U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

DEPARTMENTAL REGULATION	**NUMBER:** 2200-002
SUBJECT: Property, Plant and Equipment	**DATE:** April 2, 2013 **OPI:** Office of the Chief Financial Officer

1. PURPOSE AND SCOPE

This regulation prescribes accounting standards, policies, and procedures to be used to obtain uniform and reliable financial control over property, plant and equipment (PP&E) at the U.S. Department of Agriculture (USDA). The PP&E accounting standards, policies, and procedures are applicable to all agencies, staff offices, and the Working Capital Fund (WCF).

2. SPECIAL INSTRUCTIONS/CANCELLATIONS

This regulation revises Departmental Regulation 2200-002 “Property, Plant and Equipment” dated December 24, 2003.

3. REFERENCES

Agriculture Property Management Regulations (AGPMR)

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, “Accounting for Liabilities of the Federal Government”

Statement of Federal Financial Accounting Standards (*SFFAS*) *Number 6,* “Accounting for Property, Plant, and Equipment”

Statement of Federal Financial Accounting Standards (SFFAS) Number 10, "Accounting for Internal Use Software"

Statement of Federal Financial Accounting Standards (SFFAS) Number 29, "Heritage Assets and Stewardship Land"

Statement of Federal Financial Accounting Standards (SFFAS) Number 35, "Estimating the Historical Cost of General Property, Plant and Equipment"

Federal Financial Accounting and Auditing Technical Release 5, "Implementation Guidance on SFFAS Number 10: Accounting for Internal Use Software"

Federal Financial Accounting and Auditing Technical Release 9, "Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land"

Federal Financial Accounting and Auditing Technical Release 14, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment"

4. POLICY

a. Real Property

Real Property includes: land and interest in land; buildings; other structures; additions to buildings; non-structural improvements; and fixed equipment.

(1) Each agency will establish criteria for the control, security, valuation, supporting documentation and tracking of real property, in accordance with the AGPMR.

(2) Each agency will capitalize in its accounting records, a tangible real property asset as follows:

(a) All land and interest in land, regardless of value, cost or purchase price;

(b) All other real property assets when their useful life is:

1 two or more years; and

2 acquisitions cost or established value, if donated, constructed, or obtained through other agency activities, is $25,000 or greater; or

(c) Any major improvement or betterment of an existing capitalized asset, when:

1 subject to the criteria in subparagraph b;
2 the asset's value is increased; or
3 its useful life is extended.

b. Personal Property

Personal Property includes: equipment; furniture & fixtures; motor vehicles; aircraft; hardware; and internal use software (IUS).

(1) Each agency will establish criteria for the control, security, valuation, supporting documentation and tracking of personal property in accordance with the AGPMR.

(2) Each agency will capitalize in its accounting records each individual tangible component of personal property, as tracked in the Personal Property System (PROP), or other secondary personal property tracking system, when the following criteria are met:

(a) Useful life is two or more years; and

(b) Acquisition cost or established value if donated, constructed, information technology (IT) configured or obtained through agency activities is $25,000 or greater, except for IUS which is $100,000 or greater.

(3) Agencies may issue written directions to capitalize the acquisition of personal property with a cost or value of less than $25,000 or for IUS less than $100,000 in the following situations:

(a) Current costs would be materially distorted in a given reporting period by charging to expense the acquisition of a large quantity of components that individually do not meet the capitalization threshold criteria in paragraph (2).

Such items may be grouped in a separate asset group account and capitalized;

(b) The component is procured and controlled within a WCF activity; or

(c) Specifically authorized in writing by the Office of the Chief Financial Officer (OCFO).

c. Classification of property

Personal and real property can be capitalized and accountable; non-capitalized and accountable (which includes sensitive personal property); or non-capitalized and non-accountable.

d. Recognition and Depreciation/Amortization of General PP&E

(1) Depreciation/Amortization is the rational and systematic method of allocating the cost of an asset over its estimated useful life. Attached at APPENDIX A, is a range of the estimated average life for common types of capitalized assets. USDA uses the straight-line method of depreciation/amortization with no salvage value. Depreciation starts when the asset is placed in service and ends when the assets basis reaches zero. Amortization of IUS begins when the software has been successfully tested. However, if the IUS is a module that is dependent upon completion of other modules, the amortization of that module should begin when both that module and the other modules have successfully completed testing.

