

1 **Attachment G. Real Property Financial Management Recommendations**



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2
3 **REAL PROPERTY FINANCIAL**
4 **MANAGEMENT**
5 **RECOMMENDATIONS**
6



20 **Installations & Environment**
21 **Business Transformation Directorate**

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1 Introduction

2 The Department of Defense (DoD) holds legal interests in nearly one million real
3 property buildings, structures, and facilities as well as 32 million acres of land at 6700
4 sites¹ throughout the world. Altogether, the scope and variety of these assets are
5 unmatched by any other government or private enterprise. Financially, the current
6 replacement value of the total real property asset inventory exceeds \$620 billion, and the
7 funds needed to operate, sustain and recapitalize the assets exceed \$43 billion each year.²
8 Real property assets available when and where needed, with the joint capabilities
9 necessary to effectively and efficiently support DoD missions, are critical to DoD
10 successful mission accomplishment.

11 “By establishing the Business Management Modernization Program (BMMP) and
12 accompanying business transformation program office, the Department of Defense made
13 a commitment to remedy its well-documented and frequently publicized financial and
14 business problems. For this reason, The Secretary of Defense ... affirmed business
15 transformation as one of the Department's top ten priorities.”³ As an integral part of this
16 program, the Installations and Environment (I&E) Domain is “...transforming, not just
17 by incorporating best business practices, but also by extending these practices into new,
18 previously unexplored areas.”⁴ More, this transformation is not just “...doctrinal
19 innovation, and the employment of technology – it is also about changing our approach to
20 the fundamental business practices and infrastructure “backbone” of the Department of
21 Defense.”⁵

22 Standardization of the core RPI data elements, business rules and procedures, compliant
23 with federal financial regulations, are required to enable Military Services to properly
24 track, update and maintain asset information. Asset accountability and accurate valuation
25 of capital assets are critical factors in support of the Secretary of Defense high priority
26 initiative to have timely, accurate and reliable financial data for use in making effective
27 management decisions and for achieving favorable audit opinions on the Department of
28 Defense financial statements.

29

¹ DoD Base Structure Report, Fiscal Year 2003 Baseline,
http://www.acq.osd.mil/ie/irm/irm_library/bsr_fy03_baseline.pdf.

² Defense Installations Strategic Plan, 2004

³ Business Management Modernization Program homepage, program overview section,
http://www.dod.mil/comptroller/bmmp/pages/over_background.html

⁴ Defense Installations Strategic Plan, 2004

⁵ Defense Installations Strategic Plan, 2004

1 **1.1 Scope**

2 This document delineates the proposed financial core data elements, definitions, and
3 business rules for DoD real property assets in which DoD has a legal interest, regardless
4 of ownership. It focuses on the financial management regulations, business processes,
5 and data elements to achieve total visibility and accurate valuation of real property assets.

6 7 **1.2 Assumptions**

8 To fully achieve Real Property Inventory (RPI) accountability and improved quality and
9 accuracy of DoD financial statements, the following assumptions were made in the
10 development of the recommendations:

- 11
12 1. The real property unique identifier (RPUID) is a means of permanently and
13 uniquely identifying land, building, or other real property assets to enable:
 - 14
15 • Standardization of the identification of real property information throughout
16 the Department of Defense (DoD).
 - 17
18 • Improved accountability by allowing all financial obligations and physical
19 changes to real property to be tracked over the life of the real property asset.
- 20
21 2. The RPUID will be used to support parent-child relationships and audit trails
22 within and between DoD databases supporting real property data.
- 23
24 3. A RPUID will be:
 - 25
26 • Created upon initiation of construction of a new footprint item or when legal
27 interest in the real property asset is acquired by DoD.
 - 28
29 • Required for all existing real property assets under the management control of
30 DoD.
 - 31
32 • Archived (along with the associated real property asset information) when
33 DoD relinquishes legal interest.
 - 34
• Utilized in all systems containing or linking to real property information
enabling the linkage between planning for Capital Improvement Projects,
execution of that project, and the facility record impacted.

1 2. Key Concepts and Recommendations

2 2.1 Alignment of Real Property Acquisition Dates

3 2.1.1 Background and Current Deficiency

4 The acquisition date of a real property asset is a critical element for calculating
5 depreciation expense and accurately reporting the net book value (historical cost less the
6 accumulated depreciation) of the assets. Similarly, the date of completion for capital
7 improvements to underlying real property assets is necessary to properly depreciate such
8 improvements. Current deficiency lies in the lack of cross-Service standards for relating
9 milestone dates to such financial processes as the calculation of depreciation expenses.

