SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 6
"PROPERTY, PLANT, AND EQUIPMENT"

Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure that includes revision

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	**Major revision to chapter to update the areas of Real Property, Internal-Use Software, Heritage Assets, and Stewardship Land to comply with the Statement of Federal Financial Accounting Standards (Numbers 10, 23, and 29) and a policy memorandum, Internal Use Software Financial Management Policy, dated May 14, 2004, issued by the Office of the Under Secretary of Defense (Comptroller). Introduces three annexes. The updated policy is highlighted in blue font.**	**Update**

★TABLE OF CONTENTS

PROPERTY, PLANT, AND EQUIPMENT

CHAPTER 6

PROPERTY, PLANT, AND EQUIPMENT

★0601 GENERAL

060101. Purpose. This chapter prescribes the accounting standards and policy for the Department of Defense (DoD) property, plant, and equipment (PP&E). Also provided are common accounting entries for recording proprietary transactions. The applicable general ledger accounts are listed in the government-wide Standard General Ledger (SGL) contained in ***Volume 1, Chapter 7*** of this regulation, and their use is illustrated in this chapter. The PP&E accounting policy in this chapter is applicable to all DoD Components, including Defense Working Capital Fund (WCF) activities, except where noted.

060102. Overview. Within PP&E, two categories have been defined for accounting and reporting purposes. Specific accounting guidance is contained in this chapter for each category of PP&E. These categories are:

1. General PP&E

2. Stewardship PPE

a. Heritage Assets

b. Stewardship Land

060103. Definitions. The two categories of PP&E are defined below.

A. General PP&E

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

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

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

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

d. have an initial acquisition cost, book value, or when applicable, an estimated fair market value (see paragraph 060202 for definitions of these terms) that equals, or exceeds, DoD capitalization threshold. The current DoD Capitalization threshold is $100,000 for the two categories, except for real property assets, which is $20,000. This threshold is applicable to assets procured by both General and Working Capital Funds.

2. General PP&E assets that had previously been classified as National Defense PP&E, i.e. weapons systems and related support equipment. (These assets were reclassified as General PP&E in the Statement of Federal Financial Accounting Standards No. 23).

3. Bulk purchases of General PP&E, that individually meet the capitalization threshold, shall be capitalized and recorded in a property accountability system that is capable of computing depreciation or interfaces with a system that is capable of computing depreciation. A bulk purchase for capitalization purposes is defined as:

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

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

4. Materiality, as defined by the Financial Accounting Standards Board (FASB) Statement of Financial Concepts No. 2, is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

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

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

b. It is used in business-type activities.

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

6. General PP&E also includes:

a. assets acquired through capital leases, including leasehold improvements (see paragraph 060207 of this chapter);

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

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

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

7. General PPE examples include but are not limited to:

a. Real Property including Land and Land Rights

b. Construction in Progress

c. Real Property such as Buildings; Other Structures, and Facilities

d. General Equipment

e. Assets Under Capital Lease

f. Leasehold Improvements

g. Internal Use Software

h. Military Equipment

8. General PP&E excludes items:

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

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

c. classified as Stewardship PPE (as described in Section 0603);

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

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

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

10. For further discussion of General PP&E accounting policy, see paragraph 0602 of this chapter.

B. Stewardship PP&E

1. Stewardship PP&E consists of tangible assets classified as either Heritage Assets or Stewardship Land.

a. Heritage Assets are PP&E of historical, natural, cultural, educational significance; artistic importance; or significant architectural characteristics.

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

C. For further discussion of Heritage Assets and Stewardship Land, see section 0603 of this chapter.

060104. Acquisition of General PP&E

A. General. When acquiring a General PP&E asset, the purchase cost and other costs necessary to bring the asset to an operable condition (see 060202.B of this chapter) are capitalized, in accordance with paragraph 060103.A.1.d of this chapter. If the General PP&E acquisition costs, including other costs necessary to bring the asset to an operable condition, do not equal or exceed DoD capitalization threshold, the costs are expensed in the period incurred.

B. Documentation

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

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

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

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

060105. Recognition of General PP&E

A. General

1. All General PP&E assets acquired by DoD must be recognized for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization and depreciation or amortization) and the reporting of capitalized amounts and accumulated depreciation or amortization on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset or the DoD Component in possession of a General PP&E asset, most often will be the DoD Component that must account for and report the asset. The following guidance shall be used to determine which DoD Component is required to account for and report General PP&E assets.

2. In most instances, a General PP&E asset shall be recognized by the Component acquiring the General PP&E asset. Recognition shall occur when title to the asset passes to the acquiring DoD Component. Title passage will occur either at the time of delivery to the DoD Component (or an agent of the DoD Component) or at an earlier contractually specified time. The exception to this requirement is based on the concept of the preponderant use and is explained in paragraph 060105.B.

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

b. Real Property. The real property assets or capital improvements to an asset shall be capitalized at the time they are placed in service. This event is defined as the date on which the facility or improvement to a facility is available for use by DoD and referred to as the placed in service date. On this date, an interim "Transfer and Acceptance of Military Real Property" document (DD Form 1354) is signed, title for assets listed on the acceptance form is transferred, and the punch-list of additional work and certificate of occupancy by local authorities are attached to the acceptance form. On this date, the government assumes liability and the warranties begin for the asset(s) to which they have received title. For constructed assets, the cost to construct the asset shall be recorded as construction-in-progress until the asset is placed in service. All cost information transferred from the construction-in-progress account to the real property asset account at the time the asset or the capital improvement to the asset is placed in service, will be supported by the DD Form 1354.

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

(2) All additional costs incurred following the asset placed in service date shall be transferred from the construction-in-progress account to the real property asset account with the final DD Form 1354. The original acquisition cost of the asset will be adjusted for this amount and the revised amount will continue to be depreciated over the remaining useful life of the asset.

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

3. WCF activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of General PP&E assets and the depreciation of such assets by WCF activities, therefore may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All General PP&E depreciation of WCF activities shall be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Monthly Report of Operations" (AR 1307) reports. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B of this regulation.

4. To establish proper PP&E accountability when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request from the losing DoD Component or other federal agency, the necessary source documents to establish the location; original acquisition cost; cost of improvements; the date the asset was purchased, constructed, or acquired; the estimated useful life; the amount of accumulated depreciation; and the condition, if desired. If this information is not available, estimates may be necessary and must be documented.

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

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

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on possession or the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances when an entity maintains possession of property through agreements that provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however,

as in the case of a base closing where an entity conducts operations or the decommissioning of an aircraft, control no longer exists; hence, the property will no longer meet the control criterion for the asset. For further policy regarding treating assets on military bases slated for closing, see paragraph 060205 of this chapter.

3. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy and use the asset without reimbursement for as long as needed. If the transaction of the event occurs at the end of the reporting period, that DoD Component/predominant user shall report the asset and the associated depreciation expense on the financial statements.

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

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

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

c. Working Capital Funds

(1) General. When a WCF activity is the preponderant user of a General PP&E asset, that WCF activity shall report and depreciate that asset on its financial statements. This requirement exists without regard to whether the WCF activity belongs to a Military Department or a Defense Agency. For example, if multiple WCF activities make improvements to a facility they occupy, WCF activities shall account for and report their share of capital improvement investments, whether they are the preponderant user or not.