For example, equipment is purchased for $50,000 and its estimated useful life is five years then:

<u>Cost of Asset</u> = Depreciation Estimated Useful Life	<u>$50,000</u> = $10,000 Depreciation per year 5 yrs

PP&E is considered placed in service when it is first available for service/use, even if it was not used immediately.

For example, if a machine is acquired in January, but was not placed in use until August, depreciation starts in January.

PP&E is considered retired from service when it is transferred from a program office to the property office responsible for disposing Federal property.

(2) Capitalized real and personal property will be depreciated over the asset's estimated useful life. Land is not depreciated.

(3) The full cost to construct an asset (a building, IUS, etc.), shall be recorded as construction-in-progress or internal-use-software in development until the asset is completed and available for use. When the building and/or IUS are available for use, the balance in the in-progress/in-

development account shall be transferred to the appropriate General PP&E account.

(4) Each agency will report depreciation expenses for real and personal property in their financial statements.

(5) Any changes in estimated useful life shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization.

e. Year-end Purchases

(1) PP&E shall be recognized by USDA when:

(a) title passes; or

(b) upon delivery. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery. For example,

An order is placed with a vendor on September 29, 2012. That order is not delivered until October 5, 2012.

In the above example, title passed when delivered to USDA in fiscal year 2013, not 2012. Therefore, USDA personnel shall use the PP&E capitalization threshold in effect for fiscal year 2013**.**

(2) PP&E acquired by a contractor on behalf of USDA (i.e., USDA will ultimately hold title to the PP&E), shall be recognized upon delivery or constructive delivery, whether to the contractor for use in performing contract services, or to USDA.

f. Leases

(1) Classification

(a) A lease is an agreement conveying the right to use property, plant, or equipment (land or depreciable assets or both) usually for a stated period of time. For accounting and reporting purposes, there are two alternatives in classifying a lease.

<u>1</u> Operating

2 Capital

(b) The proper classification of a lease is determined by the circumstances surrounding the transaction. According to the *Statement of Federal Financial Accounting Standards (SFFAS) Number 6*, "Accounting for Property, Plant and Equipment," if substantially all of the benefits and risks of ownership have been transferred to the lessee, the lease should be recorded as a capital lease. Otherwise, the lease should be recorded as an operating lease.

	Rental	**Sale**
Lessee	Operating Lease	Capital Lease

Substantially all of the risks or benefits of ownership are deemed to have been transferred if any one of the following criteria has been met:

1 The lease transfers ownership to the lessee by the end of the lease term.

2 The lease contains a written bargain purchase option.

3 The lease term is equal to 75% or more of the estimated economic life of the leased property, and the beginning of the lease term does not fall within the last 25% of the total economic life of the leased property.

4 The present value (PV) of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value to the lessor, less any investment credit by the lessor. This requirement cannot be used if the lease's inception is in the last 25% of the useful economic life of the leased asset. The interest rate used to compute the PV should be the incremental borrowing rate of the lessee, unless the implicit rate is available and lower.

(2) Amortization

(a) If the lease transaction meets the ownership and written bargain purchase criteria in paragraph (f)(1)(b)(1 or 2), then the asset arising from the transaction is to be amortized over the estimated useful life of the leased property.

(b) If the transaction qualifies as a capital lease because it met either the 75% of useful life or 90% of fair value to lessor criteria in paragraph (f)(1)(b)(3 or 4), the asset must be amortized over the lease term.

If	**Then ...**
Ownership transfers	Depreciate over asset life
Written bargain purchase option	Depreciate over asset life
90 % of fair value to lessor	Depreciate over lease life
75 % of the estimated economic life	Depreciate over lease life

g. Leasehold Improvements

Leasehold improvements represent physical enhancements made to property by or on behalf of the property's lessee. The lessee's interest in the improvement is an intangible right to use and benefit from during the term of the lease. When allocating the cost of leasehold improvements to the periods benefited, the expense is referred to as amortization (as used in amortization of intangibles), not depreciation.

