulated depreciation/amortization on the transferring DoD Component's books. The DoD Component transferring the real property is responsible for providing the gross cost net of accumulated depreciation/amortization of the asset being transferred to the DoD Component receiving the transfer. Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation. Each DoD Component has execution responsibility to ensure that requisite tasks are being completed in a timely manner for all transfers.

b. When completing a transfer, the transferring DoD Component, is required to provide financial reporting information to the receiving DoD Component whenever the asset is transferred throughout the asset lifecycle. When transfers are implemented, supporting documentation which includes financial reporting information, trading partner information, and associated data elements must be provided. These data elements include, [Project/Work Order Number](#), Name, RPUID, [Real Property Site Unique Identifier \(RPSUID\)](#), [Contract Number\(s\)](#), Operational Status Code, Acquisition Original Recorded Cost Amount and Capital Improvement Recorded Cost Amount (for all capitalized improvements), Placed in-Service Date, Capital Improvement Placed in-Service Date (for all capitalized improvements), Facility Total Accumulated Depreciation Amount, Capital Improvement Estimated Useful Life Year Quantity, Facility Estimated Useful Life Quantity, Facility Estimated Useful Life Adjustment Quantity, [transaction details to include Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use Facility Analysis Code \(FAC\)](#). If this

information is not available, the receiving and transferring 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 [Installation Hosts](#).

c. Within DoD Components, there are different capitalization thresholds. For transferred real property between DoD Components if an asset was capitalized at acquisition, it will continue to be capitalized and depreciated after transfer regardless of the new financial reporting entity's capitalization threshold. If an asset was expensed at acquisition, it will not be capitalized and depreciated after transfer to the new financial reporting entity, even if the new financial reporting entity has a lower capitalization threshold than the original entity that acquired the asset. The receiving DoD Component will include the item in its APSR as accountable real property.

10. Joint Venture Type Arrangements. Joint venture type arrangements should be accounted for as follows:

a. There may be situations where a DoD Component jointly funds the acquisition or construction of real property with a Nonappropriated Fund Instrumentality (NAFI). As defined in DoDI 1015.15, a NAFI is a DoD organizational and fiscal entity that is supported in whole or in part by nonappropriated funds (NAFs). It acts in its own name to provide or assist Secretaries of Military Departments in providing programs for DoD personnel. It is not incorporated under the laws of any State or the District of Columbia, but has the legal status of an instrumentality of the U.S. Under current GAAP, NAFI entities are not included in the DoD consolidated financial statements. An example of a NAFI would be an Armed Services Exchange.

b. Where a DoD Component jointly funds the acquisition or construction of real property with a NAFI, the DoD Component will, assuming the amount meets the capitalization threshold in effect at the time of the acquisition, record the real property on its Balance Sheet and report it in its financial statements in the amount of its share of the funding. For example, if a DoD Component and a NAFI each fund \$10 million in the acquisition of a real property asset with a total of 50,000 square feet (with each acquiring 25,000 square feet); the DoD Component would record the real property at \$10 million. Subsequent to the acquisition, [the DoD Component, that jointly funded the acquisition, should evaluate whether the real property asset should be transferred to another DoD Component in accordance with paragraph 240204 and follow the requirements to transfer the real property asset to another DoD Component, if applicable.](#)

C. Documentation. When recording the acquisition of a real property asset in the APSR and/or accounting system, the asset must be assigned a dollar value (i.e., recorded cost) as detailed in this chapter. The dollar value must be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 240302. To establish proper financial control when acquiring real property from another DoD Component or Federal agency, the acquiring DoD Component must request from the transferring DoD Component or other Federal agency, the necessary source information and financial transfer documents. Such information and documents must include unique identifier(s) for the asset(s); location; original acquisition cost(s); cost of any improvements; the date the asset was constructed, or acquired; the estimated useful life; the amount of accumulated depreciation; the condition; and other relevant

information linked to that asset. If this information is not available, the receiving and transferring 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 [Installation Hosts](#). See Volume 12, Chapter 14 and DoDI 4165.70 for further policy on transfers of DoD real property between [Installation Hosts](#).

\*240204. Recognition

All real property assets acquired by DoD Components must be recognized for accountability and financially reported as required by this chapter. Recognition requires the appropriate accounting treatment (expensed or capitalized) and the reporting of capitalized amounts and accumulated depreciation/amortization on the appropriate DoD Component's financial statements.

[Note](#), SFFAS 50 applies to a reporting DoD Component that is presenting financial statements, or one or more line items in the financial statements, following [Generally Accepted Accounting Principles](#) (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP based financial statements without use of the alternative methods for opening balances set out in SFFAS 50. A reporting DoD Component meeting either one of these criteria may elect to apply the alternative valuation method described in SFFAS 50, including the election to record a zero value for land and land rights. However, if the reporting DoD Component has previously undergone a financial statement audit and received an unmodified audit opinion, they would not meet either of these two criteria and therefore would not be able to elect this alternative valuation method. [Refer to Annex 4 for additional guidance on alternative valuation methodology for establishing opening balances for buildings, structures, linear structures, land and land rights.](#)

A. Recognition Responsibility.

1. General Requirements for Recognition Responsibility

a. 10 U.S.C. § 2682 states “a real property facility under the jurisdiction of the Department of Defense which is used solely by an activity or agency of the Department of Defense (other than a military department) shall be under the jurisdiction of a military department designated by the Secretary of Defense.” The DoD determined that because the entities with jurisdiction over real property assets have existing requirements to manage the asset-related data required for financial reporting, it is rational and consistent that those entities carry the financial reporting responsibility for those assets in accordance with FASAB TB 2017-2. In addition, WHS is delegated jurisdiction over its facilities via 10 U.S.C. § 2674 and DoDD 5110.04.

b. Real property is generally reported on the General Fund's financial statements of a Military Department or WHS, but a Military Department WCF can report real property on its financial statements if it has been given jurisdiction over a specific installation.

c. Financial reporting responsibility for real property assets includes all aspects of financial reporting and disclosures such as, but not limited to, footnote disclosures, deferred maintenance and repair (DM&R), and other required supplemental information (RSI).

d. Financial reporting responsibility for real property assets must be supported by documentation establishing the rights and obligations of the reporting entity for each asset (see paragraph 240302). Such documentation may include real property records reflecting the jurisdiction of an Installation Host over real property, as well as inter- and intra-agency agreements and records reflecting host-tenant support relationships.

e. See Annex 5 for illustrative examples and journal entries relating to financial reporting responsibilities for real property.

## 2. Construction-In-Progress

a. The funding DoD Component reports CIP for real property (including improvements) in its CIP account until the asset or improvement is placed in service. The funding DoD Component also relieves CIP when the asset or improvement is placed in service. At this time, an asset or improvement will be recorded by the funding DoD Component and an interim DoD *(DD) Form 1354* will be used to document the construction in accordance with existing DoD real property policy. If additional costs continue to be incurred after the asset or improvement is placed in service, those costs will continue to be recorded in the funding DoD Component's CIP account. Upon final contract closeout, the CIP will be relieved and a final DD Form 1354 will be completed.

b. Once the asset is placed in service, if the funding DoD Component is not the Installation Host, then the asset will need to be transferred from the funding DoD Component to the Installation Host.

## 3. In-Service Real Property

a. Real property must be reported on the financial statements of the Installation Host on whose installation a real property asset is located.

b. DoD real property that is not located on a DoD installation (including property located on an installation that is hosted by an entity other than DoD) will be reported on the financial statements of the Military Department that is the Installation Host having jurisdiction of the real property asset. Jurisdiction of real property is identified in the Office of the Secretary of Defense (OSD) consolidated real property database. This database is maintained and managed by the Office of the Assistant Secretary of Defense (Sustainment). Disputes between Installation Hosts regarding who should be the financial reporting organization may be resolved by contacting the Office of the Assistant Secretary of Defense (Sustainment). If a real property asset is located on a DoD installation that is funded by an entity that is not part of the consolidated DoD financial statements, it will be the financial reporting responsibility of the non-DoD entity.

c. For DoD Components that do not already have an unmodified audit opinion, existing land and land rights will be valued at zero dollars and future land acquisitions will be expensed as described in SFFAS 50.

d. Assets assigned to/from one reporting DoD Component to another reporting DoD Component should be treated as transfers of assets per SFFAS 7, "Accounting for Revenue and Other Financing Sources."

#### 4. Capitalized Improvements to Real Property

a. Capital improvements to an asset will be reported by the DoD Component that reports the real property asset that is being improved. Capital improvements that are under construction will be reported in accordance with subparagraph 240204.A.2.

b. The cost of a capitalized improvement will be accumulated and reported by the funding DoD Component until the improvement to the asset is placed in service, at which time it will be transferred to the entity responsible for reporting the real property base asset. The funding DoD Component will coordinate the delivery of the final DD Form 1354 and supporting documentation to the Installation Host.

#### B. Intra-DoD Transfers

1. Both parties must agree to the transfer and the agreement must be documented using the appropriate documentation (e.g., DD Form 1354). In addition, the entity transferring the real property must provide adequate and appropriate supporting documentation for financial statement reporting (financial reporting information). Data elements included in the financial reporting information, should include but are not limited to, Project/Work Order Number, Name, RPUID, RPSUID, Contract Number(s), Operational Status Code, Acquisition Original Recorded Cost Amount and Capital Improvement Recorded Cost Amount (for all capitalized improvements), Placed in-Service Date, Capital Improvement Placed in-Service Date (for all capitalized improvements), Facility Total Accumulated Depreciation Amount, Capital Improvement Estimated Useful Life Year Quantity, Facility Estimated Useful Life Quantity, Facility Estimated Useful Life Adjustment Quantity, transaction details to include Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use FAC. The financial reporting information will be maintained with the asset throughout the asset lifecycle.

2. Transfers between DoD Components may occur regularly due to construction or improvement of real property. When a transfer occurs due to the construction or improvement of real property, the Installation Host will accept the transfer on their installation when the funding entity provides the appropriate transfer documentation. In cases where property is transferred, the values transferred should be the same on each side of the transfer to ensure there are no discrepancies between DoD Components. Adjustments to the transferred value recorded may subsequently be made to record value at deemed cost in accordance with SFFAS 50.



C. Memorandum of Agreement (MOA). All DoD Component tenants must have MOAs in place with the Installation Host. A MOA will be executed to establish rights and obligations between the Installation Host and the DoD Component using the real property asset. All tenants must maintain a list of real property facilities they occupy and for which they have facility operations and maintenance or facility improvement responsibility. The MOA should also identify the respective maintenance and other operational responsibilities of the host and tenant. DoDI 4000.19 prescribes DoD policy on intra-departmental support, to include establishment of MOAs to document host-tenant relationships.