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

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

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

C. Facilities and Equipment Outside the Zone of the Interior

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

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

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

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

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

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

3. Such facilities and equipment are not to be considered assets under a capital lease, unless a specific agreement with the host country exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria for a capital lease as specified in paragraph 060207 of this chapter.

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

D. <u>Recognition Uncertainty</u>

1. It is important that the overall accounting records of the Department of Defense and the federal government are not duplicative. Defense Agencies that possess and control (have preponderant use of) PP&E assets that materially contribute to the Defense Agencies' mission should maintain accounting and financial reporting for such PP&E, regardless of the organization that originally acquired the items or provided the funding for the PP&E. If a Defense Agency prepares financial statements, such PP&E assets should be reported in its financial statements. In situations where doubt exists as to which

DoD Component should recognize an asset, DoD Components involved shall reach agreement with the other applicable DoD Components or Federal agencies as to which entity will recognize the PP&E.

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

060106. Supporting Documentation. Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary property accountability records and/or systems must:

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

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

a. Final bid documents;

b. signed acceptance document by the government;

c. Contract/Other Legal Instrument (i.e., lease);

d. Contract Modifications or Change Orders;

e. invoices to support the amount accumulated in the CIP account;

f. indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement;

g. "FY _ Military Construction Project Data" ***DD Form 1391***) and work orders to include the design cost during the planning phase;

h. appraisal results for the donated assets;

i. transfer documents for transferred assets;

j. “Material Inspection and Receiving Report” (***DD Form 250***);

k. “interim and final Transfer and Acceptance of Military Real Property” (***DD Form 1354***) document, and

l. collection voucher.

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

a. Declaration of excess document.

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

c. Original acquisition documents.

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

e. Document showing the disposal start date.

f. Receipt documentation.

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

3. Document Retention That Supports Cost and Accountability. Documents that support the recorded cost of General PP&E assets shall be retained by the DoD Component in accordance with the requirements contained in ***Volume 1, Chapter 9*** of this regulation or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. Supporting documentation may include, but is not limited to, purchase invoices, sales and procurement contracts, ***DD Form 1354***, “Work Order/Completion Report” ***ENG Form 3013***, construction contracts, work orders, and other such documentation generated independently of the entity in possession of the property. Component real property asset managers will maintain all applicable documentation for 10 years after disposal as required by the U.S. National Archives and Records Administration.

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

C. Enable periodic, independent verification of the accuracy of the accounting and accountability records through periodic physical counts/inventories of PP&E (existence and completeness--"book to floor and floor to book"). Such periodic inventories also shall include reconciling the subsidiary property accountability records and/or systems with the general ledger accounts and physical accounts. Personal hand receipt self validations are not acceptable in meeting the independent verification of physical inventory requirements.

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

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

F. Accumulate the cost of construction or developmental projects in either the construction-in-progress general ledger account for posting to the applicable PP&E accounts when construction is completed or to the appropriate expense accounts if the construction project is terminated prior to completion.

1. Construction-in-progress is transferred to the applicable real property account on the date the asset is placed in service.

2. If construction is cancelled or not programmed within the Future Years Defense Plan (FYDP), the costs shall be transferred from the construction-in-progress account and shown as an expense.

G. Cost(s) related to Engineering and Design (E&D) or construction costs shall be expended as follows:

1. If the E&D costs are accumulated in the construction-in-progress account and the associated project is not approved by the Office of the Secretary of Defense for inclusion in the Program Objective Memorandum (POM) process, then the E&D cost must be removed from the construction-in-progress account and charged to an expense account.

2. The E&D costs accumulated in the construction-in-progress account are used for the development of Program Proposal/POM, and subsequently incorporated in the President's budget. If Congress does not approve or fund the line item on the President's budget, then the E&D cost must be removed from the construction-in-progress account and charged to an expense account.

3. The E&D costs accumulated in the construction-in-progress account are used for the development of Program Proposal/POM, and subsequently incorporated in the President's budget. If the project is line item approved and funded by Congress and the construction project has started, then the E&D cost and all other construction costs must be removed from the construction-in-progress account and charged to an expense account, only if the contract is cancelled (e.g., BRAC) prior to the delivery of the asset.

4. For a listing of those costs that may be incurred during the construction-in-progress phase, see Annex 2.

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

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

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

060107. Government Property in the Possession of Contractors

A. Government property in the possession of contractors, whether government-furnished, contractor-acquired or contractor-fabricated, consists of seven mutually exclusive categories, as reflected on "DoD Property in the Custody of Constructors" (***DD Form 1662***): Land, Other Real Property, Other Plant Equipment, Industrial Plant Equipment, Special Test Equipment, Special Tooling, and Military Property (Agency Peculiar). Material (contractor acquired or government furnished) also reported on the ***DD Form 1662*** generally is not PP&E.

B. To maintain effective property accountability and control, and for financial reporting purposes, DoD Components shall record in DoD property accountability systems detailed information on property provided to contractors, to include real property (Government-owned Contractor Operated facilities) and DoD property transferred from one contract to another contract. DoD property that was procured or fabricated by a contractor shall be accounted for and reported by the contractor until the property is recorded in DoD property accountability records or systems.

C. For further discussion, see ***DFARS 252.245-7001***.

060108. Physical Inventories of PP&E

A. DoD Components must perform periodic physical inventories of PP&E.

1. General PP&E personal property and Heritage Assets shall be inventoried at least every three years.

2. General PP&E real property to include land shall be inventoried at least every five years.

3. General PP&E military equipment shall be inventoried at a minimum once a year.

4. For further discussion, see ***DoDI 5000.64***, section 5.4. Contractors in possession of government property are exempt from this inventory policy. However, contractors are subject to Federal Acquisition Regulation property accountability requirements.

B. Physical inventories shall be taken to ensure, among other things, that DoD PP&E is:

1. At the location identified in the property accountability records or system, or if the PP&E is mobile, who (individual, organization, or both, as appropriate) the PP&E custodian is and where the PP&E custodian is located;

2. as described in the property records; and

3. in the condition described in the property records.

C. Results of the physical inventories shall be reconciled to the property accountability records and/or systems. Differences shall be researched and any adjustments shall be fully documented. Adjustments may be required for any unrecorded physical changes such as removals, additions, or modifications of the PP&E that were not previously or properly recorded.

D. PP&E assets (other than real property) not in use and real property assets (in or not in use) may be inventoried using statistical sampling, as discussed in ***Chapter 4*** of this volume. The physical inventories shall be scheduled so that all PP&E items are identified and pertinent information validated within the timeframes established in this subsection.

E. Care must be taken to consider PP&E due-in and in-transit to the organization before reaching any conclusions that the property accountability records are accurate (or inaccurate).

F. Adjustments to property accountability records, systems and financial records shall be made for those PP&E items where the physical identification and count disclosed discrepancies. Such adjustments shall be supported by reports of surveys prepared in accordance with ***Volume 12, Chapter 7*** of this regulation "Financial Liability for Government Property, Lost, Damaged, or Destroyed". Adjustments resulting from previously unrecorded modifications or alterations also shall be supported by documentation showing the costs of the modifications or alterations. For further discussion, see ***DoDI 5000.64***, section E2.1.19.