10 The RPI workshop identified various core data elements related to the acquisition of real
11 properties. The Accounting Working Group, representatives from various DoD
12 organizations, analyzed those data elements and identified the standard data elements and
13 comprehensive data element descriptions, illustrated below, to initiate the capitalization
14 of the assets and support asset accountability.

15 2.1.2 Regulatory Requirements

16 The following federal financial requirements define the date that initiates the
17 capitalization of the assets and must be used in calculating the depreciation expense.

18

19 Federal Accounting Standards Advisory Board (FASAB)

20 Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)

21

22 PP&E⁶ shall be recognized⁷ when title passes to the acquiring entity or when the PP&E is
23 delivered to the entity or to an agent of the entity. [See Note 40]⁸ In the case of
24 constructed PP&E, the PP&E shall be recorded as construction work in process until it is
25 placed in service, at which time the balance shall be transferred to general PP&E.

26

27

⁶ Per SFFAS-6, Property, Plant and Equipment (PP&E) is defined as Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

⁷ Per SFFAS-6, "Recognize" means to record an amount in entity accounts and to report a dollar amount on the face of the Statement of Net Costs or the Balance Sheet either individually or so that the amounts are aggregated with related amounts.

⁸ Note 40: Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery. For PP&E acquired by a contractor on behalf of the entity (e.g., the entity will ultimately hold title to the PP&E), PP&E shall also be recognized upon delivery or constructive delivery whether to the contractor for use in performing contract services or to the entity.

DoD Financial Management Regulation (FMR) Volume 4, Chapter 6, 060105 A2

Recognition shall occur when title passes to the acquiring DoD Component or when the asset is delivered to the DoD Component or to an agent of the DoD Component (whichever occurs first).

In the case of a constructed General PP&E asset (e.g., a building), the cost to construct the asset shall be recorded as construction-in-progress until the asset is completed and placed in service, whether or not actually occupied or used. The Accounting Working Group recommended naming this key event – Placed in Service Date. In the case of a building, this is also referred to as the beneficial occupancy date, but the Working Group found that many assumed that this meant the facility was occupied on that date. Furthermore, the Placed in Service Date is not dependent on the building being officially transferred nor on final payment or contract close out. When the building is placed in service, the balance in the construction-in-progress account shall be transferred to the appropriate General PP&E account. The balance transferred can be adjusted later, if necessary, once the final payment has been made and the contract closeout process has been completed.

2.1.3 Recommendations

2.1.3.1 Data Elements

The I&E Domain recommends the following core data element to initiate the capitalization of the assets or capital improvements to an asset

Table 1: Acquisition Data Element for Financial Accountability

Data Element	Data Element Description
Placed In Service Date	This date represents the date the facility or improvement to a facility is available for use by DoD. On this date, an interim Transfer and Acceptance of Military Real Property document (i.e. DD1354) is signed, title for what is 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. The format is defined as YYYY/MM/DD.

and the following core data elements to support improved asset accountability:

Table 2: Acquisition Data Elements for Physical Accountability

Data Element	Data Element Description
Asset Acquired Date	The calendar date when DoD acquires title to the real property asset. This represents the date of Final Transfer

Data Element	Data Element Description
	and Acceptance of Military Real Property (i.e., final DD1354). At this point in time, all claims are resolved and the contracts closed. The format is defined as YYYY/MM/DD.
Asset Built Date	The calendar date on which the original construction was completed for a facility. Not applicable to land. The format is defined as YYYY/MM/DD. If the month/day is unknown, July 1 st will be used as the default month/day.

1

2 Initially, the RPI workshop had proposed using the “Facility Available for Use Date” to initiate
 3 the capitalization of the real property assets. Subsequent analysis lead the Accounting Working
 4 Group to adopt the “Placed In Service Date,” described above, as the initiating factor for
 5 capitalization and calculation of the depreciation expense. I&E Domain, therefore,
 6 recommends eliminating the following data elements from the Departments’ real property
 7 inventories. Existing information associated with these data elements should be archived.

8

Table 3: Proposed Acquisition Data Elements To Be Eliminated

Data Element	Data Element Description
Facility Available for Use Date	Date that the facility or improvement to a facility is available for use by DoD.
Depreciation Start Date	The date used to begin the depreciation calculation for the facility. Not applicable for land assets.

9

10 **2.1.3.2 Business Rules**

11 The I&E Domain recommends the following business rules be adopted to elaborate on
 12 the definition of the data elements listed above and standardize the application of the
 13 preceding recommendations in various scenarios.