D. WCF Capital Recovery Rate and Accounting Treatment. WCF will continue to recover costs associated with the construction of real property that is funded by the WCF regardless of financial reporting responsibility. In cases where a capital improvement is transferred to a different reporting entity, the WCF will record an imputed cost in lieu of an actual depreciation expense for the improvement. Capital recovery rates will be set in accordance with Volume 2B, Chapter 9.

E. Inter-Entity Costs.

1. SFFAS 55 requires the continued recognition of significant inter-entity costs among and between federal agencies by business-type activities (e.g., WCFs) and allows non-business type activities to elect not to recognize inter-entity costs, with the exception of inter-entity costs for personnel benefits and the U.S. Department of the Treasury (Treasury) Judgment Fund settlements unless otherwise directed by the OMB. DoD has elected to not recognize imputed costs and corresponding imputed financing from non-business-type-activities, aside from the exceptions stated in this subparagraph.

2. WCFs or other business like activities must impute costs in accordance with SFFAS 55. These imputed costs would include depreciation expense. The imputed costs will include what would otherwise have been depreciation expense for real property assets and improvements that were funded by the WCF and subsequently transferred to the General Fund, as well as any depreciation expense or other costs for assets not funded by the WCF (see Annex 2). Imputed costs are recorded as a debit to Imputed Cost (USSGL 673000) and a credit to Imputed Financing Sources (USSGL 578000).

3. Disclosure requirements for inter-entity costs are described in subparagraph 240305.D.

F. Recognition Uncertainty. It is important that the overall accounting records of the DoD and the Federal Government are not duplicative.

1. In situations where doubt exists as to which DoD Component should recognize the real property asset, DoD Components involved must reach agreement with the other applicable DoD Components or Federal agencies as to which DoD Component or Federal Agency will record the asset for financial reporting purposes.

2. If an agreement cannot be reached, the matter must be referred to Office of the Assistant Secretary of Defense (Sustainment) for resolution. Requests for resolution must 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 DoD Component.

G. Recognition Timing. Recognition of real property for financial reporting purposes must occur upon acceptance to the acquiring DoD Component. Contract progress payments made must be recorded in the CIP account until the real property asset is accepted. See subparagraph 240204.I for guidance on the use of the CIP account.

H. Capitalization Thresholds. The capitalization threshold for real property is \$250,000 for both the General Fund and WCF, except for the National Security Agency and the Office of the Director of National Intelligence for which the threshold is \$1 million. Real property assets with a recorded cost that equals or exceeds the capitalization threshold and have a useful life of at least two years must be capitalized as an asset in the appropriate DoD Component's accounting records and depreciated/amortized over its useful life. Real property assets with a recorded cost below the applicable capitalization threshold or which has a useful life of less than two years must be expensed.

I. CIP Process. CIP must be used to accumulate costs of new real property construction and capital improvements, which are anticipated to meet the capitalization criteria.

1. A CIP account will be created when either of these triggering events occurs: (i) work order and funding authorizations are received for an in-house construction project; or (ii) design and fund authorizations are received for construction projects performed by a construction agent (i.e., another DoD Component, Federal agency or commercial entity). When a DoD Component is constructing a real property asset to be transferred to another DoD Component, as the construction agent they must accumulate all costs since project inception in a CIP account until the costs are billed to the funding (purchasing) DoD Component. The billed costs in such a scenario must be removed from the CIP account of the construction agent when billed to the funding (purchasing) DoD Component entity and the funding (purchasing) DoD Component must record such billed amounts in their appropriate CIP account. See Volume 3, Chapter 17 for additional guidance on inter-governmental construction work or services.

a. When there is a cost shared project between Federal and nonfederal entities, a CIP account must only be created when the real property asset will be federally owned. Only the federal share of construction costs in conjunction with a nonfederal cost shared project 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 should be captured in a CIP account within DoD's financial statements. At the

time the asset is placed in service, the real property asset must be recognized in the financial statements of the acquiring DoD Component for the value of the DoD Component's share of the costs.

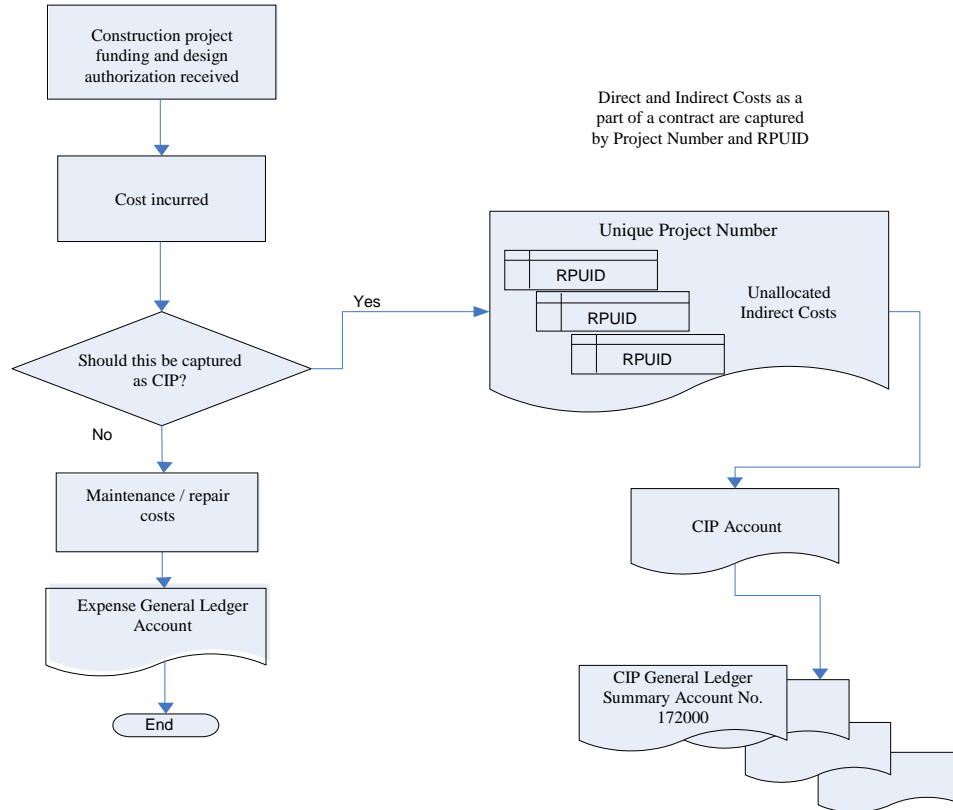
b. For cost shared projects where a DoD Component is the construction agent and constructing a non-federally owned real property asset, costs must be accumulated in a CIP account to be billed to the customer. If a DoD Component is not the construction agent and the real property asset is not DoD owned, the DoD Component's share of construction cost must be expensed as incurred. If the real property asset's final ownership was not determined at project [funding and](#) design authorization, this cost must be relieved from the CIP account and properly expensed when it is determined that the real property asset will not be federally owned.

2. DoD Components must assign a Component unique project number and the Installation Host will assign at least one RPUID for each approved construction project. The project number and RPUID will be associated to a CIP account when created. The Component unique project number must remain the same and be used for all phases of a particular construction project regardless of the fiscal year.

3. All costs for a construction project will be accumulated in a CIP account. A reasonable allocation methodology must be established and documented to assign project costs, direct and indirect, to all real property assets that will be constructed or improved with corresponding RPUIDs. Any indirect project costs must be allocated to the project CIP account as they are incurred. Thus, the full cost of constructed items must be adequately captured, reported and distributed across real property assets by RPUID, no later than the time the real property assets are placed in service and available for use. See Chapter 19 Managerial Cost Accounting for additional information on indirect costs.

4. CIP costs must be tracked by both the Component unique project number and the RPUID to ensure visibility, traceability, and accountability. The relationship among a construction project, RPUID and CIP account is provided in Figure 24-1.

Figure 24-1. Relationships among a Construction Project, RPUID, and CIP Account



5. The funding DoD Component must continue to report CIP on their financial statements until the constructed item is accepted by the accountable DoD Component (if the accountable DoD Component is different than the funding DoD Component). The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the funding DoD Component's Project Number, Project Detail Fund Code(s), Project Detail Fund Code Cost Amount, Project Detail Organization Code(s), Programmed Amount, and RPUID(s). For a specified project and for the purpose of an audit trail of the CIP account, the construction agent and the funding DoD Component 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 paragraph 240302. Upon acceptance of the constructed real property asset(s) or improvements, the construction agent must provide the funding DoD Component and the military service real property accountable officer with auditable supporting documentation. The funding DoD Component and military service real property accountable officer, in turn, must ensure the documentation is retained in accordance with applicable laws, regulations, and instructions.

6. When constructed real property asset(s) or improvements are accepted and placed in service, the costs accumulated in the CIP account must be relieved in a manner that recognizes the cost of each individual real property asset with a RPUID (i.e., transferred to the appropriate real property account). To ensure constructed real property asset(s) or improvements are recorded at full cost, the recorded cost of the real property asset(s) or

improvements accepted must equal the sum of all construction and applicable design costs. (See Annex 1 for a comprehensive list of cost types.) In addition, the funding DoD Component of a construction project must ensure that all costs incurred by the funding DoD Component are provided to the construction agent on a formal document for inclusion in the full cost of the real property asset(s) or improvements prior to acceptance by the accountable DoD Component.

7. For construction projects that are completed in multiple phases, the cost of each phase is transferred from the CIP account to the appropriate asset account, by RPUID, at the time each real property asset or useable portion of the asset in the phase is placed in service. Each constructed real property asset or useable portion of the asset, therefore, may have one or more placed in-service dates, which will be used to initiate the capitalization of each corresponding phase. Each phase must be depreciated over its estimated useful life when placed in service.

8. If a construction project is cancelled, all cost accumulated in the associated CIP account 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.