G. Adjustments to the general ledger accounts to record PP&E found during the conduct of physical inventories shall be recorded under the appropriate SGL accounts for PP&E (1700 series), as detailed in Section 0602 of this chapter, or for losses, under "Other Losses" (SGL Account 7290).

060109. Deferred Maintenance. DoD Components must report in the financial statements material amounts of deferred maintenance on PP&E. The specific financial statement reporting requirements are contained in ***Volume 6B*** of this regulation.

A. Definitions

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

2. For purposes of this policy, maintenance is described as the act of keeping PP&E assets in an acceptable condition. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its expected life.

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

B. Policy

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

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

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

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

b. Field-Level Maintenance.

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

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

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

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

C. Method for Measuring Deferred Maintenance

The method used to determine the estimated amounts of deferred maintenance must be reported in the narrative statement to the Required Supplementary Information Deferred Maintenance Report in DoD Component financial statements. The federal-wide accounting standard permits the use of:

1. Condition assessment surveys; or

2. life cycle cost forecasts.

D. Required Supplementary Information

1. At a minimum, deferred maintenance shall be presented in the financial statements as required supplementary information for all General PP&E. The following four categories shall be included:

a. Identification of each major class of asset for which maintenance has been deferred. The DoD Component shall determine the "major classes" of general PP&E. Major classes include but are not limited to buildings and structures, furniture and fixtures, equipment, vehicles, and land.

b. Method of measuring deferred maintenance for each major class of PP&E.

c. If the condition assessment survey method of measuring deferred maintenance is used, the following shall be presented for each major class of PP&E:

(1) Description of requirements or standards for acceptable operating condition.

(2) Any changes in the condition requirements, or standards.

(3) Asset condition and a range of a point estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition. Examples of condition information include, but are not limited to averages of standardized condition rating codes, percentage of assets above, at or acceptable-condition, or narrative information.

d. If the total life cycle method is used the following shall be presented for each major class of PP&E:

(1) The original date of the maintenance forecast and an explanation of any changes to the forecast.

(2) The prior year balance of the cumulative deferred maintenance amount.

(3) The dollar amount of the maintenance requirement estimated for the reporting period.

(4) The dollar amount of the maintenance actually performed during the period.

(5) The difference between the forecast and actual maintenance.

(6) Any adjustments to the scheduled amounts deemed necessary.

(7) The ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.

2. Other methods may be used to estimate the amount of deferred maintenance and should be accompanied by information that describes the method.

060110. Environmental Liabilities/Cleanup Costs

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

★0602 ACCOUNTING FOR GENERAL PP&E

060201. Asset Recognition

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

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

1. Amounts paid to vendors;

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

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

4. transportation charges to the point of initial use;

5. handling and storage costs;

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

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

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

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

10. fixed equipment and related installation costs required for activities in a building or facility;

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

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

13. legal and recording fees and damage claims;

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

15. interest paid (not including late payment interest penalties), and

16. pro rated share of nonrecurring cost associated with the development and production of the equipment.

C. Method of Acquisition Determines Recorded Cost

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

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

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

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

5. Capital Leases. The cost recorded for General PP&E acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception, plus any cash paid or other consideration given. Specific guidance on capital leases is provided at paragraph 060207 of this chapter.

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

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

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

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

060202. Real Property.

A. Land and Land Rights (Account 1711)

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

2. Table 6-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES TO ACCOUNT 1711 LAND AND LAND RIGHTS			
1.	Dr	1711 Land and Land Rights	
		Cr	2110 Accounts Payable
			To record the acquisition cost incurred by the DoD for land.
2.	Dr	1711 Land and Land Rights	
		Cr	5720 Financial Sources Transferred in Without Reimbursement
			To record either of the following: (a) the cost of land and/or land rights that were provided from other sources without reimbursement (b) the estimated fair market value or the specific amount established by authoritative sources for land when the acquisition cost cannot be determined.
3.	Dr	1711 Land and Land Rights	
		Cr	2110 Accounts Payable
		Cr	5720 Financial Sources Transferred in Without Reimbursement
			To record the cost of placing property, acquired without reimbursement, in the form needed for its use.

TABLE 6-1

3. Sources of entries to this account include invoices, payment vouchers, documented estimates indicating source of estimates, sales records, and documented transfers and losses. See paragraph 060106.A for a more complete list.

B. Construction-in-Progress (Account 1720)

1. The Construction-in-Progress (CIP) account is used to accumulate the costs of real property construction projects. The cost of equipment that is installed as an integral part of the real property or that normally could not be removed without dismantling the property also is included in the CIP account. Examples of such equipment include heating and air conditioning systems and elevators. Costs included in the CIP account are accumulated regardless of the source of funding (Military Construction; Minor Construction; Operation and Maintenance; Research, Development, Test and Evaluation) and include direct labor, direct material, and overhead.

2. Construction overhead costs include any cost of construction that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, and depreciation. Construction overhead may be collected in cost pools and allocated to specific construction projects in proportion to the benefits received.

3. Construction-in-Progress cost amounts are accumulated by the construction agent (i.e., U.S. Army Corps of Engineers (USACE), the Naval Facilities Engineering Command (NAVFAC), or other such approved DoD activity as applicable), when they are managing and responsible for the construction. The DoD Component that is to receive the constructed property shall report CIP amounts on their financial statements, regardless of what type of funds were used to fund the construction. Such CIP balances shall be provided in accordance with financial reporting requirements by the USACE and NAVFAC to the appropriate reporting DoD Component along with supporting documentation in sufficient detail to reconcile the CIP balances by project and funding source. In addition, USACE and NAVFAC shall make any additional data available to the reporting DoD Component upon request.

4. CIP costs shall be captured and accumulated by real property asset or structure to facilitate determining whether the capitalization threshold has been met. Engineering and design costs also should be captured in the Construction-in-Progress account. Upon completion, if the accumulated costs equal or exceed DoD capitalization threshold (see paragraph 060103.A.1.d of this chapter), the accumulated costs shall be transferred to the proper PP&E asset account as the recorded cost of the real property. If the accumulated costs do not meet DoD capitalization threshold, such costs shall be expensed in the year management determines that the capitalization threshold was not or will not be met. Costs related to in-house construction, contractor construction, and construction by other government agencies also shall be recorded in the CIP account.

5. Completed construction projects shall be capitalized and recorded in the appropriate SGL account and real property accountability or management system upon placing the property in service, regardless of close-out of the construction contract(s) and issuance of final payment to the contractor.

6. Subsidiary accounts, ledgers or systems shall be maintained for each construction project to facilitate the transfer of associated costs to the applicable real property or expense account.

7. Sources of entries to the CIP account include, but are not limited to, billings under contracts for materials, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed construction projects; construction acceptance documents; accounting records; reports of survey; and documented losses. Progress payments on contracts and other types of payments such as reimbursements under cost-based contracts also are included in the CIP account.