14

Table 4: Acquisition Business Rules

Data Element	Business Rule
Placed In Service Date	<ul style="list-style-type: none"> • 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. At which time, each phase shall be depreciated separately over its estimated useful life. Each Facility could have one or more “Placed In Service Dates”. • All cost information transferred from the construction-in-progress (CIP) account to the real property asset account, at the time the asset or the capital improvement to the asset is

Data Element	Business Rule
	<p>placed in service, shall be supported by the Transfer and Acceptance of Military Real Property document (i.e. DD1354).</p> <ul style="list-style-type: none"> • All additional expenses incurred following the “Placed In Service Date” shall be transferred from the CIP account to the real property asset account with the final Transfer and Acceptance of Military Real Property document. The original acquisition cost of the asset shall be adjusted for this amount and the revised amount shall continue to be depreciated over the remaining useful life of the asset. • For Transfer-in and Purchase acquisition methods, only the final Transfer and Acceptance of Military Real Property document (i.e. DD1354) is prepared and delivered. As a result, the “Placed In Service Date” shall be equivalent to the “Asset Acquired Date”, where the “Asset Acquired Date” represents the date of the final Transfer and Acceptance of Military Real Property document (i.e. DD1354). • For Transfer-in Real Property assets, the financial reporting responsibility is transferred on the date of the final Transfer and Acceptance of Military Real Property document. The cost recorded on the acquiring DoD component’s financial records shall be the book value of that real property.
Asset Acquired Date	<ul style="list-style-type: none"> • This date shall represent the date of final Transfer and Acceptance of Military Real Property document (i.e. DD1354), at which time the complete title passes to DoD. Each real property asset will have only one “Asset Acquired Date”.
Asset Built Date	<ul style="list-style-type: none"> • This date does not apply to capital improvements, renovations or modernizations. • For constructed facilities, as opposed to other acquisition methods, the “Asset Built Date” shall be equivalent to the “Placed In Service Date” for the facility. • For facilities acquired by other acquisition methods (e.g. exchange, transfer), the “Asset Built Date” shall be provided by the grantor or the transferring entity. • For facilities that are completed in multiple phases, the “Asset Built Date” for the facility shall be equivalent to the “Placed In Service Date” for the first phase of construction. It is important that the “Asset Built Date” would represent the earliest “Placed In Service Date” to provide for tracking the historical information, as there might be a delay between the first phase and the last phase of construction. Each facility will only have one “Asset Built Date”.

1 **2.1.3.3 Policy Revision**

2 The I&E Domain recommends a refinement to DoD FMR Volume 4, Chapter 6, to
3 include the data elements and their corresponding business rules described above. This
4 supports the implementation of a standard process and timeline across DoD to initiate the
5 financial and physical accountability of the real property assets and establish the
6 capitalization values.

1

2 **2.2 Alignment of Real Property Disposal Dates**

3 **2.2.1 Background and Current Deficiency**

4 The identification of a standard data element and definition to highlight the financial
5 implications of a disposal action is a critical factor to the process of removing the assets'
6 book value from the financial records and accurately representing the entity's operating
7 position.

8

9 The RPI workshop identified various core data elements related to the disposal of real
10 properties. The Accounting Working Group analyzed those data elements and developed
11 the timeline and comprehensive definitions, illustrated below, to be implemented across
12 DoD as standard triggers used to inactivate assets' financial and physical accountability
13 when identified for disposal.

14 **2.2.2 Regulatory Requirements**

15 The following federal financial requirements address the financial transactions of the
16 assets identified for disposal:

17

18 **Federal Accounting Standards Advisory Board (FASAB)** 19 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**

20

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

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

37

38 **DoD Financial Management Regulation Volume 4, Chapter 6, 060206** 39 **Depreciation: Disposal of Depreciable PP&E**

40

41 General PP&E assets that have been identified for permanent removal from service shall
42 no longer be depreciated once the asset no longer contributes to the operation of the
43 entity. See paragraph 060211 of this Chapter for further guidance and appropriate
44 accounting entries.

1 General PP&E assets that have been temporarily removed from service/use with the
 2 expectation that such assets eventually will be returned to service shall continue to be
 3 depreciated during periods of non-use. This policy is applicable to Working Capital Fund
 4 (WCF) activities and also applies to General PP&E sent to a depot for temporary storage.