J. Accounting for Real Property Outside of the U.S. As used in this chapter, U.S. means the 50 States of the U.S., the District of Columbia, and the commonwealths, territories, and possessions of the U.S. In carrying out their mission, operations and objectives, there are circumstances in which DoD Components occupy and use real property facilities outside of the U.S. DoD's rights to real property outside of the U.S. are different from those within the U.S. For financial reporting purposes, a DoD Component that occupies and uses facilities outside of the U.S. must adhere to the following guidance:

1. DoD real property that is not located on a DoD installation (including property located on an installation of a host nation) will be reported on the financial statements, (including capital improvements) of the Installation Host that is identified in the OSD approved Enduring Location Master List, which is maintained and managed by the Office of the Under Secretary of Defense for Policy, when all of the following criteria are met:

a. An agreement exists between the U.S. and the host nation/foreign government (e.g., Cooperative Security Agreement, Bilateral Security Agreement and Status of Forces Agreement) and the agreement conveys a right to construct and operate facilities (i.e., real property);

b. The U.S. Government/DoD Component funded the asset's acquisition (e.g., purchase and construction) and/or capital improvements. See subparagraphs 240204.A and 240204.B for transfers between DoD Components when the real property acquisition is funded by a DoD Component other than an Installation Host having jurisdiction over the installation on which the real property resides.

c. The cost incurred is over the DoD Component's real property capitalization threshold (if the asset is partially funded by DoD, only the portion funded by DoD will be evaluated against the capitalization threshold and recognized as an asset if applicable);

d. The asset has an estimated useful life of two years or more; and

e. The DoD Component is using the asset in its operations.

2. Such capitalized assets will be depreciated over their estimated useful lives. Should the use of the asset terminate earlier than the estimated useful life, the asset's remaining NBV will be written off.

3. When a DoD Component occupies a facility but the DoD did not fund its acquisition, the DoD Component will recognize such facilities on its financial statements as assets under a capital lease, if a specific agreement with the host nation/foreign government exists and addresses the use of the facility. See Chapter 26 for guidance on applying the lease criteria for real property outside of the U.S.

4. SFFAS 4 "Managerial Cost Accounting Standards and Concepts" addresses imputed costs between federal agencies but does not extend to entities outside of the federal context. The concept of imputed costs does not apply to activities between a DoD Component and a host nation/foreign government. Therefore, a DoD Component will not record imputed costs for the use and/or occupancy of facilities, for which it does not pay directly or pay through reimbursement, provided by international organizations (e.g., North Atlantic Treaty Organization) or host nation/foreign government.

5. [The Installation Host with jurisdiction over the installation outside of the U.S.](#) must record all real property occupied and used by it in an APSR, regardless of interest type, including those that have not been capitalized for accounting and financial reporting purposes, in accordance with 10 U.S.C. § 2721, DoDI 4165.14 and subparagraphs 240204.J.1 and 240204.J.3. [Assets that do not meet the criteria for capitalization in accordance with subparagraphs 240204.J.1 and 240204.J.3 will be expensed in the period received for use by DoD.](#)

6. [The Installation Host with jurisdiction over the installation outside of the U.S.](#) must record an expense for any maintenance and sustainment costs relating to the real property paid, or to be paid by them in the period incurred regardless of real property interest type.

#### 240205. Capital Improvements

A. Capital improvements to real property assets must be capitalized when (1) the improvement increases the asset's useful life by two or more years, or increases its capacity or size, and (2) the cost of the improvement equals or exceeds the capitalization threshold (see subparagraph 240204.H). If capital improvements do not meet these two criteria, they should be expensed. Funding source (e.g., appropriation or WCFs) is not a factor in determining whether or not an improvement will be capitalized. If the capital improvement increases the underlying asset's useful life by two years or more, the DoD Component must capitalize and depreciate the

improvement with the original asset over the revised estimated useful life. Costs of capital improvements which do not extend the useful life of an existing real property asset but enlarge or improve its capacity and have a useful life of two years or more must be capitalized and depreciated over the lesser of the useful life of the improvement or the remaining economic useful life of the underlying asset. Note that the economic life of the real property asset, in certain instances, may be different than the original estimated accounting useful life. The economic life reflects the remaining period of utility for the real property.

B. The cost of improvements to more than one real property asset as identified by a RPUID when constructed under a single project or work order, and that cannot be specifically identified by asset, will be capitalized only if the allocated cost per real property asset equals or exceeds the capitalization threshold. When more than one improvement is made to a single real property asset, in a single project and the improvements are part of one effort to increase the real property's capacity, size, and/or useful life, the sum of the costs of the improvements must be capitalized, if the summed costs equal or exceed the capitalization threshold. This is required even when the improvements are funded by different fund sources. Once a determination has been made that the aggregate costs of the improvements will be capitalized, the summed costs of improvements should be capitalized and depreciated upon being placed in service as described in paragraph 240205.A.

C. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the capitalization threshold. Per SFFAS 42, maintenance and repairs are defined as activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repair activities also include cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting). A roof or a heating and air conditioning system that is replaced due to failure should be classified as a repair and should be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit.

D. Although maintenance and repairs are generally expensed in the period incurred, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement must be recognized as a repair or an improvement is the intent behind the replacement. Replacement of parts, systems, or components that have failed, are in the incipient stages of failing, or are no longer performing the functions for which they were designated are classified as a repair; replacements falling into this category must be expensed. If the replacement was undertaken to expand the capacity or extend the life of a real property asset that was in good working order, then the replacement must be recognized as an improvement. A replacement classified as a repair does not include rebuilding entire structures within the same physical area (footprint).

E. For the purpose of capital improvements, capacity is defined as an increased footprint, or internal structural reconfiguration that increases the amount of usable space, number of personnel, or increased throughput. Increased capacity includes activities that upgrade the asset to serve needs different from, or significantly greater than its current use.

\* F. Capital Improvements (which includes leasehold improvements), at or over the capitalization threshold in effect at the time the capital improvements/leasehold improvements are acquired, must be capitalized. The cost of a capitalized improvement should be accumulated and reported by the funding DoD Component in a CIP account until the improvement to the asset is placed in service, at which time it will be transferred to the entity responsible for reporting the real property base asset. See subparagraph 240204.B for intra-DoD transfers. Only Installation Hosts with jurisdiction over a specific installation have financial reporting responsibility for real property and completed capital improvements.

#### 240206. Depreciation

A. The recorded cost of real property and capital improvements which have been capitalized in accordance with the guidance prescribed by paragraphs 240204 and 240205 must be depreciated over the shorter of (i) the period of time benefited, or (ii) the asset's useful life. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements.

B. Depreciation is the systematic and rational allocation of the recorded cost of an asset over its estimated useful life. Estimates of useful life for real property assets must consider factors such as usage, physical wear and tear and technological change. For purposes of computing depreciation on DoD real property assets, specific useful lives are prescribed. Table 24-1 reflects the useful lives to be used for DoD real property in establishing opening balances as well as for real property acquired after establishment of opening balances.

Table 24-1. DoD Useful Lives for Depreciable Real Property Assets

Real Property Classification	Real Property Useful Lives	Capital Improvements (if useful life is not provided by an engineering estimate)(ii)
Buildings	45 years	20 years
Structures	35 years	15 years
Linear Structures	40 years	20 years
Land Rights of a Limited Duration (i)	Over the specified duration	
i. Land Rights are included on the balance sheet in General PP&E only if the DoD Component did not make the election to implement the provisions of SFFAS 50, paragraph 13 to exclude land rights from the opening balance of General PP&E and expense future land rights acquisitions after establishment of the opening balance. ii. Engineering estimates are of particular importance when evaluating full restoration or conversion.		



C. The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used). The actual commencement of depreciation will generally be based on the Month Available for Service method. Under this 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.

D. DoD policy permits only the use of the straight-line method of depreciation for real property assets. Straight-line depreciation expense is calculated as the recorded cost divided equally among accounting periods during the asset's useful life based on useful lives in Table 24-1.

E. If an asset remains in use longer than its estimated useful life, it must be retained in the APSR, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

F. WCF activities are required to depreciate real property assets in accordance with the guidance in this chapter without regard to whether such assets are procured through the WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of real property 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 real property depreciation of WCF activities must be recognized as an expense on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Depreciation recorded on real property that was not acquired nor will be replaced through use of Defense WCF resources must 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.

#### 240207. Impairment

A. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of General PP&E (which includes real property assets) or expected service utility of CIP that results from events or changes in circumstances that are not considered normal and ordinary. Identified real property (i.e., real property for which a significant decline in the service utility has occurred) should be tested for impairment by determining whether the magnitude of the decline in the service utility is significant and whether the decline in the service utility is expected to be permanent.

1. See subparagraph 240207.B.2 for a discussion of determining the significance and permanence of a service utility decline.

2. The service utility of real property is the usable capacity that, at acquisition or after improvement, was expected to be used to provide service. The current usable capacity of real property may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment of approval of laws or regulations or other changes in environmental or economic factors, or changes in the manner or duration of use.

3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the real property such as standard maintenance and repair requirements. Events or circumstances that are not considered normal are those that, at the time the real property was acquired or improved, the event or change in circumstance would not have been expected to occur during the useful life of the real property or, if expected, was not sufficiently predictable to be considered in estimating the real property's useful life.

B. Identification of Potential Impairment Loss. The determination of whether real property remaining in use is impaired is a two-step process which includes (1) identifying potential impairment indicators and (2) testing for impairment.

1. Step 1 – Identify Indicators of Potential Impairment. Indicators of potential impairment can be identified and brought to DoD Component's attention in a variety of ways, such as procedures related to DM&R. Although DoD Components are not required to establish additional or separate procedures beyond those that may already exist, they should evaluate existing processes and internal controls to determine if they are sufficient to reasonably assure the identification of potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Once identified, indicators are not conclusive evidence that a measurable or reportable impairment exists; DoD Components should carefully consider the surrounding circumstances to determine whether a test of potential impairment is necessary given the circumstances. Some common indicators of potential impairment include:

- a. Evidence of physical damage;
- b. Enactment or approval of laws or regulations which limit or restrict the usage of the real property asset;
- c. Changes in environmental factors (e.g., change in floodplain);
- d. Technological changes or evidence of obsolescence (however, if obsolete real property continues to be used, the service utility expected at acquisition may not be diminished);
- e. Changes in the manner or duration of use of real property;
- f. Construction stoppage or contract termination; and

g. Real property idled or unserviceable for excessively long periods.