8. Table 6-2 illustrates the most common entries to the CIP account.

ACCOUNTING ENTRIES TO ACCOUNT 1720 CONSTRUCTION-IN-PROGRESS			
1.	Dr	1720 Construction-in-Progress	
		Cr	6100 Operating Expenses/Program Costs
			To record the costs incurred by the DoD for construction-in-progress.
2.	Dr	1720 Construction-in-Progress	
		Cr	2110 Accounts Payable
			To record the allowable costs of construction-in-progress performed by contractors or another federal agency.
3.	Dr	1730 Buildings, Improvements and Renovations	
	Dr	1740 Other Structures and Facilities	
		Cr	1720 Construction-in-Progress
			To transfer completed projects to the applicable real property accounts.
4.	Dr	7290 Other Losses	
		Cr	1720 Construction-in-Progress
			To record the nonreimbursable loss, damage, or destruction of construction-in-progress.
TABLE 6-2			

C. Buildings, Improvements and Renovations (Account 1730)

1. The Buildings, Improvements and Renovations account is used to record the purchase cost of DoD-controlled buildings, improvements and renovations. When the purchase cost cannot be determined, the estimated fair market value of buildings and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. Reference paragraph 060201.C. for assistance in determining acquisition recorded costs. The account also is used to record capitalized improvements. See Table 6-3 for common accounting entries.

ACCOUNTING ENTRIES FOR ACCOUNT 1730
BUILDINGS, IMPROVEMENTS AND RENOVATIONS

1. Dr 1730 Buildings, Improvements and Renovations
   Cr 2110 Accounts Payable
   Cr 2590 Other Debt

   To record the acquisition cost incurred for buildings.

2. Dr 1730 Buildings, Improvements and Renovations
   Cr 1720 Construction-in-Progress

   To record the value of completed buildings transferred from the CIP account.

3. Dr 1730 Buildings, Improvements and Renovations
   Cr 5720 Financial Sources Transferred in Without Reimbursement

   To record the transferor's acquisition cost of facilities received without reimbursement.

4. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Cr 1730 Buildings, Improvements and Renovations

   To write off fully depreciated buildings, improvements and renovations.

5. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 5730 Financing Sources Transferred Out Without Reimbursement
   Cr 1730 Buildings, Improvements and Renovations

   To record the value of facilities transferred without reimbursement to another federal agency or DoD entity. This entry shall not be used to record disposals.

6. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 7210 Losses on Disposition of Assets -Other
   Cr 1730 Buildings, Improvements and Renovations

   To record the nonreimbursable loss, damage or destruction of a building.

TABLE 6-3

D. Other Structures and Facilities (Account 1740)

1. The Other Structures and Facilities account is used to record the recorded cost of DoD-controlled utilities and improvements to land and facilities not classified as buildings. Examples include, but are not limited to, fences, roads, bridges, utilities, rail lines, and fuel storage facilities. When the acquisition cost cannot be determined, the estimated fair market value and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The account also is used to record capitalized improvements to other structures and facilities.

2. Table 6-4 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1740
OTHER STRUCTURES AND FACILITIES

1.	Dr	1740 Other Structures and Facilities	
		Cr	2110 Accounts Payable
		Cr	2590 Other Debt
			To record the acquisition cost incurred for structures and facilities.
2.	Dr	1740 Other Structures and Facilities	
		Cr	1720 Construction-in-Progress
			To record the value of completed structures and facilities transferred from the Construction-in-Progress account.
3.	Dr	1740 Other Structures and Facilities	
		Cr	5720 Financial Sources Transferred in Without Reimbursement
			To record the transferor's net book value for facilities received without reimbursement.
4.	Dr	1749 Accumulated Depreciation on Other Structures and Facilities	
		Cr	1740 Other Structures and Facilities
			To write off fully depreciated structures and facilities.
5.	Dr	1749 Accumulated Depreciation on Other Structures and Facilities	
	Dr	5730 Financial Sources Transferred Out Without Reimbursement	
		Cr	1740 Other Structures and Facilities
		Cr	1711 Land and Land Rights
			To record the value of structures and facilities transferred without reimbursement to another federal agency or DoD entity. This entry shall not be used to record disposals.
6.	Dr	1749 Accumulated Depreciation on Other Structures and Facilities	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1740 Other Structures and Facilities
			To record the nonreimbursable loss, damage or destruction of a structure or facility.

TABLE 6-4

060203. Equipment (Account 1750). The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services. Equipment also is referred to as personal property. This account excludes computer software (SGL Account 1830), but includes Automated Data Processing (ADP) systems and hardware (computers and peripherals).

A. ADP Systems/Hardware

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

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

B. Accounting Entries. The Equipment account is used to record the cost of ADP hardware/systems (personal property) in use by DoD Components. Table 6-5 illustrates the most common entries for this account. The account also is used to record the cost of improvements to equipment/personal property that meet DoD capitalization threshold. The policy for improvements is provided in paragraph 060204 of this chapter.

ACCOUNTING ENTRIES TO ACCOUNT 1750
EQUIPMENT

1. Dr 1750 Equipment
   Cr 2110 Accounts Payable

   To record the cost incurred for equipment purchased.

2. Dr 8802 Purchases of Capitalized Assets
   Cr 8801 Offset for Purchases of Capitalized Assets

   To record acquisition of capitalized assets by purchase, construction, or production.

3. Dr 1750 Equipment
   Cr 7190 Other Gains

   To record an increase in equipment that is discovered by physical inventory. The estimated fair market value of the discovered equipment shall be used when the actual cost cannot be determined.

4. Dr 1750 Equipment
   Cr 2110 Accounts Payable
   Cr 5720 Financial Sources Transferred In Without Reimbursement

   To record the net book value recorded in the transferor's accounts for equipment received without reimbursement by DoD from a non-DoD federal agency and the costs of placing the property in the form intended for its use.

5. Dr 1750 Equipment.
   Cr 5720 Financial Sources Transferred In Without Reimbursement

   To record the transferor's net book value of equipment that is received without reimbursement from another DoD Component.

TABLE 6-5

ACCOUNTING ENTRIES TO ACCOUNT 1750 EQUIPMENT(CONTINUED)			
6.	Dr	1759 Accumulated Depreciation on Equipment	
		Cr	1750 Equipment
			To write off fully depreciated equipment.
7.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	1890 Other General PP&E	
		Cr	1750 Equipment
			To record the value of equipment removed from service as a result of Base Realignment and Closure.
8.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	5730 Financial Sources Transferred Out Without Reimbursement	
		Cr	1750 Equipment
			To record the value of equipment that is transferred without reimbursement from DoD to another federal agency. This entry shall not be used to record disposals.
9.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7290 Other Losses	
		Cr	1750 Equipment
			To record (a) the nonreimbursable loss, damage or destruction of equipment or (b) the loss identified by physical inventory.
10.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	1890 Other General PP&E	
		Cr	1750 Equipment
			To record the value of equipment transferred to the Other General PP&E account as a result of Base Realignment and Closure.