5
 6 **DoD Financial Management Regulation Volume 4, Chapter 6, 060211**
 7 **Other General PP&E**

8
 9 When a General PP&E asset is identified for other than normal removal from service,
 10 such as would be the case for assets that are part of a Base Realignment and Closure
 11 (BRAC), the asset shall be removed from the PP&E accounts, along with its associated
 12 accumulated depreciation and be recorded in the Other General PP&E account (1890) at
 13 its net realizable value (NRV). Oftentimes the NRV will be zero. Any difference
 14 between the book value of the PP&E asset and its expected NRV shall be recognized as a
 15 gain or loss in the period of adjustment. Normal disposal transactions shall not be
 16 processed through account 1890 and shall not be accounted for using account 5730,
 17 Financial Resources Transferred Out Without Reimbursement. When assets are part of a
 18 BRAC , and the installation mission has been terminated or transferred (the flag has been
 19 lowered), such assets shall be removed from the PP&E accounts, along with the
 20 associated accumulated depreciation. Such assets will be recorded in the Other General
 21 PP&E account at the NRV.

22
 23 **2.2.3 Recommendation**

24 **2.2.3.1 Data Elements**

25 The I&E Domain recommends the following core data elements to properly account for the
 26 disposal of real property assets, stop the depreciation calculation and report any gain or loss:

27 *Table 5: Disposal Data Elements for Financial Accountability*

Data Element	Data Element Description
Real Property Disposal Start Date	This represents the 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 and the book value of the asset is removed from the financial records and the corresponding gain/loss is recorded. For assets that are part of a BRAC, this date represents the operation closure date that is established by BRAC law. For demolitions, this represents the demolition contract’s start date. For transfers and sales, this represents the date the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident. The format is defined as YYYY/MM/DD.
Net Realizable Value	The expected earning from the disposal of an asset less any costs necessary to complete and dispose of

Data Element	Data Element Description
	the asset. The NRV 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 NRV 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 general ledger account 7110 (gains on disposition of assets) or 7210 (losses on disposition of assets). This value must be calculated by the Disposal Start Date.
Disposal Proceeds	The gross amount of money received from the disposal of the real property 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.
Salvage value	An asset’s estimated scrap, salvage, or trade-in value at the end of its useful life. This value is used in computation of the depreciation expense. In the To-Be environment, this value would be a calculation based on FAC Code.

1

2 The I&E Domain also recommends the following core data elements for the real property
 3 disposal process to properly manage and account for the disposal activities. These data elements
 4 are not applicable to leased assets.

5

Table 6: Disposal Data Elements for Physical Accountability

Data Element	Data Element Description
Real Property Programmed Disposition Code	A code designating the planned funded disposition of the real property asset [e.g., Base Realignment and Closure (BRAC), Special Legislation, Facility Reduction Program].
Real Property Programmed Disposal FY	The fiscal year that the real property asset’s disposal is expected.
Real Property Disposal Method Code	The method used for the disposal of the real property asset.

Data Element	Data Element Description
Declaration of Excess Date	Date the declaration of excess is signed. When a real property asset is declared as excess, the Component initiates disposal screening procedures, which includes soliciting proposals for the use of the excess space within DoD or with other federal entities. At this point in time, the disposal is not definitive and if the mission changes, there is no commitment to the disposal act. The occupancy and operation of the real property asset may continue during this time. The date format is defined as YYYY/MM/DD.
Real Property Disposal Approval Date	Date the real property asset is approved for disposal and the excess screening procedures are completed. This might include identifying or approving the specific method of disposal and the possible recipient. If the mission changes, there is no commitment to the disposal act. The occupancy and operation of the real property asset may continue during this time. The date format is defined as YYYY/MM/DD.
Real Property Disposal Completed Date	The actual date the disposal of the real property is completed and there is no additional administrative accountability. This is determined by the effective date of the instrument for the actual method of disposal. The disposal methods consist of transfer, sale, natural disaster and demolition. For demolitions, this date represents the demolition contract's completion date. For transfers and sales, this may equal the real property asset disposal start date. For natural disasters, this equals the real property asset disposal start date. The date format is defined as YYYY/MM/DD.
Real Property Disposal Organization Code	A code that identifies the organization responsible for the disposal of the real property asset.
Real Property Disposal Fund Code	A code that identifies the primary fund type paying for disposal of the real property asset.

- 1 The Accounting Working Group identified the following data element as redundant and the I&E
- 2 Domain recommends eliminating the following from the list of the RPI core data elements.
- 3 *Table 7: Eliminated Disposal Data Element*

Data Element	Data Element Description
Real Property Actual Disposal Reason Code	The reason for the disposal of the real property asset.