2. Step 2 – Impairment Test. Identified real property should be tested for impairment by determining whether these two factors are present: (1) the magnitude of the decline in service utility is significant and (2) the decline in service utility is expected to be permanent.

a. Significant declines in service utility are those that cause costs (including operational and maintenance costs) to be disproportionate to the new expected service utility. The determination of whether or not an impairment is significant is a matter of professional judgement and is distinct from materiality considerations. Such judgements may be based on the relative costs of maintaining the service utility of the facility before and after the decline, the percentage decline in service utility, or other considerations.

b. The decline in service utility is considered permanent when the DoD Component has no reasonable expectation that the lost service utility will be replaced or restored; that is, the DoD Component expects that the real property will remain in service so that its remaining service utility will be utilized. In contrast, reasonable expectation that the lost service utility will be replaced or restored may exist when the DoD Component has:

- (i) Specific plans to replace or restore the lost service utility of the real property,
- (ii) Committed or obligated funding for remediation efforts, or
- (iii) A history of remediating lost service utility in similar cases or for similar real property.

3. For CIP, the testing of impairment in subparagraph 240207.B.2 should be performed over the period of expected future service utility rather than current service utility.

C. Determining the Appropriate Measurement Approach. Impairment losses on real property that will continue to be used by the DoD Component should be estimated using a measurement approach that reasonably estimates the portion of NBV associated with the diminished service utility of the real property. A measurement method would not be considered appropriate if it would result in an unreasonable NBV associated with the remaining service utility of the real property. Conversely, a reasonable measurement method may result in no impairment loss to be recorded. Regardless of the method used, recognition of impairment loss should be limited to the asset's NBV at the time of impairment. Widely recognized methods for measuring impairment include:

1. Replacement Approach. Impairment of real property with physical damage generally may be measured using a replacement approach. This approach uses the

estimated cost to replace the lost service utility of the real property at today's standards (i.e., at current market prices and in compliance with current statutory, regulatory, or industry standards) to identify the portion of the historical cost of real property that should be written off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the real property, to the NBV of real property to determine the impairment amount.

2. Restoration Approach. This approach uses the estimated cost to restore the diminished service utility of the real property to identify the portion of the historical cost of the real property that should be written off. This approach does not include any amounts attributable to improvements and additions to meet today's standards. The estimated restoration cost can be converted to historical cost by restating (i.e., deflating) the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the NBV of the real property to determine the impairment amount.

3. Service Unit Approach. Impairment of real property that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally may be measured using a service unit approach. This approach compares the service units (e.g., operational capacity) provided by the real property before and after the impairment to isolate the historical cost of the service utility that cannot be used due to the impairment to determine the impairment amount.

4. Deflated Depreciated Current Cost Approach. Impairments of real property that are subject to a change in manner or duration of use generally may be measured using a deflated depreciated current cost approach. Under this approach, a current cost for a real property asset to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the real property is not new, and is then subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the NBV of the real property exceeds the estimated historical cost of the current service utility (i.e., deflated depreciated current cost).

5. Cash Flow Approach. Recognizes an impairment loss only if the NBV (i) is not recoverable and (ii) exceeds the higher of its NRV or value-in-use estimate.

a. The NBV of real property is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the real property.

b. If the NBV is not recoverable, the impairment loss is the amount by which the NBV of the real property exceeds the higher of its NRV or value-in-use estimate. No impairment loss exists if the NBV is less than the higher of the real property's NRV or value-in-use estimate.

6. Lower of (a) NBV or (b) Higher of NRV or Value-In-Use Approach. Real property impaired from either construction stoppages or contract terminations, which are

expected to provide service, should be reported at their recoverable amount; the lower of (i) the real property's NBV or (ii) the higher of its NRV or value-in-use estimate. Impaired real property, which is not expected to provide service, should be accounted for in accordance with paragraph 240208.

D. Recognizing and Reporting Impairment Losses. The loss from impairment, if any, should be recognized and reported in the Statement of Net Cost in the period in which the Installation Host, with jurisdiction over the real property, concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the real property for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized.

E. Recoveries. The impairment loss must be reported net of any associated recovery when the recovery and loss occur in the same fiscal year. Recoveries reported in subsequent fiscal years must be reported as revenue or other financing source as appropriate. The amount and financial statement classification of recoveries should be disclosed in the notes to the financial statements.

F. Remediating Previously Reported Impairments. The costs incurred to replace or restore the lost service utility of impaired real property remaining in use must be accounted for in accordance with applicable standards (i.e., recognized according to the nature of the costs incurred and the appropriate capitalization threshold).

G. Diminished Service Utility Without Recognized Impairment Loss. If the future service utility has been adversely affected but the impairment test determines that a loss does not need to be recognized, a change to the estimates used in depreciation calculations (such as estimated useful life and salvage value, if applicable) should be considered and adjusted as appropriate.

240208. Removal/Disposal

A. FASAB TR 14 defines removal from service as an event that terminates the use of a real property asset. Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removals from service should be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service (e.g., by selling, donating, or demolishing the asset). If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

B. If an asset's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the asset from service, the removal from service must be accounted for as other than permanent.

Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. There is no change in the reported value for assets that have been other than permanently removed from service and the assets must continue to be depreciated.

C. If (1) an asset's use is terminated and (2) the DoD Component has documented its decision to permanently remove the asset from service, the removal from service must be accounted for as permanent. Assets permanently removed from service are no longer depreciated. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an asset by selling, donating, or demolishing the asset. The recorded cost as well as the accumulated depreciation/amortization of an asset permanently removed from service must be removed from the accounts in which they are reported, and the asset must be recorded at its NRV in General PP&E Permanently Removed But not Yet Disposed (USSGL Account 199500). Any difference between the NBV of the asset and its expected NRV must be recognized as a gain or loss. The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. Assets permanently removed from service are no longer depreciated.

D. When an asset is disposed of (e.g., by selling, donating, or demolishing the asset) the asset must be written off and the difference between any disposal proceeds and the asset's NBV must be recognized as a gain or loss. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoD entity 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 if the asset is a complete loss.

## 2403 ADDITIONAL CONSIDERATIONS

### 240301. Use of Cancelled Treasury Account Symbol

A. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial Balance System I and II, Intra-governmental Fiduciary Confirmation System, and Intra-governmental Reporting and Analysis System, as the primary means for DoD Components to report their trial balance data to Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in [subparagraph 240301.B](#); GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system generated "C" TAS will have three components: the three-digit agency identifier, availability type "C", and a four digit main account.

B. All DoD Components must use the “C” availability type TAS to report capitalized assets. Assets may be moved to a “C” TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information.)

C. To transfer an asset to a “C” TAS:

1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate “C” TAS.

#### 240302. Supporting Documentation

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

A. Be supported by source documents that reflect all transactions affecting the DoD Component’s investment in the real property.

1. All real property acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoD Component takes custody of the real property. The documents listed in Table 24-2, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement.

Table 24-2. Examples of Supporting Documentation for Real Property Acquisition  
(Note: These examples may not be all inclusive for all circumstances)

Evidence	Examples
<b>Unique Identification</b>	Assignment of RPUID
<b>Project Approval</b>	Such as, but not limited to a Work Order
<b>Obligation on Behalf of the Government</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. For contracts, contract modifications, or change orders:               <ul style="list-style-type: none"> <li>• Statement of Work;</li> <li>• Dollar Amount of Contract;</li> <li>• Location;</li> <li>• Source of Funds;</li> <li>• Parties to the Contract; and</li> <li>• Signature Page [Signature of All Parties].</li> </ul> </li> <li>2. Documentation of troop labor hours;</li> <li>3. Approved Work Order.</li> </ol>
<b>Payment Submitted</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. Approved last invoice reflecting the total amount submitted for payment and received to date;</li> <li>2. Evidence of in-house construction costs, including labor;</li> <li>3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.</li> </ol>
<b>Acceptance</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. <a href="#"><i>General Services Administration Form 1334</i></a>, Request for Transfer of Excess Real and Related Personal Property;</li> <li>2. Interim and final DD Form 1354, Transfer and Acceptance of DoD Real Property, 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 or improvement is placed in-service, must be included as support for the DD Form 1354;</li> <li>3. Executed acquisition document and appraisal results for the donated assets;</li> <li>4. Signed judgment documents for condemnations;</li> <li>5. Deed;</li> <li>6. Signed lease for leased property;</li> <li>7. Letter of withdrawal for property withdrawn from public domain;</li> <li>8. Executed occupancy agreement;</li> <li>9. Executed reversionary document;</li> <li>10. Transfer letter and documents for transferred assets; and</li> <li>11. Collection voucher.</li> </ol>
<b>Project Closeout</b>	Such as, but not limited to a final DD Form 1354, with associated source documentation retained by the responsible party.



2. All disposals must be supported as of the date the real property leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of an asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

- a. Declaration of excess document;
- b. Disposal 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 completion date;
- f. Receipt documentation; and
- g. Transfer documents for transferred assets or as otherwise stated.

3. Documents that support the recorded cost of real property assets must be retained by the DoD Component in accordance with the National Archives and Records Administration requirements described in Volume 1, Chapter 9. Documentation (original documents and/or hard and electronic copies of original documentation) must 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 RPUID(s). Supporting documentation may include, but is not limited to, the documentation as outlined in this subparagraph.

B. Include sufficient information indicating the physical size, location, and unit cost of each real property asset. The APSR and/or other systems must be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess real property 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 APSR and/or other systems through periodic physical counts/inventories of real property existence and completeness (known as “book to floor and floor to book”). Such periodic inventories also must include reconciling the APSR and/or other systems with the general ledger accounts and physical counts. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements (see DoDI 4165.14).

D. Identify and classify real property that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

1. The **Installation Host** having jurisdiction over the real property, in accordance with DoDD 4165.06 and DoDI 4165.70, is required to record real property assets in their APSR.

2. **The Installation Host** must reconcile their **real property** APSR to their financial statements (or to their trial balance if financial statements are not required to be prepared) on a quarterly basis.

3. All DoD Components funding CIP must reconcile their recorded CIP balances on a quarterly basis with any construction service provider working on the CIP. CIP should reflect the value associated with the actual progress payments and other costs incurred based on the progress of work completed as of the quarter end.

E. Be based on the same documents, to ensure that entries to the financial accounting/reporting and APSR are the same. This will ensure that the APSR is integrated and subsidiary to the financial accounting system and such records can be reconciled with the accounting system.

F. Include documents used to accumulate the cost of construction projects. Each document must link to the appropriate RPUID(s). For a listing of those costs that may be incurred during the construction, see Annex 1.

G. Include all real property in which the DoD has a legal interest.

H. Provide information to identify and account for leased real property, regardless of whether the real property was acquired by a capital lease or operating lease or whether the value of the real property exceeds DoD capitalization thresholds.

I. Provide information to identify and account for capitalized improvements to real property.

#### 240303. Physical Inventories of Real Property

DoD Components must perform periodic physical inventories of real property in accordance with DoDI 4165.14.