Table 6-5 (continued)

060204. Improvements to Existing General PP&E

A. Definition. The costs to improve a General PP&E asset shall be capitalized when the costs of the improvement increase the General PP&E asset's capability, size, efficiency, or useful life or modifies functionality. In addition, the cost of an improvement shall be capitalized only when the cost of the improvement equals or exceeds DoD capitalization threshold (see paragraph 060103.A.1.d of this chapter), regardless of funding source. Applicable improvements shall be capitalized and depreciated separately from the General PP&E asset improved. For depreciable periods, see Table 6-7 "DoD Standard Recovery Periods for Depreciable General PP&E Assets. Improvements that do not increase an asset's capacity, size, efficiency, or useful life, regardless of the cost of the improvement, shall be expensed. Improvement policy applicable to specific types of property follows:

1. Improvements to Real Property. Improvements to General PP&E real property (including multi-use Heritage Assets), that equal or exceed DoD capitalization threshold (see paragraph 060103.A.1.d of this chapter), shall be individually capitalized and recorded within real property accountability, management, or accounting systems as indicated in Table 6-7 of this chapter, and Annex 2. Improvements to fences, roads, bridges, sewers, utilities and any other real property structure not identified as a building (as shown in Table 6-7 as 40-year recovery property) also shall be depreciated as provided for in the DoD Standard Recovery Period Table."

2. Improvements to Personal Property. Improvements to General PP&E personal property that increase an asset's capacity, size, efficiency, or useful life, when the cost of the improvement equals or exceeds DoD capitalization threshold, shall be individually capitalized and recorded within personal property accountability, management, or accounting systems and depreciated over the applicable DoD standard recovery period, as indicated in Table 6-7 of this chapter, "DoD Standard Recovery Periods for Depreciating General PP&E Assets." An example of an improvement to personal property is a computerized printing press, costing more than the capitalization threshold, that is modified to make it more efficient, and the improvement costs exceed DoD capitalization threshold. Improvements to personal property shall be depreciated over the period indicated in DoD Standard Recovery Period Table.

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

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

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

E. Table 6-6 shows common entries for improvements.

ACCOUNTING ENTRIES FOR ACCOUNT 1730 BUILDINGS, IMPROVEMENTS and RENOVATIONS			
1.	Dr	1730 Buildings, Improvements and Renovations	
		Cr	2110 Accounts Payable
		Cr	2590 Other Debt
			To record the acquisition cost incurred for an improvement to buildings.
2.	Dr	1730 Buildings, Improvements and Renovations	
		Cr	1720 Construction-in-Progress
			To record the value of completed building improvements transferred from Construction-in-Progress accounts.
3.	Dr	1730 Buildings, Improvements and Renovations	
		Cr	5720 Financial Resources Transferred In Without Reimbursement
			To record the transferor's net book value of facilities received without reimbursement.
4.	Dr	1739 Accumulated Depreciation on Buildings, Improvements and Renovations	
		Cr	1730 Buildings, Improvements and Renovations
			To write off fully depreciated improvements upon disposal.
TABLE 6-6			

060205. Depreciation.

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

B. Method of Depreciation. Department of Defense policy permits the use only of the straight-line method of depreciation.

C. Recorded Cost. The recorded cost is the acquisition cost of an asset plus any ancillary costs required to bring the asset into an operating condition. Examples of costs required to bring an asset into an operating condition include freight fees, handling and storage costs, installation costs, and set-up costs. See paragraph 060201.B of this chapter for a more comprehensive list of these ancillary costs.

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

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

F. Useful Life. For purposes of computing depreciation on DoD General PP&E assets, specific recovery periods are prescribed. Table 6-7 reflects the recovery periods to be used for DoD General PP&E, except for military equipment. Depreciation of military equipment and the estimated useful life for military equipment will be based on data provided by the military equipment Program Managers and valued by the OUSD (AT&L) Property, Plant and Equipment Policy Office.

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

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

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

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

I. Calculation of Depreciation. Depreciation expenses shall be calculated and accumulated using the straight-line method based on the recorded cost less salvage value and divided equally among accounting periods during the asset's useful life based on recovery periods in Table 6-7 of this chapter. Salvage value will be used in the calculation only if it exceeds 10 percent of the cost of the asset.

J. Recovery Periods. Table 6-7 prescribes the recovery periods (useful lives) that shall be used for depreciable General PP&E assets.

DoD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS (Excludes Military Equipment and Heritage Assets)	
Description of General PP&E Assets	**Recovery Period**
General Purpose Vehicles (Includes Heavy Duty Trucks and Buses); ADP Systems and Hardware (Computers and Peripherals); High Tech Medical Equipment; Equipment used in Research, Development, Test and Evaluation (RDT&E); Radio and Television Broadcasting Equipment; and Software Improvements to 5-Year Recovery Period Property (Personal Property)	5 Years*
All Other Equipment, Machinery and Software** Improvements to 20-Year Recovery Period Property	10 Years
Vessels, Tugs, Barges and Similar Water Transportation Equipment (Non-Military Equipment vessels/ships) Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more), Sewers and Other Utilities (including such things as fiber optic cable) Fences, Roads, Bridges, Towers, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities and Other Real Property Structures. Improvements to 40-Year Recovery Period Property	20 Years
Buildings, Hangers, Warehouses, Fuel Storage Buildings, Air Traffic Control Towers, and Other Real Property Buildings	40 Years
Improvements to Leased Buildings and Other Real Property (Leasehold Improvements)	Remainder of Lease Period or 20 Years Whichever Is Less
Land Rights of Limited Duration	Over the Specified Duration
TABLE 6-7	

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

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

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

L. Disposal of Depreciable PP&E

1. General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/ amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

2. General PP&E assets that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. See section M, below for further guidance and appropriate accounting entries. The triggering event for disposal is the time/date the asset no longer provides service in the operations of the entity. Depreciation/amortization of General PP&E assets will stop on this disposal date. This date shall also represent the date on which the General PP&E asset and its associated depreciation/amortization and accumulated depreciation/amortization are no longer reported under the General PP&E account on the financial statements and the depreciation/amortization calculation is discontinued.

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

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

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

6. Table 6-8 illustrates common entries for the depreciation/amortization of buildings, improvements and renovations. Table 6-9 illustrates common accounting entries for the depreciation/amortization on other structures and facilities. Table 6-10 illustrates common accounting entries for the depreciation/amortization on equipment.

M. Other General PP&E (Account 1890).

1. When a General PP&E asset is identified for other than normal removal from service, such as would be the case for assets that are part of a Base Realignment and Closure (BRAC), the asset shall be removed from the PP&E accounts, along with its associated accumulated depreciation/amortization and be recorded in the Other General PP&E account (1890) at its net realizable value (NRV). Oftentimes the NRV will be zero. Any difference between the book value of the PP&E asset and its expected NRV shall be recognized as a gain or loss in the period of adjustment. For assets that are part of BRAC, the disposal date is the operation closure date as established by BRAC law.

2. The Disposal Net Realizable Value Amount is defined as the expected earning from the disposal of a real property asset less any costs necessary to complete and dispose of the asset. The net realizable value is used for assets that will be held for a period of time and disposed of at a future date such as those properties that are part of a BRAC or declared as excess under a special legislation. The net realizable value is an accounting method used to calculate the present value of future earnings the asset is expected to generate, less the cost of owning, holding, developing, and operating the asset. For special legislation (BRAC) properties, the difference between this amount and the net book value at the time a property is identified for disposal is used to post GL account 7110 (Gains on Disposition of Assets-Other) or 7210 (Losses on Disposition of Assets-Other). The Disposal Start Date must calculate this value.