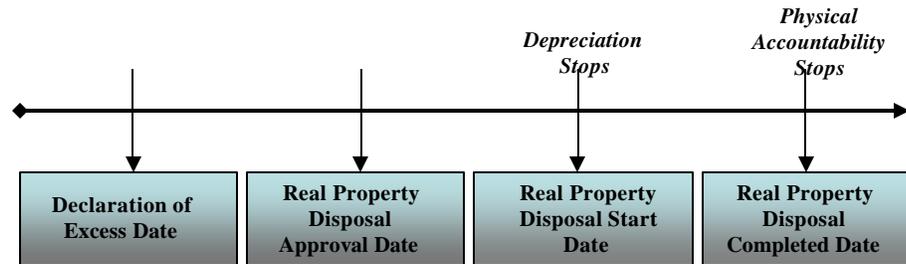
1

2 **2.2.3.2 Timeline**

3 The timeline illustrated below is a chronological representation of the major milestones
4 and core data elements within the disposal process and the relevant financial and physical
5 accountability events.

6

Figure 1: Disposal Timeline



7

8 **2.2.3.3 Business Rules**

9 The I&E Domain recommends the following business rules be adopted to elaborate on
10 the data elements and major milestones illustrated above and standardize the application
11 of the preceding recommendations in various scenarios.

- 12 • The “Real Property Disposal Start Date” shall represent the date the real
13 property asset and its associated depreciation and accumulated depreciation,
14 are no longer reported under the General PP&E account on the financial
15 statements and the depreciation calculation is discontinued. For properties
16 that are part of a BRAC or a special legislation to be disposed of at a future
17 date, on this date the net book value of the asset should be removed from the
18 General PP&E account and be recorded at its NRV in the Other General
19 PP&E account. Not applicable to Land Disposal actions as depreciation
20 doesn’t apply to Land.
- 21 • The “Real Property Disposal Completed Date” shall represent the date the
22 physical accountability of the real property asset ends.
- 23 • The “Disposal Proceeds”, as a result of a disposal action, shall consist of an
24 itemized list of proceeds by property.
- 25 • The preceding business rules and recommendations shall also apply to the real
26 property assets that are part of a Base Realignment and Closure (BRAC) or
27 special legislation.

28 **2.2.3.4 Policy Revision**

29 The I&E Domain recommends a refinement to DoD FMR Volume 4, Chapter 6, to
30 include the data elements and the corresponding timetable described above. This
31 supports the implementation of a standard process and timeline across DoD to inactivate
32 the financial and physical accountability of the real property assets.

1 **2.3 Capital Improvements**

2 **2.3.1 Background and Current Deficiency**

3 As stated in FASAB, Statement of Federal Financial Accounting Standard (SFFAS) No.
4 6, Accounting for Property, Plant and Equipment, all costs which either extend the useful
5 life of existing asset (general PP&E), or enlarge or improve its capacity shall be
6 capitalized and depreciated over the remaining useful life of the associated asset. In the
7 current DoD real property management environment, there may be various interpretations
8 of the criteria to account for the costs to improve an asset, as a capital improvement.

9 To clarify the definition of capital improvements and ensure compliance with the
10 requirements stated in SFFAS 6, the Accounting Working Group developed various cases
11 illustrating the depreciation calculation of capital improvements based on the criteria
12 listed in SFFAS 6, the physical characteristics of the improvements made to the assets,
13 and their relationship with the associated assets. In addition, the Accounting Working
14 Group developed a list of examples for each case to enhance the definition and
15 interpretation of capital improvements. Refer to the Capital Improvement Depreciation
16 Attachment to review these cases.

17 Furthermore, the current DoD real property management information systems contain
18 limited historical information on capital improvements. While the reporting entities have
19 either recently gained the ability to capture this information, or have initiatives in place to
20 gain this capability, the real property databases may not always separate capital
21 improvement information from the original cost of assets. Where the systems were not
22 capable of capturing the improvement data separately, it was not uncommon for the
23 dollar amounts of capital improvements to be added to that of the original cost of
24 property. In this situation, the acquisition year of the aggregate asset represented either
25 that of the original cost of the asset, or that of the most recent improvement. Either of
26 these methods would result in a misstatement of depreciation expense and accumulated
27 depreciation. In addition, neither of these methods supports a complete audit trail, where
28 each reported cost can be validated and traced to the lowest transaction level.

29 The RPI workshop identified various core data elements related to capital improvements.
30 The Accounting Working Group analyzed those data elements related to capturing and
31 reporting capital improvements and developed standard data elements, definitions and
32 business rules to support the financial and physical asset accountability requirements.

33 **2.3.2 Regulatory Requirement**

34 The following financial requirements define the accounting standards for recognition and
35 measurement of capital improvements.

36 37 **Federal Accounting Standards Advisory Board (FASAB)** 38 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)** 39

40 Depreciation expense is calculated through the systematic and rational allocation of the
41 cost of general PP&E, less its estimated salvage/residual value, over the estimated useful
42 life of the general PP&E. Depreciation expense shall be recognized on all general PP&E,
43 except land and land rights of unlimited duration.