#### 240304. DM&R

##### A. Description

1. FASAB SFFAS 42 defines DM&R as maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed to a future period.

2. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset in working condition.

3. Maintenance and repairs exclude activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from or significantly greater than its current use.

#### B. Measurement

1. The values reported for real property DM&R must be consistent with the Facility Condition Index ratings and Facility Plant Replacement Values of the applicable real property facilities.

2. DoD Components should determine what condition standards are acceptable and which DM&R measurement methods to apply. Condition standards and measurement methods must be consistently applied unless the DoD Component determines that changes are necessary. Changes deemed necessary by the DoD Component must be accompanied by an explanation documenting the rationale for the change(s) and any related impact the change(s) will have on the DM&R estimates.

3. DM&R must be measured for capitalized and non-capitalized real property, and fully depreciated real property. In addition, DM&R associated with inactive real property should only be included when the asset is reported with an operational status of caretaker (CARE), closed (CLSD) or non-functional (NONF). In addition, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs. The reported data should not include DM&R that would be funded with NAFs commissary surcharge, or funding from non-DoD sources.

#### C. Required Supplemental Information

The [Installation Host](#) that reports real property must report material amounts of DM&R as RSI to the financial statements (see Volume 6B, Chapter 12). At a minimum, the following information must be presented as RSI:

1. Estimates of the beginning and ending balances of DM&R for each major category of real property;

2. A summary of the DoD Component's maintenance and repairs policies and a brief description of how they are applied (i.e., method of measuring DM&R);

3. Policies for ranking and prioritizing maintenance and repair activities;

4. Factors the DoD Component considers in determining acceptable condition standards;
5. Whether DM&R relates solely to capitalized facilities or also to amounts relating to non-capitalized or fully depreciated real property;
6. Capitalized real property for which the DoD Component does not measure and/or report DM&R and the rationale for the exclusion; and
7. If applicable, explanation of any significant changes to
  - (a) DM&R amounts from the prior year; and
  - (b) The policies and factors subject to the reporting requirements established in subparagraphs 240304.C.2 through 240304.C.6.

240305. Financial Statement Disclosure Reporting and Representation Requirements

A. DoD Components that financially report real property should reference a note on the Balance Sheet that discloses information about the reported real property assets.

\* B. The management representation letter provided to the Independent Public Accountant (for those DoD Components that undergo a financial statement audit), and the notes to the financial statements must include a disclosure related to real property reporting accounting policy. Examples of note disclosures are included in Appendix 5, paragraph A50104. It is the responsibility of each DoD Component to ensure that they are making a full and complete disclosure of how real property is being reported in accordance with the policies in this chapter.

C. DoD Components must disclose in the notes to the financial statements those instances in which they are using real property provided by a host nation/foreign government without reimbursement by DoD to the host nation/foreign government, as applicable, that:

1. The DoD Component is utilizing real property provided by and owned by a host nation/foreign government in its operations outside of the U.S. without reimbursement by DoD to the host nation/foreign government and that there are no amounts recorded in the financial statements related to these properties.

2. The general nature of the agreement with the host nation/foreign government. It is not intended or recommended that the geographic location of the host nation/foreign government be disclosed.

D. In accordance with SFFAS 55, DoD Components must disclose in the notes to the financial statements that only certain inter-entity (imputed) costs are recognized for goods and services that are received from other federal entities and/or DoD Components at no cost or at a cost less than the full cost as applicable. Such imputed costs and revenues relate to business-type

activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified in the preceding sentence are not included in DoD financial statements.

E. Refer to Volume 6B, Chapter 10 for additional disclosure reporting requirements.

240306. Environmental Liabilities/Cleanup Costs

The accounting policy for environmental liabilities/cleanup costs pertaining to real property is contained in Chapter 13.

Annex 1. Construction-in-Progress Cost Matrix

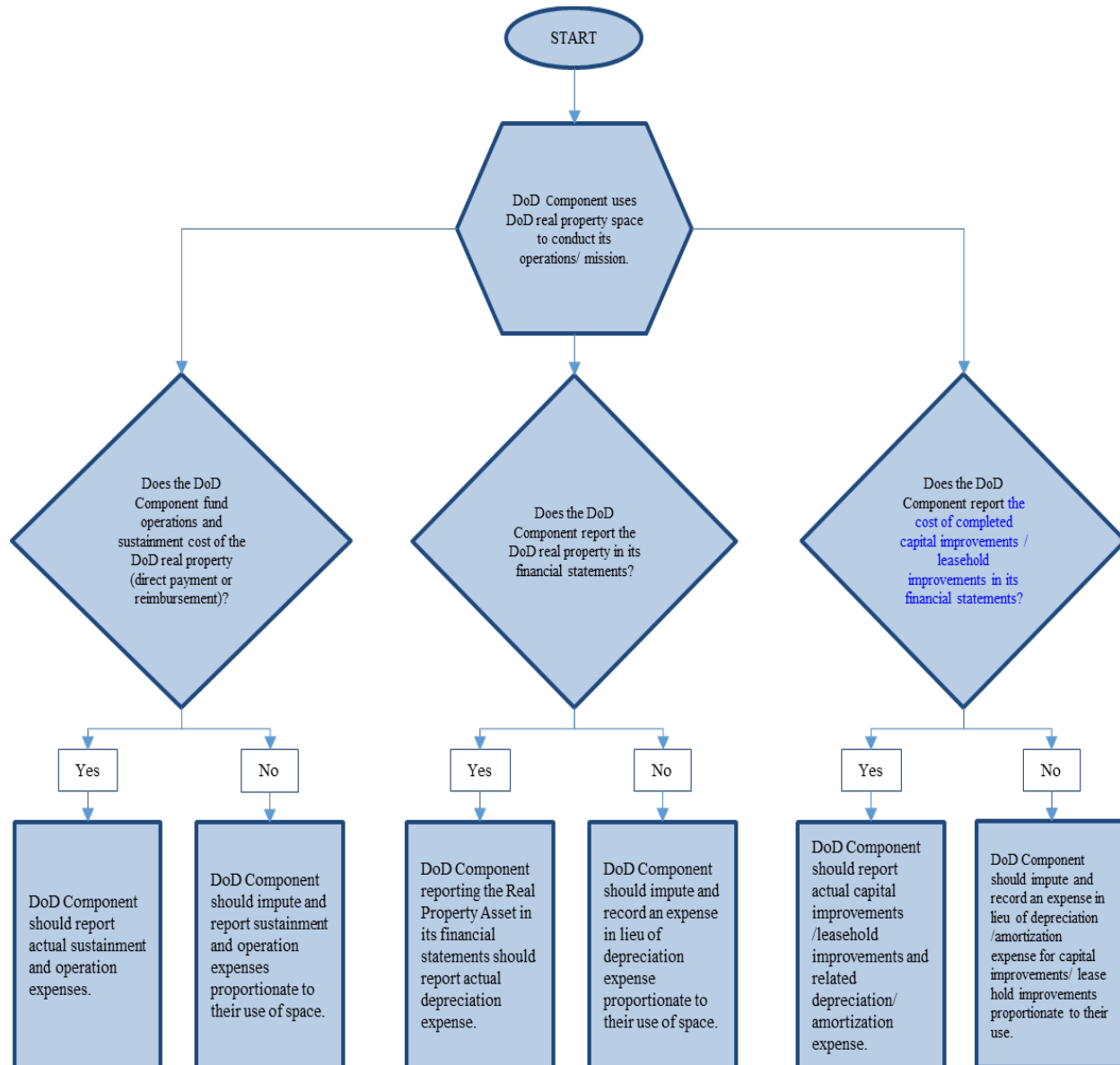
(Costs to be accumulated for constructed assets)

<b>Cost Type</b>	<b>Description</b>
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 and the cost of inspection.
Cost of Supervision, Inspection, and Overhead	Support associated with the administration of contracts for facility projects. Support may include processing of contract award and payments, performing inspections, and other actions taken during project 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 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 after funding and design authorization. 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 property	An appropriate share of the cost of the government furnished equipment and material used in construction work.
Cost of donated assets	The fair market value of equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

Annex 2. Decision Tree for Determining Imputed Costs

Accounting for imputed costs as displayed in the decision tree is applicable only to business-type activities (e.g., [Working Capital Funds \(WCFs\)](#)). See Chapter 24, subparagraph 240204.E for further guidance on inter-entity costs.

The following decision tree provides an illustrative guide to determine what real property asset-related costs should be imputed and reported by a [Department of Defense \(DoD\) Component](#) which is business-type activity (e.g., WCF) based on specific business case scenario attributes.



Note 1: With regard to imputed costs, if only partial direct payment or reimbursement is made by the DoD Component, it would record an imputed cost for the difference between the full value/benefit received and the direct payment or reimbursement.  
 Note 2: Quantitative information for imputing costs should be provided by the DoD Component incurring those costs (i.e., depreciation, amortization, operation costs and sustainment costs).

### Annex 3. Capital Improvement Depreciation

A. As stated in paragraph 37 of Statement of Federal Financial Accounting Standards 6 (SFFAS 6), “costs which either extend the useful life of existing General PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated General PP&E.”

B. The following Scenarios I and II illustrate application of the depreciation methodology for capital improvements and the underlying real property asset as directed by SFFAS 6 for improvements that equal or exceed the Department of Defense’s (DoD’s) capitalization threshold. When improvements extend the useful life of the associated General PP&E, the original estimated useful life will be adjusted for the estimated extension created by the improvement. When an improvement increases the capacity, size, or functionality/use of the associated General PP&E, but does not extend its useful life, the improvement should be capitalized and depreciated over the lesser of the useful life of the improvement or the remaining economic useful life of the underlying asset. Note that the economic life of the real property asset, in certain instances, may be different than the original estimated accounting useful life. The economic life reflects the remaining period of utility for the real property.

#### C. Examples and Scenarios of Capital Improvements

1. Extends the useful life: Major restoration or reconstruction restore facilities damaged by a natural disaster or event of similar consequence (e.g., reconstruction of a building on an existing foundation).
2. Increase capacity: Raising the roof of the warehouse to increase cubic feet.
3. Increase size: Build an addition, expansion or extension to the building, i.e., increase the footprint.
4. Modify functionality: Convert an office to a warehouse; upgrade architectural elements of a facility that is or is not failing; e.g., upgrade a flat roof to a pitched roof; install elevator where none existed.