(1) Leasehold improvements in the form of buildings or structural alterations are sometimes made on leased property or on interests in real property. Such interests in real property may include right-of-ways, permits, use agreements, water rights, or easements. Additionally, the cost of all leasehold improvements (e.g., carpeting, partitions, soundproofing of ceilings and walls) that have a useful life greater than two years must be capitalized.

(2) The amortization of leasehold improvements is the lesser of the life of the improvement or the remaining term of the lease.

h. Donated Property

Donations should be recorded at the fair value on the date of receipt plus any costs incurred to place the donated item(s) in service. Such costs include title search or recording, shipping, installation and rearrangement.

i. Loaned Property

Personal property loaned or furnished to others must be accounted for in the Department's Property Management Information System (PMIS).

j. Heritage Assets and Stewardship Land

(1) Heritage Assets

(a) Heritage assets are property, plant, and equipment that are unique for one or more of the following reasons:

1 Historical or natural significance;

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

3 Significant architectural characteristics.

(b) Heritage assets are generally expected to be preserved indefinitely.

(c) Depreciation and Recognition

1 The cost of acquiring, improving, reconstructing, or renovating heritage assets, other than multi-use heritage assets, shall be expensed in the period in which the cost is incurred. The cost shall include all costs incurred during the period to bring the item to its current condition, at its initial location.

2 No amounts for heritage assets acquired through donation or devise shall be recognized in the cost of heritage assets. The fair value of the asset, if known and material, shall be disclosed in the notes to the financial statements in the year received. If fair value is not known or reasonably estimable, information related to the type and quantity of heritage assets received shall be disclosed.

(2) Multi-Use Heritage Assets

(a) A heritage asset shall be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building, which is a heritage asset, used as an office building).

(b) Depreciation and Recognition

1 The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets shall be capitalized as general PP&E and depreciated over the assets useful life.

2 Multi-use heritage assets acquired through donation or devise shall be recognized as general PP&E at the asset's fair value, and the amount shall also be recognized as nonexchange revenues.

(3) Stewardship Land

(a) Stewardship land is land and land rights owned by the Federal Government and not acquired for or in connection with other general PP&E. Stewardship land is defined as the solid part of the surface of the earth. Excluded from the definition are materials beneath the surface (e.g., mineral deposits and petroleum), the space above the surface (e.g., timber), and outer-continental shelf resources. Examples of land not associated with other items of general PP&E include:

1 Land used as forests and parks; and

2 Land used for wildlife and grazing.

(b) General PP&E may be built on existing Federal lands; however, the cost of the land may not be identifiable. In these instances, general PP&E shall include only land or land rights with an identifiable cost that is specifically acquired for or in connection with construction of general PP&E.

(c) Depreciation and Recognition

1 The acquisition cost of stewardship land shall be expensed as a cost in the period incurred. The cost shall include all costs incurred to bring the PP&E to its current condition and location.

2 Any costs to prepare stewardship land for its intended use (e.g., razing a building) shall be expensed as part of the cost of stewardship land.

3 In some cases, land may be acquired along with existing structures. The following treatments may apply:

<u>A</u> If the structure is significant in and of itself, the agency shall use its judgment as to whether the acquisition cost shall be treated as the cost of stewardship land, heritage asset, or both;

<u>B</u> If the structure is to be used in operations (e.g., as general PP&E), but (1) the value of the structure is insignificant as compared to the value of the land, (2) it has little or no inherent value, and/or (3) it is merely a byproduct of the acquisition of the land, the cost shall be treated as an acquisition of stewardship land in its entirety; or

<u>C</u> Only significant structures, which have a significant operating use, shall be treated as general PP&E by identifying the cost attributable to general PP&E and segregating it from the cost of the stewardship land acquired.

<u>4</u> No amounts for stewardship land acquired through donation or devise shall be recognized as a cost on the statement of net cost. Its fair value, if known and material, shall be disclosed in the notes to the statement of net cost. If fair value is not estimable, information related to the type and quantity of assets received shall be disclosed in the year received.

<u>5</u> In some instances, general PP&E may be transferred to another Federal agency for use as stewardship land. The cost of stewardship land transferred from another Federal agency shall be the book value of the land recorded by the transferring agency for the asset, net of accumulated depreciation or amortization. If the receiving agency cannot reasonably ascertain the book value, the transfer shall be disclosed in the notes, if material.

k. Exchanges

(1) The cost of assets acquired through exchange will be the fair value of the asset surrendered at the time of exchange.