- 1
- 2 • Estimates of useful life of general PP&E must consider factors such as
- 3 physical wear and tear and technological change (e.g., obsolescence).
- 4 • Various methods can be used to compute periodic depreciation expense so
- 5 long as the method is systematic, rational, and best reflects the use of the
- 6 PP&E.
- 7 • Any changes in estimated useful life or salvage/residual value shall be treated
- 8 prospectively. The change shall be accounted for in the period of the change
- 9 and future periods. No adjustments shall be made to previously recorded
- 10 depreciation or amortization.
- 11 • Depreciation expense shall be accumulated in a contra asset account–
- 12 accumulated depreciation. Amortization expense shall be accumulated in a
- 13 contra asset account–accumulated amortization.
- 14 • Costs which either extend the useful life of existing general PP&E, or enlarge
- 15 or improve its capacity shall be capitalized and depreciated/amortized over the
- 16 remaining useful life of the associated general PP&E.
- 17

18 **DoD Financial Management Regulation Volume 4, Chapter 6, 060205 A**

19 **Improvements to Existing General PP&E**

20

21 The costs to improve a General PP&E asset shall be capitalized when the costs of the

22 improvement increase the General PP&E asset’s capacity, size, efficiency, or useful life.

23 In addition, the cost of an improvement shall be capitalized only when the cost of the

24 improvement equals or exceeds the DoD capitalization threshold, regardless of funding

25 source. Applicable improvements shall be capitalized and depreciated separately from the

26 General PP&E asset improved. While the Statement of Federal Financial Accounting

27 Standard No. 6 requires improvements to be capitalized and depreciated over the

28 remaining useful life of the associated General PP&E asset, DoD policy recognizes that

29 improvements also are made to assets that are substantially or fully depreciated.

30 Therefore, improvements shall be depreciated over the standard recovery periods.

31 Improvements that do not increase an asset’s capacity, size, efficiency, or useful life,

32 regardless of the cost of the improvement, shall be expensed. Improvement policy

33 applicable to specific types of property follows:

34

35 **Improvements to Real Property**

36

37 PP&E real property, (including multi-use Heritage Assets), that equal or exceed the DoD

38 capitalization threshold, (see paragraph 060103.A.1.d of this Chapter), shall be

39 individually capitalized and recorded within real property accountability, management or

40 accounting systems and depreciated over the applicable DoD standard recovery period, as

41 indicated in Table 6-7 of this Chapter, “DoD Standard Recovery Periods for Depreciating

42 General PP&E.” Improvements to fences, roads, bridges, sewers, and utilities also shall

43 be depreciated as provided for in the DoD Standard Recovery Period Table.

44

45 **Repair**

46

1 Generally, PP&E personal and real property repair costs shall be expensed. When repair
 2 is by replacement, the repair may be expensed, or it may be capitalized. When repairing
 3 a real property facility, the components of the facility may be repaired by replacement,
 4 and the replacement can involve upgrading to current building standards and codes. Such
 5 replacements (repairs) may or may not be an improvement for accounting purposes.

6 Crucial to the determination of whether a replacement is a repair or an improvement is
 7 the intent behind the replacement. Repair by replacement that is expensed, occurs when a
 8 facility or facility component has failed, is in the incipient stages of failing or is no longer
 9 performing the functions for which it was designated. Replacements falling into this
 10 category shall be expensed. If the replacement was undertaken to improve or expand the
 11 efficiency of an asset that was in good working order, then the replacement is defined as
 12 an improvement.

13
 14 **2.3.3 Recommendation**

15 **2.3.3.1 Data Elements**

16 The I&E Domain recommends the following core data elements to properly account for and
 17 recognize the capital improvements separate from the original acquisition cost of the real property
 18 assets. The key date – Placed in Service Date – is defined in Table 1 in the Section headed
 19 “Alignment of Real Property Acquisition Dates”.

20 *Table 8: Capital Improvement Data Element for Financial Accountability*

Data Element	Data Element Description
Capital Improvement Cost	The full cost of each capital improvement made to an asset.

21
 22 **2.3.3.2 Business Rules**

23 The I&E Domain recommends the following business rules to elaborate on the definition
 24 of the data elements listed above and standardize the application of the preceding
 25 recommendations in various scenarios.