Scenario I. Capital Improvement Extends the Useful Life of Existing General PP&E

In this scenario, the estimated extension of the useful life is combined with the remaining useful life of the original asset to establish a revised useful life. The remainder of the revised useful life at the date the improvement is placed in service is then used as the basis for calculating depreciation for the combined NBV of the original asset plus the value of the improvement.

In this Scenario, for example the conversion of a warehouse to office space, the capital improvement is placed in service at the beginning of the 26th year of the useful life of the original asset.

Original Building Acquisition Cost	\$450,000
Original Estimated Useful Life in years (yrs.) <sup>1</sup>	45
Annual Depreciation Expense (using straight-line depreciation) (\$450,000 ÷ 45)	\$10,000
Accumulated Depreciation at the end of year 25 (25 yrs. X \$10,000 per year)	\$250,000
NBV of original asset at the end of year 25 (\$450,000 - \$250,000)	\$200,000
Capital Improvement – added at the beginning of year 26 of original building’s useful life	\$280,000
Extension of useful life (yrs.) of existing building from capital improvement based on documented Engineering Estimate <sup>2</sup>	30
Revised remaining useful life for building with the capital improvement (45 yrs.(original useful life) less 25 yrs. (expired useful life) plus 30 yrs. (capital improvement useful life))	50
Revised depreciable value of building including capital improvement (\$200,000 (original NBV) plus \$280,000 (capital improvement))	\$480,000
Revised annual depreciation for the building and capital improvement (\$480,000 ÷ 50 yrs.)	\$9,600
<sup>1</sup> From Table 24-1	
<sup>2</sup> If an Engineering Estimate for the extended useful life of the capital improvement were not available; the 20 year useful life from Table 24-1 would be used.	

Scenario II. Capital Improvement Increases the General PP&E Asset’s Capacity, Size, or Modifies the Functionality/Use but Does Not Extend the Life of the Original General PP&E Asset

In this type of scenario, the capital improvement is depreciated over the lesser of the useful life of the improvement or the remaining economic useful life of the underlying General PP&E asset.

In this scenario, the capital improvement is placed in service at the beginning of the 16th year in the useful life of the original base asset. In this scenario, the remaining economic useful life of the original base asset is 25 years at the date the capital improvement is placed in service.

Original Linear Structure Acquisition Cost	\$500,000
Original Estimated Useful Life (yrs.) <sup>1</sup>	40
Annual Depreciation Expense (using straight-line depreciation) (\$500,000 ÷ 40)	\$12,500
Accumulated Depreciation at the end of year 15 (15 yrs. X \$12,500 per year)	\$187,500
NBV of original asset at the end of year 15 (\$500,000 - \$187,500)	\$312,500
Capital Improvement – added at the beginning of year 16 of original linear structure useful life	\$270,000
Useful life of capital improvement (yrs.) <sup>2</sup>	20
Annual Depreciation Expense (using straight-line depreciation) (\$270,000 ÷ 20)	\$13,500
Depreciation for the original value of linear structure would continue on an annual basis for the next 25 years ((40 yrs. (original useful life) - 15 yrs. (expired useful life))	\$12,500 annual depreciation
Depreciation for the capital improvement would be recorded over the estimated 20 year useful life of the improvement	\$13,500 annual depreciation
<sup>1</sup> From Table 24-1	
<sup>2</sup> If an Engineering Estimate were available for the useful life of the capital improvement were available, the Engineers Estimate would be used rather than the amount from Table 24-1	

Annex 4. Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures, Linear Structures, Land and Land Rights

A40101.      Establishing Opening Balances for Buildings, Structures and Linear Structures

A.      The alternative valuation methods for establishing opening balances for Property, Plant and Equipment described in Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50, “Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35,” is available only once to each reporting [Department of Defense \(DoD\)](#) Component. Therefore, prior to the establishment of opening balances for buildings, structures and linear structures (real property facilities), DoD Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation and disclosure requirements for real property in accordance with FASAB SFFAS 6, “Accounting for Property, Plant and Equipment.”

B.      If historical cost, as described in SFFAS 6, has not already been recorded and included in financial statements that have been audited by an Independent Public Accountant and received an unmodified opinion, deemed cost will be used as a surrogate to establish opening balances for real property. In this context, deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances. Although deemed cost may be based on any one of, or a combination of, allowable valuation methods such as fair value, estimated historical cost, or replacement cost (which includes Plant Replacement Value (PRV)), DoD’s selected valuation method for real property facilities is PRV. Once established using PRV, opening balances will be used as a surrogate for the initial amounts that would have existed had an SFFAS 6 compliant valuation method been used.

C.      Only existing real property assets with a gross PRV value equal to or over the current real property capitalization threshold and with a remaining book value will be recorded as a part of the opening balance. When evaluating real property for the purpose of establishing opening balances, DoD Components should apply the applicable capitalization threshold to their entire population of real property retroactively, irrespective of the capitalization thresholds in effect for years prior to October 1, 2013. The current real property threshold is \$250,000 for both the General Fund and Working Capital Fund (WCF), except for the National Security Agency (NSA) and the Office of the Director of National Intelligence (ODNI) for which the threshold is \$1 million. When establishing real property opening balances, DoD Components need to take the appropriate steps to ensure all relevant prior period adjustments and note disclosures are included in their annual financial statements in accordance with SFFAS 50. As part of their evaluation, DoD Components should not simply value assets already recorded above the capitalization threshold. DoD Components should perform additional analytical procedures to identify any assets that have been improperly capitalized or expensed. Examples of this type of review can include searching for real property assets with values of \$0 or \$1 which are indications of erroneous values. An additional example can include real property for which an additional zero was added in error, incorrectly placing the asset above the capitalization threshold.

D.      When establishing opening balances using deemed cost:

1.      DoD Components will calculate a gross value and an accumulated depreciation value for real property assets. Both the gross value deemed cost and accumulated depreciation deemed cost will be recorded in the accounting records. The difference between the net book value (NBV) of the deemed cost on the opening Balance Sheet of the current fiscal year presented and the existing/historical NBV of the real property as of the ending Balance Sheet of the previous fiscal year, is considered a prior period adjustment. This prior period adjustment represents a change in accounting principle in accordance with paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources." If any depreciation based on the original historical real property value has been recorded in the year in which the prior period adjustment for deemed cost is recorded, that depreciation expense should be reversed and depreciation for the deemed cost value should be recorded.

2.      Any adjustment must be properly documented and supported to assist ongoing audit efforts including retaining documentation of the existing/historical real property value in the Accountable Property System of Record (APSR) and documentation supporting the deemed cost value. The existing/historical gross value and accumulated depreciation of the real property will need to be removed from the APSR and be replaced with the new gross value and accumulated depreciation for deemed cost.

A40102.      Financial Statement Disclosure Requirements

DoD Components who apply the PRV deemed cost methodology to adjust their opening real property balances, must disclose in their financial statements that an alternative valuation method was applied in establishing their opening balances and describe the method used in the first reporting period in which the reporting DoD Component makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). An unreserved assertion is an unconditional statement. No disclosure of the distinction or breakout of the amount of deemed cost of real property included in the opening balances is required.

A40103.      Deemed Cost Methodology

A.      The DoD's selected deemed cost methodology for establishing opening balances in the absence of previously audited historical costs is current replacement cost or PRV, as calculated using the DoD's PRV model. The PRV approach has been selected as the preferred method for the following reasons:

1.      Cost and time effectiveness: The PRV model already exists and values are required to be updated annually for all assets;

2.      Many of the key data elements required by the PRV model have been validated by the DoD Components during their existence and completeness procedures;

3. Consistency: The PRV model provides a common approach for DoD to establish and support its opening balances for these assets.

B. The use of deemed cost does not change the requirement that documentation be available to support asset values. Therefore, documentation must exist to support the values (e.g., support for data element inputs for PRV model calculations).

**A40104. PRV Responsibilities**

A. The successful use of the PRV model in establishing opening balances requires specific actions on the part of the DoD Components, and the Office of the Secretary of Defense (OSD). OSD specific actions are carried out by the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Remediation Directorate; and the Office of the Assistant Secretary of Defense (Sustainment). A summary of responsibilities is:

1. DoD Components are responsible for **ensuring**:

a. First, key PRV data element inputs are accurate. The critical data elements for the PRV model are:

- (1) Real Property Site Unique Identifier (RPSUID);
- (2) Real Property Unique Identifier (RPUID);
- (3) Real Property Asset (RPA) Interest Type;
- (4) Asset Allocation Current Use Category Code;
- (5) Asset Allocation Current Use Facility Analysis Category (FAC) Code;
- (6) Asset Allocation Size Quantity;
- (7) Asset Allocation Unit of Measure Code; and
- (8) RPA Historic Status Code.

b. Second, additional data elements are required to apply and report the PRV values are accurate.

(1) RPA Placed in-Service Date. This data element is important for depreciation purposes. See subparagraph A40106 for guidance on determining placed in-service date.

(2) Government Investment Percentage (For Government / Private Agreement (GVPV) interest type only). The amount of the Government's investment as a percentage of an asset's total value is required for GVPV interest types in order to allocate DoD's portion of the total PRV.

c. Third, documentation exists and is readily available to support the Asset Allocation Size Quantity, RPA Historic Status Code, RPA Placed in-Service Date, and Government Investment Percentage (for GVPV interest types).

d. Fourth, processes, controls, and systems are in place to value newly acquired assets at actual cost in accordance with SFFAS 6.

e. Fifth, valuation calculations are performed correctly using the PRV formula and appropriate cost factors and adjustments found in the Unified Facilities Criteria 3-701-01 ([UFC 3-701-01](#)), "DoD Facilities Pricing Guide."

f. Sixth, resulting accounting adjustments are performed accurately and timely, are supported with sufficient documentation, and are reflected in the DoD Component's APSR, general ledger, and financial statements.

2. OSD is responsible for ensuring that:

a. The PRV model itself is supportable from a financial statement audit perspective. OSD will evaluate the processes, procedures, systems and controls that produce the PRV tables, factors, indexes, and functions, and reviewing the model outputs for overall reasonableness.

b. DoD estimated useful lives for depreciation purposes are supportable.