3. The Other General PP&E account shall not be used to record assets that have been removed from service and sent to a depot for storage with the intent to use the assets again in the future or for other assets taken out of service on a temporary basis. Those

assets shall remain recorded in the appropriate general ledger account and shall continue to be depreciated. Normal disposal transactions shall not be processed through account 1890 and shall not be accounted for using account 5730, Financial Sources Transferred Out Without Reimbursement.

4. Table 6-11 illustrates common accounting entries for the other general PP&E account.

ACCOUNTING ENTRIES FOR ACCOUNT 1739
ACCUMULATED DEPRECIATION ON BUILDINGS, IMPROVEMENTS AND RENOVATIONS

1. Dr 6710 Depreciation, Amortization and Depletion
   Cr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations

   To record the depreciation expense for the current accounting period.

2. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 5730 Financing Sources Transferred Out Without Reimbursement
   Cr 1730 Buildings, Improvements and Renovations

   To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

3. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Cr 1730 Buildings, Improvements and Renovations

   To write off fully depreciated improvements upon disposal.

4. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 7210 Losses on Disposition of Assets -Other
   Cr 1730 Buildings, Improvements and Renovations

   To record the nonreimbursable loss, damage or destruction of a building or to record the loss on the disposal of a building.

TABLE 6-8

ACCOUNTING ENTRIES TO ACCOUNT 1749
ACCUMULATED DEPRECIATION ON OTHER STRUCTURES AND FACILITIES

1. Dr 6710 Depreciation, Amortization and Depletion
   Cr 1749 Accumulated Depreciation on Other Structures and Facilities

   To record depreciation expense for other structures and facilities.

2. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
   Dr 5730 Financing Sources Transferred Out Without Reimbursement
   Cr 1740 Other Structures and Facilities

   To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

3. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
   Cr 1740 Other Structures and Facilities

   To write off fully depreciated structures and facilities upon disposal.

4 Dr 1749 Accumulated Depreciation on Other Structures and Facilities
   Dr 7210 Losses on the Disposition of Assets - Other
   Cr 1740 Other Structures and Facilities

   To record the nonreimbursable loss, damage or destruction of other structures and facilities or to record the loss on the disposal of structures and facilities.

TABLE 6-9

ACCOUNTING ENTRIES TO ACCOUNT 1759
ACCUMULATED DEPRECIATION ON EQUIPMENT

1.	Dr	6710 Depreciation , Amortization and Depletion	
		Cr	1759 Accumulated Depreciation on Equipment
			To record depreciation expense for equipment.
2.	Dr	1759 Accumulated Depreciation on Equipment	
		Cr	1750 Equipment
			To write off fully depreciated equipment upon disposal.
3.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1750 Equipment
			To record the nonreimbursable loss, damage or destruction of equipment or to record the loss on the disposal of equipment.
4.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7290 Other Losses	
		Cr	1750 Equipment
			To record a decrease in equipment discovered by physical inventory.
5.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	5730 Financing Sources Transferred Out Without Reimbursement	
		Cr	1750 Equipment
			To record the value of equipment transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

TABLE 6-10

ACCOUNTING ENTRIES FOR ACCOUNT 1890
OTHER GENERAL PP&E

1. Dr 1890 Other General PP&E
Cr 1711 Land and Land Rights

To record the value of land identified for disposal as the result of a BRAC action and transferred to Other General PP&E.

2. Dr 1890 Other General PP&E
Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Cr 1730 Buildings, Improvements and Renovations
Cr 7110 Gains on Disposition of Assets - Other

To record the value of buildings, improvements and renovations identified for disposal because of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than the book value of the assets transferred.

3. Dr 1890 Other General PP&E
Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Dr 7210 Losses on Disposition of Assets - Other
Cr 1730 Buildings, Improvements and Renovations

To record the value of buildings, improvements and renovations identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than the book value of the assets transferred.

4. Dr 1890 Other General PP&E
Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Cr 1740 Other Structures and Facilities
Cr 7110 Gains on Disposition of Assets - Other

To record the value of other structures and facilities identified for Disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.

TABLE 6-11

ACCOUNTING ENTRIES FOR ACCOUNT 1890 OTHER GENERAL PP&E (CONTINUED)			
5.	Dr	1890 Other General PP&E	
	Dr	1749 Accumulated Depreciation on Other Structures and Facilities	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1740 Other Structures and Facilities
			To record the value of other structures and facilities identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.
6.	Dr	1890 Other General PP&E	
	Dr	1759 Accumulated Depreciation on Equipment	
		Cr	1750 Equipment
		Cr	7110 Gains on Disposition of Assets - Other
			To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.
7.	Dr	1890 Other General PP&E	
	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1750 Equipment
			To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.

Table 6-11 (continued)

060206. Assets Under Capital Lease (Account 1810)

A. Definitions.

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

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

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

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

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

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

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

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

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

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

D. When a lease is a capital lease, the lessee shall record the applicable asset and liability at lease inception. The amount to be recorded under a capital lease is the present value of the rental property and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor.

If the present value amount, however, exceeds the fair value of the leased property at the inception of the lease, the amount recorded shall be the fair value. If the executory costs portion of the minimum lease payments cannot be determined, the amount should be estimated. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. All other leases should be accounted for as operating leases with no balance sheet recognition.

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

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

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

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

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

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

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

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

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

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

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

J. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers.

K. Table 6-12 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1810
ASSETS UNDER CAPITAL LEASE

1.	Dr	1810 Assets Under Capital Lease	
		Cr	2940 Capital Lease Liability
			To record the present value of a capital lease.
2.	Dr	1819 Accumulated Depreciation on Assets Under Capital Lease	
	Dr	2940 Capital Lease Liability	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1810 Assets Under Capital Lease
			To record disposition of an asset held under a capital lease at a loss.

TABLE 6-12

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

A. The Accumulated Depreciation on Assets Under Capital Lease account accumulates the annual/periodic depreciation expense for assets under capital lease. The depreciation recovery period (useful life) to be used to depreciate personal or real property acquired by a capital lease is the recovery period designated for the type of property indicated in Table 6-7, unless the lease period is less than the recovery period in the table. For example, if a capital lease is used to acquire a fire truck (which has a 5-year recovery period), then the fire truck would be depreciated over five years if the lease period is for at least five years. In the same example, if the lease period is only four years, the fire truck would be fully depreciated over four years.

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

C. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation. Financial record retention requirements for such vouchers are contained in ***Volume 1, Chapter 9*** of this regulation.

D. Table 6-13 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1819 ACCUMULATED DEPRECIATION ON ASSETS UNDER CAPITAL LEASE~~S~~			
1.	Dr	6710 Depreciation, Amortization and Depletion	
		Cr	1819 Accumulated Depreciation on Assets Under Capital Lease~~s~~
			To record depreciation of an asset acquired by capital lease.
2.	Dr	1819 Accumulated Depreciation on Assets Under Capital Lease	
	Dr	2940 Capital Lease~~s~~ Liability	
	Dr	7210 Losses on Disposition of Assets - Other	
		Cr	1810 Assets Under Capital Lease
			To record disposition of an asset acquired by capital lease at a loss.
TABLE 6-13			

060208. Leasehold Improvements (Account 1820)

A. The Leasehold Improvement account is used to record the value of capitalized improvements to leased property. When leasehold improvements meet or exceed DoD capitalization criteria (see paragraph 060103.A.1.d of this chapter), such improvements shall be capitalized and amortized for the remainder of the lease period or 20 years whichever is less. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account. Table 6-14 illustrates common entries for the account.