- 26
 27 • Each individual capital improvement to an asset shall be maintained at its full
 28 cost separately to provide sufficient information for managing the real
 29 property inventory and supporting the audit trail requirements. To properly
 30 calculate depreciation expense and accumulated depreciation, detailed capital
 31 improvement information is required. The fiscal information required for
 32 each individual capital improvement shall consist of the full capital
 33 improvement cost and the date the capital improvement is placed in service,
 34 “Placed In Service Date”.
- 35 • The cost of each capital improvement shall remain and accumulate in the
 36 construction in progress (CIP) account till the capital improvement is placed
 37 in service, at which time the cost of the capital improvement is transferred
 38 from the CIP account to the asset account and depreciation begins. All

1 business rules defined previously for the “Placed In Service Date” under
2 section titled “Alignment of Real Property Acquisition Dates” of this
3 document also apply to the accounting for the capital improvements. ”.

4

5 **2.3.3.3 Policy Revision**

6 The I&E Domain recommends the refinement to DoD FMR Volume 4, Chapter 6, to
7 include the scenarios, described in Attachment A of this document, illustrating the
8 depreciation of the capital improvements with the associated examples. This supports the
9 implementation of a standard process to account for and capitalize the capital
10 improvements and enhance the definition of such improvements.

1 **2.4 Capitalization Threshold**

2 **2.4.1 Background and Current Deficiency**

3 In accordance with DoD FMR Volume 4, Chapter 6, the current DoD capitalization
4 threshold is \$100,000 for both General and Working Capital Funds. The General PP&E
5 consists of tangible assets that have an initial acquisition cost, book value or, when
6 applicable, an estimated fair market value (see paragraph 060202 for definitions of these
7 terms) that equals or exceeds the DoD capitalization threshold. The current capitalization
8 threshold is \$100,000 for the capital improvements to the assets.

9 The following are excerpts from the General Accounting Office’s (GAO) report on the
10 current DoD’s capitalization threshold and the 1999 OUSD(C), Capitalization Threshold
11 Study. These recommended other factors to be considered by when establishing the
12 capitalization thresholds.

13

14 **2.4.1.1 GAO Audit Report, April 1998: “Department of Defense Financial Audits** 15 **Highlight Continuing Challenges to Correct Serious Financial Management** 16 **Problems”**

17 DoD’s ability to accurately report its property, plant, and equipment values has been
18 further hampered by the 20-fold increase in its capitalization threshold from \$5,000 in
19 1991 to \$100,000 in 1996. Prior to fiscal year 1998, DoD policy required DoD
20 components to capitalize an asset when its acquisition cost or similar cost exceeded the
21 capitalization threshold in effect at the time of acquisition. Beginning in fiscal year 1998,
22 however, DoD components—other than working capital fund activities—are required to
23 apply a single \$100,000 capitalization threshold to assets, irrespective of the threshold
24 that existed at the time of purchase. Under this policy, all general PP&E assets,
25 previously capitalized by non-working capital fund activities at thresholds less than
26 \$100,000, will be expensed in fiscal year 1998. Recognizing the effect this policy would
27 have on operations, working capital fund activities are required to apply the capitalization
28 threshold only to newly acquired assets, beginning in fiscal year 1998, and to retain, on
29 their financial records, existing capitalized assets even though the assets may have been
30 capitalized at a level of less than \$100,000.

31 Prior audit reports have disclosed that higher capitalization thresholds have not been
32 uniformly applied throughout DoD, resulting in inconsistencies in asset reporting and the
33 omission of billions of dollars in assets from DoD financial reports. As a result of the
34 higher capitalization threshold, billions of dollars have been expensed—effectively
35 removing them from accounting control.

36 Further, use of this high capitalization threshold adversely affects the measurement of
37 operating costs. Billions of dollars of assets are expensed in their year of acquisition, as
38 opposed to the cost of those assets being allocated over the life of the asset. In addition,
39 expensing these costs makes it harder for DoD to compare its cost to the private sector,
40 which is required to capitalize such items. For example, this impairs the ability of DoD
41 and oversight officials to make informed decisions on issues where comparative costs are
42 a significant factor, such as in deciding whether to outsource specific functions.

43

1 **2.4.1.2 Department of Defense (DoD) - OUSD(C), Capitalization Threshold Study, August**
2 **31, 1999**

3 The DoD – OUSD(C) Capitalization Threshold Study assessed the current real and
4 personal property capitalization thresholds. Additionally, the report outlined criteria
5 identified by GAO regarding the selection of appropriate capitalization thresholds. The
6 goal of the study was to analyze the impact that a proposed capitalization threshold would
7 have on each federal agency’s ability to support the criteria listed below.