**A40105. Steps to Establish Deemed Cost Using PRV**

A. DoD Components will perform several steps to develop opening balances using the PRV approach. In summary, DoD Components will:

1. Validate all asset data that the DoD Components used to calculate and apply PRV values (paragraph A40104.A.1 PRV Responsibilities);

2. Calculate each asset's PRV as found in the DoD UFC 3-701-01. Capital improvements are included within the PRV calculation and do not need to be valued or depreciated separately from the base asset as part of this initial process. Each DoD Component's management must formally document the review and acceptance of the resulting values;

3. For assets with a GVPV interest type, the percentage of DoD's interest in the asset will be multiplied by the asset's total PRV to calculate the amount the DoD

Component will report. Only assets where DoD's portion of the PRV equal to or more than \$250,000 for both General Fund and WCF and \$1 million for NSA and ODNI will be reported;

4. Identify all DoD accountable General Property, Plant, and Equipment (General PP&E) (commonly known as FEE assets) with a PRV equal to or more than \$250,000 for both the General Fund and WCF and \$1 million for NSA and ODNI. These assets will be considered capitalized assets and must be reported on the DoD Component's Balance Sheet. For the purpose of establishing opening balances, the current real property capitalization threshold of \$250,000 for both the General Fund and WCF and \$1 million for NSA and ODNI will be applied to all existing real property assets;

5. Adjust, as appropriate, the DoD Component's APSR, general ledger, and financial statements upon establishing the beginning balance. Documentation supporting any adjustments must be maintained.

A40106. Determining Placed in-Service Date

A. The Real Property Information Model (RPIM) defines RPA Placed in-Service Date as "the calendar date the real property asset is available for use by DoD and the Government assumes liability and the warranties and receives legal interest." The [UFC 1-300-08](#), "Criteria for Transfer and Acceptance of DoD Real Property," notes this date as "the date an interim Transfer and Acceptance of Military Real Property document (DoD (DD) Form 1354) is signed and title for assets listed on the acceptance form is transferred to the DoD on behalf of the United States (U.S.) Government."

B. To assure consistent and accurate placed in-service dates, DoD Components must adhere to one of the following methods, and ensure that sufficient supporting documentation exists for auditors to validate the date recorded. Existing guidance that describes how placed in-service dates for real property assets will be determined is presented in Table A4-1

Table A4-1

Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date <sup>1</sup>	RPA Place in-Service Date <sup>2</sup> (Depreciation Triggering Event)
New construction	DD form 1354	Executed interim DD Form 1354 transaction	Date specified in DD Form 1354 transaction	Date first interim DD Form 1354 <sup>3</sup> transaction is executed	Date interim DD Form 1354 transaction is executed
Purchase <sup>4</sup> (can include Exchange)	Deed	Executed interim DD Form 1354 <sup>5</sup> transaction	Date of delivery/recordation	Date of delivery/recordation	Acquisition Date
Lease/Grant	Lease/Grant	Signed lease/grant	Grant Start Date	Date lease signed	Grant start date (Not applicable for depreciation)
Transfer between Services	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in transaction	Date of original transaction when United States Government acquired title or legal interest in the asset (Acquisition Date for the transferring Service)	Original DoD RPA Placed in-Service Date as shown by the transferring Service
Inventory Adjustment	Tier documentation noted in Table A5-3	Executed interim DD Form 1354 transaction	Date based on Tier documentation noted in Table A5-3	Date based on Tier documentation noted in Table A5-3	Date based on Tier documentation noted in Table A5-3
Transfer from one federal Component to another	Transfer letter, SF 1334	Executed interim DD Form 1354 transaction	Date specified in document	Date the United States Government acquired title or legal interest in the asset	Acquisition Date
Condemnation	Judgment document	Executed interim DD Form 1354 transaction/ Signed Judgment	Declaration of Taking is accepted by a court	Declaration of Taking is accepted by a court	Acquisition Date
Reversion	Reversion legal document	Executed interim DD Form 1354	Date of executed reversionary	Date of executed reversionary	Date of executed reversionary document



Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date <sup>1</sup>	RPA Place in-Service Date <sup>2</sup> (Depreciation Triggering Event)
		transaction	document	document	
Gifts and donations	Executed acquisition document	Deed delivery/ recordation	Date of acquisition document	Date of acquisition document	Acquisition Date
<sup>1</sup> Acquisition Date is a RPIM data element to be populated upon first acceptance by the United States Government. For RPA Placed in-Service Date, the term Acquisition Date equals the entry in the column titled Acquisition Date.					
<sup>2</sup> The date reflected in box 7a on the DD Form 1354.					
<sup>3</sup> Changed from final DD Form 1354 to interim DD Form 1354.					
<sup>4</sup> Purchase acquisition method is associated to both the land purchase and land purchase with facilities and exchange acquisition scenarios.					
<sup>5</sup> This method of acquisition is being added to the UFC 1-300-08 as requiring a completed interim DD Form 1354 at acceptance.					

C. In the absence of information noted in Table A4-1, the guidance in Table A4-2 should be used.

Table A4-2

Governing Document Reference	Placed in-Service Date Determination
FASAB - SFFAS 6, Paragraph 34	“PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or an agent of the entity.”
FASAB - SFFAS 6, Paragraph 40 and SFFAS 50, Paragraph 13	“In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date.” “It is not necessary to separately identify the in-service date for material improvements included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service.”
Chapter 24, Paragraph 240206.C	“The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used).”
Defense Finance and Accounting Service 7900.4-M, Financial Management Systems Requirements Manual Volume 3, Property, Plant and Equipment, page 41, August 2014	“Property, Plant and Equipment (PP&E) shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed Property, PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E in the system.”

D. DoD Components must review real property asset records for the existence and adequacy of documentation to support placed in-service information. In reviewing asset records, answers to the following questions must be answered:

1. Does sufficient documentation exist?
2. Does alternative documentation need to be used?
3. Is the placed in-service date clearly identified and marked on supporting documents?
4. Are all required appropriate/authorized signatures noted on documentation?

E. Documentation to support the placed in-service date is vital to the completeness of both functional and financial records. GAAP allows for alternative placed in-service methodologies where adequate historical documentation does not exist. These estimates of cost and placed in-service date must be fully supported, and information retained in accordance with National Archives and Records Administration requirements described in Volume 1, Chapter 9. Table A4-3 lists examples of supporting documentation for placed in-service date in descending order of preference.

Table A4-3

Documentation for Placed in-Service Date	Description	Tier
Source Documentation (noted in Table A4-1)	Noted in the second column of Table A4-1.	1
Tax Assessor Records	If adequate historical placed in-service date is not available, a search of the county tax assessor's website for the asset and the purchase date should be used to determine a reasonable estimate for placed in-service date.	1
Dedication Plaque	If adequate historical placed in-service date is not available, a search of the asset should be conducted for a dedication plaque. Once the dedication plaque has been found, ensure that it references the DoD as owners. If DoD is listed as owners, obtain a photograph of the dedication plaque with an inscription indicating the dedication date. If DoD is not listed on the plaque, the date shall not be used as an alternative for placed in-service date.	2
Cornerstone	If adequate historical placed in-service date is not available, search the asset for a cornerstone. If the cornerstone is found, obtain a photograph of the cornerstone. The cornerstone should be located on the outside of the building or structure with an inscription on the stone indicating the construction date. This date would be used for the placed in-service date.	2
Earliest Site Plot of Asset	If adequate historical placed in-service date is not available, search online in the DoD Component database for the earliest site plot or asset drawing available. Once found, the date on the earliest plot or asset drawing may be used as a reasonable alternative for placed in-service date.	2

Documentation for Placed in-Service Date	Description	Tier
Earliest Maintenance Record of Asset or Engineering Estimates (e.g., Engineering Form 3013)	If adequate historical placed in-service date is not available, search for work order or maintenance records from Department of Public Works or real property accountable officer or local program office. Once found, the date of the earliest recorded work order or maintenance may be used as a reasonable alternative for placed in-service date.	3
Placed in-Service Date of Major Asset on Site	If adequate historical placed in-service date is not available, research and obtain the actual or alternate placed in-service date established from a major asset on the DoD site. A major asset can be defined as a significant asset that is critical to the primary function of the site. The major assets may vary based on the purpose of the site. For example, a tower would be a major asset at a communications station, a house would be a major asset at a housing site, and a lighthouse would be a major asset for a site that includes the lighthouse, housing units, as well as other assets such as driveways, fences, and storage buildings that were established to support the lighthouse. For other sites, such as air stations, units, or sectors that may have multiple functions, a major asset could be a building where many of the management and administrative activities occur. The major assets must be located within the same real property site. Upon obtaining the placed in-service date of the major asset, use the placed in-service date of the major asset as the reasonable alternative for the placed in-service date of the supporting assets in question. If more than one major asset has a reliable placed in-service date on the site, and the placed in-service date of the major assets are different, then use the placed in-service date of the oldest asset on the site. Once found, the placed in-service date of the oldest major asset may be used as a reasonable alternative for placed in-service date.	3
Construction Style	If adequate historical placed in-service date is not available, a search for assets on the DoD site of a similar construction style or period. Once found, the placed in-service date of the similar style asset may be used as a reasonable alternative for placed in-service date. If only a range of years can be identified, then the mid-point of the range is an acceptable estimate of the placed in-service date.	3

#### A40107. Definitions

- A. Asset Allocation Current Use Category Code: A Military Service designator that represents the current use by the assigned user of a specific portion of a RPA.
- B. Asset Allocation Current Use FAC Code: An OSD level designator that represents the current use by the assigned user of a specific portion of the RPA.
- C. Asset Allocation Size Quantity: The amount of the asset granted for use based on the Asset Allocation Current Use FAC and expressed in terms of the Asset Allocation Unit of Measure Code.
- D. Asset Allocation Unit of Measure Code: The unit of measure code used for the measurement of the associated Asset Allocation Size Quantity.

E.     Building: A roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions and that protects human beings and their properties from direct harsh effects of weather such as rain, wind and sun.

F.     City Code: The code used to identify the city or the nearest city to where the real property asset or real property site is located. The nearest city shall be in the same county as the asset.

G.     Country Code: The Geopolitical Component Names, and Codes standard, code used to identify the country in which the real property asset or site is located.

H.     County Code: The code used to identify the county in which the real property asset or site is located. This code identifies counties and equivalent administrative entities of the U.S., its possessions, and associated areas as defined by the Federal Information Processing Series (FIPS) and found in the General Services Administration (GSA) Geographic Locator Codes (GLCs) or the county equivalent for countries not covered in the GSA GLCs. A County Code is only unique if it is combined with a State or Country Primary Subdivision Code in the areas listed in the GSA GLCs or with the Country Code for areas not in the GSA GLCs.