(2) If the fair value of the asset acquired is more readily determinable than that of the asset surrendered, the cost will be the fair value of the asset acquired.

(3) If the fair value is not determinable, the cost of the asset acquired will be the cost recorded for the asset surrendered, net of any accumulated depreciation or amortization.

(4) Any difference between the net recorded amount of the asset surrendered and the cost of the asset acquired will be recognized as a gain or loss.

l. Disposal, Retirement or Removal of PP&E

In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.

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.

m. Government-Owned/Contractor-Held Property

(1) Government-Owned/Contractor-Held property used in the performance of a contract may be Government-furnished or contractor-acquired. The physical control and use of such property by non-government sources does not lessen the responsibilities of USDA management to fulfill the legal and financial requirements inherent with the ownership of the property.

(2) In accordance with this policy, USDA personnel must use available information for recording property transactions and making adjustments to the appropriate accounts and systems. This information includes such items as shipping and transfer documents and/or other source documents prepared for transfers between USDA and its contractors.

5. DEFINITIONS

a. Accountable. Personal Property - All capital leases (this would exclude operating leases for personal property) and all owned personal property having an acquisition cost of $5,000 or more, and any item valued at less than $5,000, but determined by an Agency Property Management Officer (APMO) to be sensitive. Real Property - All owned real property with an acquisition cost of $25,000 and above and all leased or assigned real property. The real property capitalization and accountability threshold is $25,000.

b. Acquisition Cost. Costs will include all costs incurred to bring the asset to a form and location suitable for its intended use to include: amounts paid to vendors, transportation charges to the point of initial use, handling and storage costs, labor and other direct and indirect production costs, architectural, engineering, and other outside service charges for designs, plans, specifications, and surveys; acquisition and preparation cost of buildings and other facilities; an appropriate share of the cost of the equipment and facilities used in construction work; the cost of fixed equipment and its related installation; legal and recording fees and damage claims, the fair value of facilities and equipment donated to the government; and material amounts of interest paid.

c. Amortization. The periodic charge to income that results from a systematic and rational allocation of cost over the life of an intangible asset.

d. Bargain purchase option. A provision allowing the lessee the option of purchasing the leased property for an amount, exclusive of lease payments, which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable.

e. Betterments. A major cost incurred to extend or enhance the service potential (useful life potential) of a tangible asset with a component having superior performance capabilities.

f. Capital Expenditures. Costs incurred for new or used assets, additions to existing assets, or betterments or improvements to existing assets that are charged to asset accounts because they add to the total service-rendering ability of the asset.

g. Capitalized. All property meeting the following criteria: (1) be of a durable nature, (2) have a useful life of two or more years once it is placed into service, and (3) its initial acquisition cost must be $25,000 or more, except for IUS where the initial acquisition cost must be $100,000 or more.

h. Capital Lease. Leases that transfer substantially all the benefits and risks of ownership to the lessee.

i. Depreciation. The rational and systematic method of allocating the cost of an asset over its estimated useful life.

j. Devise. A will or clause of a will disposing of property.

k. <u>Donated Property or Donations</u>. Non-reciprocal transfers of assets or services from state, local, or foreign governments, individuals; or others not considered a related party to the Federal Government.

l. <u>Estimated Useful Life</u>. The normal operating life in terms of utility to the owner.

m. <u>Excess Property</u>. Personal property under the control of any Federal agency that is no longer required for that agency's needs, as determined by the agency head or designee.

n. <u>Exchange.</u> A reciprocal transfer between government agencies that results in the acquisition of assets, services, or the satisfaction of liabilities.

o. <u>Fair Value</u>. The assets selling price in an arm's-length transaction (sale) between unrelated parties.

p. <u>Full Cost.</u> The costs of resources consumed that directly or indirectly contribute to an output, and the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. All direct and indirect costs to any part of the Federal Government of providing goods, resources, or services.

q. <u>Heritage Assets</u>. Property, plant, and equipment that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or, significant architectural characteristics.

r. <u>Implicit interest rate</u>. The rate computed by the lessor and known to the lessee at the inception of the lease.

s. <u>Incremental Borrowing Rate</u>. The rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term (i.e., a loan term equal to the lease term) the funds necessary to purchase the leased asset.