B. Accumulated Amortization on Leasehold Improvements (Account 1829). The account, Accumulated Amortization on Leasehold Improvements, is used to accumulate the periodic amortization expense for leasehold improvements. Sources for entries to this account include journal vouchers with workpapers supporting the computation of the amounts to be amortized over the life of the lease. Table 6-14 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1820 LEASEHOLD IMPROVEMENTS AND ACCOUNT 1829 ACCUMULATED AMORTIZATION ON LEASEHOLD IMPROVEMENTS			
1.	Dr	1820 Leasehold Improvements	
		Cr	1720 Construction-in-Progress
			To record the value of completed improvements to leased property.
2.	Dr	6710 Depreciation, Amortization and Depletion	
		Cr	1829 Accumulated Amortization on Leasehold Improvements
			To record the amortization expense for the accounting period.
3.	Dr	1829 Accumulated Amortization on Leasehold Improvements	
		Cr	1820 Leasehold Improvements
			To write off fully amortized leasehold improvements.
TABLE 6-14			

060209. Internal Use Software (Account 1830)

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

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

2. developed by employees of DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance;

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

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

B. Recognition, Measurement. Internal Use Software is recognized and capitalized if it has a useful life of two years or more, provides a significant increase in functionality that is visible to the user (in the case of enhancements) and the cost of the software or enhancement equals or exceeds DoD capitalization threshold. An upgrade is not necessarily a capital improvement. If an upgrade modernizes an operating system, it is normally expensed since the user does not see a significant increase in functionality. As development work accumulates, the costs will be entered into an Internal Use Software In Development account (Account 1832). When the software is accepted, the accumulated costs shall be removed from this "In Development" account, and the cost of the software or enhancement shall be transferred to the Internal Use Software account (Account 1830). Table 6-16 provides examples of these accounting transactions.

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

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

3. Internally Developed Software. The capitalized cost of internally developed software shall include the full cost (direct and indirect costs) incurred during the software development phase. Full cost includes the costs of new software (e.g., contract cost, salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation. The development of technical documentation and manuals is capitalized. The costs of mass-producing manuals are expensed. Project management (direct labor) costs are those cost specifically associated with a particular project and is capitalized. Program management (indirect labor) costs are labor costs associated with an entire program consisting of several individual projects. The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition project shall be expensed or capitalized depending on their materiality to overall costs of individual software development projects and each phase and/or preponderance of development or acquisition work. Capitalized costs shall be limited to costs incurred after the preliminary design phase. Table 6-15 provides a matrix of software acquisition and development

costs and provides additional guidance regarding whether such costs will be expensed or capitalized. The various types of costs incurred during software acquisition and development are explained below:

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

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

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

(d) Contractor Costs. Contract costs must be evaluated to determine whether the costs are to be expensed or capitalized. Such determination is based on the type of work performed by the contractors. Table 6-15 provides a breakdown of the various work activities and whether the cost of such activities must be expensed or capitalized.

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

Table 6-15

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

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

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

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

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

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

H. Enhancements

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

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

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

I. Impairment

1. Post Implementation/Operational Software

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

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

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

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

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

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

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

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

a. Expenditures are neither budgeted nor incurred for the project

b. Programming difficulties cannot be resolved on a timely basis

c. Major cost overruns occur

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

e. Technologies that supersede the developing software product are introduced

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

J. Amortization/Depreciation

1. Software that is capitalized shall be amortized/depreciated as provided for in this chapter. The DoD Standard Recovery Period used for depreciation shall be consistent with that used for planning the software's acquisition. See Table 6-7, "DoD Recovery Periods for Depreciable General PP&E Assets" for the specific recovery periods (useful lives) for software.

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

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

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

5. Table 6-17, below, provides a decision tree to assist in determining if an Internal Use Software project shall be capitalized.

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

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

2. The estimated useful life.

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

L. Accounting Entries. Internal Use Software Account 1830 shall be used to record the cost of Internal Use Software. Table 6-16, below, illustrates common example entries for the account.

ACCOUNTING ENTRIES TO ACCOUNT 1830
INTERNAL USE SOFTWARE

1. Dr 1830 Internal Use Software
   Cr 2110 Accounts Payable

   To record the acquisition cost incurred by the DoD for purchased software.

2. Dr 1832 Internal Use Software In Development
   Cr 6610 Cost Capitalization Offset

   To record cost incurred for software under development.

   Dr 1830 Internal Use Software
   Cr 1832 Internal Use Software In Development

   To transfer cost of software under development to the software account upon completion of acceptance testing.

5. Dr 1839 Accumulated Depreciation on Internal Use Software
   Dr 7210 Losses on Disposition of Assets
   Cr 1830 Internal Use Software

   To write off unusable software that has already been placed in service, but is no longer useful.

4. Dr 6710 Depreciation, Amortization and Depletion
   Cr 1839 Accumulated Amortization on Internal Use Software

   To record depreciation expense for the current accounting period.

6. Dr 1839 Accumulated Amortization on Internal Use Software
   Cr 1830 Internal Use Software

   To write off fully depreciated Internal Use Software upon disposal.