I.     Deemed Cost: An amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances.

J.     Fair Value: The amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

K.     GVPV: An interest in a real property asset held by the U.S. Government acquired by a mutually beneficial partnership agreement between a Military Department or WHS and a private entity, where equity interest in a project is shared for a specific business purpose. This interest type applies when the DoD has ongoing reported financial statement costs directly associated with an asset(s) gained by the project or the asset is located on a military installation.

L.     Linear Structure: A facility whose function requires that it traverse land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed or reported by a linear unit of measure at the category code level.

M.     Opening Balances: Account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

N.     PRV: A value, recorded in U.S. dollars, which represents the cost to design and construct a facility to current standards for replacement of an existing facility at the same location.

O.     RPA Historic Status Code: A code used to identify the current historical status of a RPA.

P.     RPA Interest Type Code: A code used to identify the type of legal interest that DoD holds in a RPA.

Q.     RPSUID: A unique non-intelligent code used to permanently identify real property sites. A real property site is a specific geographic location that has individual land parcels and/or facilities assigned to it. The City Code, County Code, State or Country Primary Subdivision Code and Country Code associated to the RPSUID will provide location information necessary for location cost factors.

R.     RPUID: A unique non-intelligent code used to permanently identify a real property asset.

S.     State or Country Primary Subdivision Code: The code used to identify the primary subdivision of a country such as a state, the District of Columbia, or a possession in which the real property asset or site is located.

T.     Structure: A facility, other than a building or linear structure, that is constructed on or in the land.

A40108.     Establishing Opening Balances for Land and Land Rights

A.     This paragraph does not change existing accounting or financial reporting guidance regarding Stewardship Land, including guidance in Chapter 28.

B.     All DoD Components that have not yet undergone a financial statement audit where they received an unmodified audit opinion will exclude the value of General PP&E land and land rights from opening balances of GPP&E on their Balance Sheet. This means that DoD Components who have not undergone a financial statement audit where they received an unmodified audit opinion will adjust their land and land rights opening balances to zero. A DoD Component that has received an unmodified audit opinion will continue to account for land and land rights in accordance with SFFAS 6.

C.     Entries in the DoD Component accounting systems/records to adjust the value of land and land rights to zero are subject to the reporting requirements under paragraph 13 of FASAB SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.” Accordingly, the entries will be reflected as a change in accounting principle. Any adjustments must be properly documented and supported to assist ongoing audit efforts.

D.     DoD Components adjusting their land and land rights to zero in accordance with subparagraph A40108.B will also expense future General PP&E land and land rights acquisitions.

E. DoD Components must disclose, in the notes to their financial statements, with a reference on the Balance Sheet, the number of acres of General PP&E land and land rights (where the types of land rights are conducive to measurement in acres) held as of the period of its first audited financial statement. This acreage amount must be reported separately from the DoD Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres in establishing opening balances.

F. For all years after the initial financial statements, where land and land rights were reported as zero, DoD Components must disclose, in the notes to their financial statements, with a reference on the Balance Sheet, the number of acres of General PP&E land and land rights measured in acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. These acreage amounts must be reported separately from the DoD Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres.

\*Annex 5. Illustrative Examples, Journal Entries and Note Disclosures Relating to Financial Reporting Responsibilities for Real Property

A50101. Construction-In-Progress (CIP) Illustrative Example and Journal Entries

A. CIP Example: The Department of Defense Education Activity (DoDEA) funds the construction of a new high school on an Army Installation. DoDEA reports the CIP on its financial statements. When the asset is placed in service, DoDEA relieves the appropriate CIP amount, recognizes the asset, and transfers the asset to the Army along with all relevant supporting documentation. Upon transfer, the Army reports the school on its financial statements.

B. Table A5-1 depicts illustrative General Ledger (G/L) journal entries to demonstrate the relief of CIP in the accounting records and initial recording of the asset by the funding Department of Defense (DoD) Component and the subsequent transfer of that asset to the Installation Host when the funding DoD Component is not the Installation Host.

Table A5-1. Liquidation of CIP and Transfer of Completed Asset

Funding DoD Component	<b>G/L Entry – Liquidation of CIP by the DoD Component Funding Construction to Place the Asset in Service (Transaction Code D510)</b>
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 172000 Construction-in-Progress
	<b>G/L Entry – Transfer Out to Installation Host (Transaction Code E510)</b>
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Installation Host	<b>G/L Entry – Transfer In by Installation Host (Transaction Code E606)</b>
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 572000 Financing Sources Transferred in Without Reimbursement

Note: If the transfer is not completed during the month CIP is relieved and depreciation has been recorded by the funding DoD Component, the recorded amount of accumulated depreciation recorded will also be transferred.

A50102. In-Service Real Property Illustrative Examples and Journal Entries

A. In-Service Real Property Examples:

1. The Missile Defense Agency (MDA) operates a facility that includes other defense agency tenants located on an Army Installation. The Army does not have operations in the facility but is the designated Installation Host and carries the MDA facility as Army real property in its real property database. The Army is the financial reporting entity for the facility.

2. The Army Working Capital Fund (WCF) operates and has jurisdiction over a maintenance depot. The Army WCF will report the real property on that installation on its financial statements and is responsible for maintaining supporting documentation to support audit.

B. Table A5-2 depicts illustrative G/L journal entries to demonstrate the transfer of in-service real property from one DoD Component to the Installation Host.

Table A5-2. Transfer of In-Service Real Property Reporting Responsibility

DoD Component	<b>G/L Entry – Transfer Out to Installation Host (Transaction Code E510)</b>
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations Debit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Installation Host	<b>G/L Entry – Transfer In by Installation Host (Transaction Code E606)</b>
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 173900 Accumulated Depreciation on Buildings, Improvements and Renovations Credit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 572000 Financing Sources Transferred In Without Reimbursement

A50103. Capitalized Improvements to Real Property Illustrative Examples and Journal Entries

A. Capitalized Improvements to Real Property Examples:

1. The Defense Logistics Agency (DLA) WCF funds an improvement to a building on an Army base. DLA reports the CIP until the improvement is complete, then transfers the improvement to the Army to be reported on the Army's General Fund financial statements. DLA will set its capital recovery rates related to the capital improvement in accordance with Volume 2B, Chapter 9, recording the imputed cost instead of actual depreciation expense as the basis for their budget.

2. The Defense Advanced Research Projects Agency (DARPA) funds a conversion of an office suite to another purpose that it occupies on a Navy installation. DARPA reports the CIP until the conversion is complete, relieves CIP, and then transfers the improvement to the Navy to be reported on the Navy's General Fund financial statements.

B. Table A5-3 depicts illustrative G/L journal entries to demonstrate the transfer of in-service capital improvements from one DoD Component to the Installation Host.



Table A5-3. Transfer of In-Service Capital Improvements to Real Property

Funding DoD Component	<b>G/L Entry – Transfer Out to Installation Host (Transaction Code E510)</b>
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 173900 Accumulated Depreciation on Buildings, Improvements, and Renovations Debit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 173000 Buildings, Improvements, and Renovations Credit 174000 Other Structures and Facilities
Installation Host	<b>G/L Entry – Transfer In by Installation Host (Transaction Code E606)</b>
	Debit 173000 Buildings, Improvements, and Renovations Debit 174000 Other Structures and Facilities Credit 173900 Accumulated Depreciation on Buildings, Improvements and Renovations Credit 174900 Accumulated Depreciation on Other Structures and Facilities Credit 572000 Financing Sources Transferred In Without Reimbursement

## A50104. Note Disclosure Examples

A. The following is an example of a note disclosure for Installation Hosts, which could be Military Departments, WHS or Military Department WCFs:

*The [Installation Host] reports the real property within the jurisdiction of [Installation Host] installations, in its financial statements because it is the designated Installation Host. This includes real property on [Installation Host] installations including real property used and occupied by [another Military Department, WHS, another Military Department WCF or other DoD Components (who are not the Installation Host)]. The [Installation Host] who is the Installation Host does not report assets on its installation that were funded by, and are exclusively used by an entity not included in the consolidated DoD financial statements. While the [Installation Host] is responsible and accountable for accepting, controlling, managing, and utilizing real property assets, the [Installation Host] has entered into Memoranda of Agreement, with another Installation Host, or other DoD Components, and license or permit with non-DoD governmental agencies, transferring the right to control the use of a [Installation Host] real property asset to the [other Installation Host and other DoD Components and non-DoD governmental agencies (who are not the Installation Host)]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the [Installation Host].*

B.      The following are examples of note disclosures for DoD Components utilizing real property assets in their operations that are being financially reported by an Installation Host:

Example of the Note for DoD Component:

*The [DoD Component] does not report in its financial statements real property that they use and occupy within the jurisdictions of [Military Department or WHS]. This includes all real property used and occupied by the [DoD Component]. The [DoD Component] has entered into Memoranda of Agreement, with the [Installation Host] that is the Installation Host, which transfers the right to control the use of [Installation Host] real property asset to the [DoD Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Installation Host] acting as the Installation Host.*

Example of the Note for a non-Military Department WCF Component (e.g., DLA):

*The [DoD WCF Component] does not report in its financial statements real property that they use and occupy within the jurisdiction of [Installation Host]. This pertains to all real property used and occupied by the [DoD WCF Component] including real property that was funded with WCF outlays that are being recovered through the capital recovery rate. The [DoD WCF Component] has entered into Memoranda of Agreement, with the [Installation Host] that is the Installation Host, which transfers the right to control the use of a [Installation Host] real property asset to the [DoD WCF Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains and asset of the [Installation Host] acting as Installation Host.*

C. The following is an example of a note disclosure for a Military Department WCF that (1) has been given jurisdiction over specific installation(s) and financially reports that real property; and, (2) also used and occupied other real property for which it is not the financially reporting Installation Host:

*The [Military Department WCF] reports in its financial statements real property within the jurisdiction of the [Military Department WCF], when it is the designated Installation Host for the real property. This includes real property on [Military Department WCF ] designated installations including real property used and occupied by [another Military Department, WHS or other DoD Components (who are not the Installation Host)]. However, the [Military Department WCF] who is the designated Installation Host does not report assets on its installation that were funded by, and are exclusively used by an entity not included in the consolidated DoD financial statements.*

*The [Military Department WCF] used and occupied certain real property asset(s) in which it is not the designated Installation Host as a result does not include the real property asset(s) in its financial statements. The [Military Department WCF] has entered into Memoranda of Agreement, with the [Installation Host] that is the Installation Host, which transfers the right to control the use of [Installation Host] real property asset(s) to the [Military Department WCF]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Installation Host] acting as the Installation Host*