t. <u>Information Technology (IT) Equipment.</u> Formerly known as Automated Data Processing (ADP) Equipment, includes central processing units, peripheral input and output devices, control units, and data entry machines.

u. <u>Intangible Assets</u>. Assets characterized by a lack of physical substance. Examples include patents and copyrights.

v. <u>Internal Use Software.</u> Software that is purchased from commercial vendors off-the-shelf, internally developed, or contractor-developed solely to meet internal or operational needs.

w. IT Configured Equipment. The IT unit or system that results from the integration of IT components. Although the individual component costs may not satisfy the capitalization threshold value, the final IT unit or system does satisfy the threshold value.

x. Lease. An agreement conveying the right to use property, plant, or equipment (land or depreciable assets or both) usually for a stated period of time.

y. Leasehold Improvements. Physical enhancements made to property by or on behalf of the property's lessee.

z. Lessee. One who rents property from another. In the case of real property, a lessee is also known as a tenant.

aa. Lessor. A person or commercial entity that conveys property by lease. In the case of real property, a lessor is also known as a landlord.

bb. Loaned Property. Personal property furnished to others on a temporary basis.

cc. Multi-use Heritage Assets. Heritage assets whose predominate use is general government operations.

dd. Non-Accountable. Property having an acquisition cost that is below the threshold requirement for recording in the agency property management records. Personal property having an acquisition cost of less than $5,000, and deemed not sensitive by the APMO is Non-Accountable. Real Property having an acquisition cost of less than $25,000 is Non-Accountable.

ee. Non-Capitalized. Assets purchased not meeting the department's capitalization threshold.

ff. Operating Lease. An agreement conveying the right to use property for a limited time in exchange for periodic rental payments. The Federal agency does not assume the risks of ownership of the asset.

gg. Personal Property. All property other than real property, whether tangible or intangible. Examples of tangible personal property include: equipment, furniture and fixtures, motor vehicles, aircraft, and other hardware. Examples of intangible personal property include: copyrights, licenses, and patents.

hh. Present Value. The present worth of future sums of money.

ii. Real Property. Any interest of the United States in land and interest in land, buildings, and other structures, additions to buildings, nonstructural improvements, and fixed equipment whether an addition or replacement located thereon.

jj. Retirement or Retired. The removal from service of long-lived assets, on other than a temporary basis, by sale, abandonment, recycling, or other disposal method. Retirement can occur before or at the end of the asset's useful life.

kk. Salvage Value. The expected remaining value after an asset has been fully depreciated.

ll. Stewardship. The Federal Government's responsibility for the general welfare of the nation in perpetuity.

mm. Tangible. Assets characterized as having physical substance.

6. RESPONSIBILITIES

a. The OCFO is responsible for USDA's accounting guidelines. This regulation prescribes policy and thresholds for capitalization and depreciation of personal and real property.

b. The Office of Procurement and Property Management (OPPM) is responsible for Property Management. The AGPMR prescribes the authorities, policies, and related Departmental requirements governing property management.

-END-

APPENDIX A
USDA ESTIMATED USEFUL LIFE RANGE
FOR GENERAL PP&E ASSETS

Description of General PP&E Assets	Estimated Useful Life Range
IT Software (e.g., purchased off-the-shelf, contractor-developed, or internally developed)	5 – 8 Years
Machinery & Equipment (Other) - Capitalized, IT Hardware, Office Machines, Engineering Equipment	5 Years
Motor Vehicles and WCF Fleet Equipment (Excludes Aircraft), Miscellaneous Motor Equipment	6 Years
Machinery & Equipment (e.g., Agricultural, Laboratory), Radio Communications Equipment	7 Years
Furniture & Fixtures, Attaché Residential Furniture & Fixtures, Telecommunications Equipment, Snow Telemetry Equipment	8 Years
Reproduction Machinery & Equipment (Includes printing presses, engraving, lithographing, multigraphing reproduction machines, and photo-reproduction equipment – excludes office copy making machines.)	9 Years
Aircraft	20 Years
Leasehold Improvements	10 Years
Improvements to Land	10 - 50 Years
Buildings, Improvements & Renovations	15 - 30 Years
Other Structures & Facilities	15 - 50 Years