TABLE 6-16

INTERNAL USE SOFTWARE CAPITALIZATION DECISION TREE

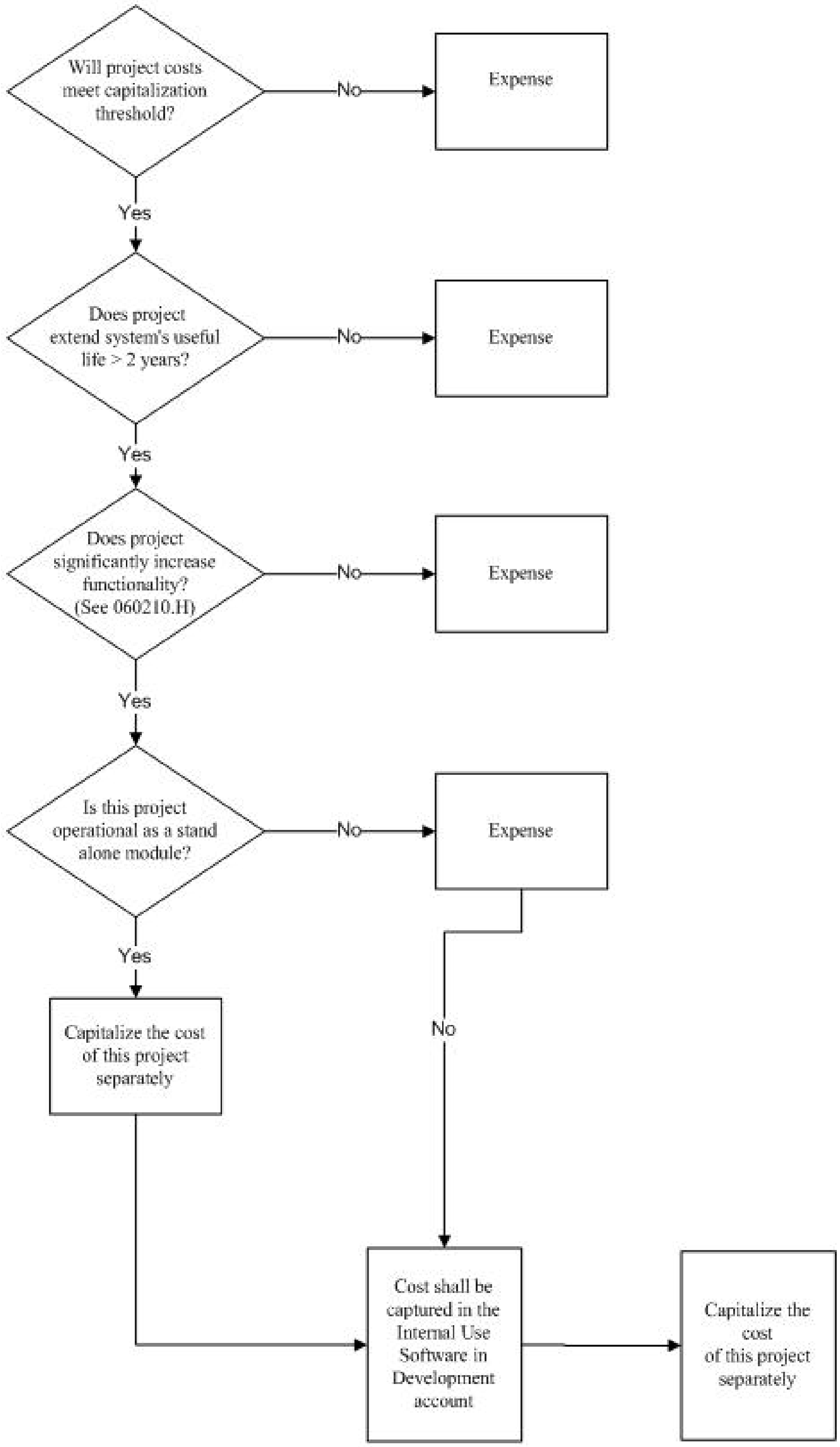

TABLE 6-17

★0603 ACCOUNTING FOR STEWARDSHIP PP&E

060301. General

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

1. Heritage Assets: PP&E of historical, natural, cultural, educational significance; artistic importance; or significant architectural characteristics.

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

B. Heritage Assets consists of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. The nature of these items, however, differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.

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

D. The costs of acquiring Heritage Assets and Stewardship Land are expensed in the period incurred.

060302. Heritage Assets

A. Definition

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

a. Historical or natural significance;

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

c. significant architectural characteristics.

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

3. The cost or value should not serve as a precursor when deciding if an item should be classified as a Heritage Asset. DoD Components should refer to published registers, and their own judgment, when making this assessment. DoD Components should assess the importance of an item relative to the ideals of the nation, its citizens and institutions. Display equipment, defined as old or obsolete military equipment which is not considered to warrant museum-level heritage significance, but is on outside display at military installations, is not a Heritage Asset. Similarly, a park bench dedicated to the memory of a person or group is not considered a Heritage Asset. Historic significance may be determined if a property/asset meets at least one of the following criteria used by the National Register of Historic Places:

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

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

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

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

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

060303 Recognition and Measurement

A. Heritage Assets

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

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

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

B. Multi-Use Heritage Assets

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

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

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

060304. Disclosures

DoD Components with Heritage Assets should reference a note on the balance sheet that discloses information about Heritage Assets, but no asset dollar amount should be shown. The note disclosure shall provide the following:

1. A concise statement explaining how they relate to the mission of the entity.

2. A brief description of the entity's stewardship policies for heritage assets.

3. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period. The appropriate level of aggregation and physical units (by collection or individual units) of measure for each major category should be meaningful and determined by the preparer based on the entity's mission, types of heritage assts, and how it manages the assets. For each major category of heritage asset, the following should be reported:

a. The number of physical units by major category; major categories should be classified by collection or non-collection type heritage assts for which the entity is the steward as of the end of the reporting period. This will go into effect after September 30, 2007 and should be reported in RSI until effective date;

b. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period. This will go into effect after September 30, 2008 and should be reported in RSI until effective date; and

c. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units (by major category) of transfers of heritage assets between Federal entities and the number of physical units (by major category) of heritage assets acquired through donation or through donation of devise during the reporting period should be disclosed, if known and material. This will go into effect after September 30, 2008 and should be reported in RSI until effective date.

4. DoD Components shall report the condition of the Heritage Assets as Required Supplementary Information.

060306. Stewardship Land

A. Definitions. The following are definitions of Stewardship Land:

1. Land not acquired for, or in connection with, items of General PP&E is Stewardship Land.

2. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be General PP&E common grounds.

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

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

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

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

060307 Recognition and Measurement. Land classified as Stewardship Land shall be reported as basic information within the financial statements of the DoD Component responsible for such land. The cost of the acquisition of Stewardship Land shall be recognized on the Statement of Net Cost for the period in which the cost is incurred. The cost should include all costs to prepare Stewardship Land for its intended use (e.g., razing a building). In some cases, land may be acquired along with existing structures. The following treatments shall apply:

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

B. If the structure is to be used in operations (e.g., as General PP&E), but 1) the value of the structure is insignificant, or 2) its acquisition is merely a byproduct of the acquisition of the land, the cost in its entirety shall be treated as an acquisition of Stewardship Land.

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

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

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

060308 Disclosures

1. DoD Components with Stewardship Land shall reference a note on the balance sheet that discloses information about Stewardship Land, but no asset dollar amount shall be shown. The note disclosure shall provide the following:

a. a concise statement explaining how it relates to the mission of the entity.

b. a brief description of the policies for Stewardship Land. The policies need to include, but are not limited to, preserving and maintaining condition, providing public use or access, and enhancing the stewardship land's value over time.

c. a concise description of each major category of Stewardship Land use.

d. the number of physical units by major category. The appropriate level of aggregation and physical units of measure for each category of stewardship land use should be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how it manages the assets. For each major category of stewardship land use the following should be reported:

1. The number of physical units by major category of stewardship land use for which the entity is the steward as of the end of the reporting period. This will go into effect after September 30, 2007 and should be reported in RSI until effective date;

2. The number of physical units by major category of stewardship land use that were acquired and the number of physical units by major category of stewardship land use that were withdrawn during the reporting period. This will go into effect after September 30, 2008 and should be reported in RSI until effective date; and

3. A description of the major methods of acquisition and withdrawal of stewardship land during the reporting period. This should include disclosure of physical units (by major category of stewardship land use) of transfers of stewardship land between Federal entities and the number of physical units (by major category of stewardship land use) of stewardship land acquired through donation or devise, if material. In addition, the fair value of stewardship land acquired through donation or devise during the reporting period should be disclosed, if known and material. This will go into effect after September 30, 2008 and should be reported in RSI until effective date.

2. Components should report the condition of Stewardship Land as Required Supplementary Information.