8 The study recommended that the selection and implementation of a capitalization
9 threshold should be considered from the perspective of financial statement presentation
10 and the needs of financial information users at levels other than the financial statements.
11 Further, the study concluded that the analysis of the DoD real property capitalization
12 threshold did not address a need to lower the current capitalization threshold. However,
13 if the DoD modifies its current reporting structure, accounting procedures and produces
14 financial statements at lower levels than those currently produced, then the DoD should
15 reevaluate its real property capitalization threshold and its materiality.

16 The Capitalization Threshold Study analyzed the following factors as listed in GAO draft
17 property capitalization document:

18
19 **Stewardship Over Assets**
20

21 Prior audit reports have disclosed that higher capitalization thresholds have not been
22 uniformly applied throughout DoD, resulting in inconsistencies in asset reporting and the
23 omission of billions of dollars in assets from DoD financial reports. As a result of the
24 higher capitalization threshold, billions of dollars have been expensed—effectively
25 removing them from accounting control.

26 As described in the report, GAO’s draft document considers each entity’s fiduciary
27 responsibility for its assets and resources as the primary consideration in establishing an
28 appropriate capitalization threshold. The GAO’s draft document states that an entity’s
29 capitalization threshold should support accountability and control over all entity wide
30 items that are significant and provide a correspondence between the account balances in
31 the financial records and the events or resources those accounts are assumed to represent.

32 According to the GAO, both accountability and financial reporting are often satisfied by
33 the same systems. The GAO acknowledges the separate roles of the property
34 management system and the financial statement subsidiary ledger, but asserts that
35 accountability and control of assets is sometimes better performed by a system designed
36 to accomplish both objectives. Including property in the general ledger system implicitly
37 improves controls over property thus reducing the potential for loss or misuse.

38 Another factor in fulfilling stewardship over assets is the ability to provide a
39 correspondence between account balances. The GAO asserts that a capitalization
40 threshold should provide a correspondence between account balances in financial records
41 and the events or resources those events are assumed to represent. According to the
42 GAO, financial statement users may expect PP&E amounts reported in agency financial
43 statements to represent most of the dollar assets, (not number of items), used in agency
44 operations.

1

2 Cost of Operations

3

4 To fully assess the efficiency and effectiveness of its operation, an entity needs to capture
5 its operating costs. The full cost should include an appropriately allocated amount of
6 depreciation for PP&E used in that operation. The GAO suggests four elements that a
7 government entity should consider in establishing a capitalization threshold to
8 appropriately account for costs. They include:

9

- 10 1. Capturing the full costs of goods and services received from another entity.
- 11 2. Classifying an asset in its proper type and class.
- 12 3. Assuring program operations are appropriately costed and can be compared
13 with other agencies, including the private sector.
- 14 4. Assuring proper frameworks for cost recovery and cost-based rate setting.

15

16 The GAO report states that SFFAS 4, Managerial Cost Accounting Concepts And
17 Standards, emphasizes the importance of cost accounting for planning, decision-making,
18 control, and reporting.

19

20 The first factor a government entity should consider is capturing the full costs of goods
21 and services received from another entity. Full costs of outputs is defined as the cost of
22 resources consumed that directly or indirectly contribute to output and identifiable
23 services provided. Secondly, the GAO states that an asset with a useful life of two years
24 or more should be capitalized and depreciated over its useful life. Expensing these items
25 may distort the cost of operations for all periods of the assets' useful life. Classifying an
26 asset in its proper type and class is important if the effect is material in relation to the cost
27 of operations for current and future periods. The third element the GAO suggests for
28 consideration in establishing a capitalization threshold is assuring program operations are
29 appropriately costed and can be compared with other agencies and with the private sector.
30 The GAO states that accounting for the full costs of government goods and services
31 facilitates fair competition for comparable goods and services between federal agencies,
32 other agencies, and the private sector.

33

34 Lastly, in assuring proper frameworks for cost recovery and cost-based rate setting, the
35 GAO states that full cost information is necessary in both determining appropriate user
36 charges and assessing the extent to which the costs are not recovered. Based on the
37 intended use of financial statements, capitalization thresholds may differ for entities that
38 need a higher or lower level of precision.

39

40 Financial Reporting

41

42 The GAO's position on providing reliable financial statements is addressed in two parts
43 comprising the use of "de minimis" threshold levels and consideration of materiality on
44 the impact analysis. The GAO states that a federal entity should set its capitalization
45 threshold level at a "de minimis" level to avoid annual recalculation of the threshold's
46 impact on financial reporting. However since using a "de minimis" capitalization

1 threshold may be too costly for many agencies, the GAO concedes that a federal entity
2 should use whatever threshold will satisfy materiality at the level of reporting being
3 presented. The materiality of amounts should however be the primary consideration in
4 establishing a capitalization threshold. The GAO states that materiality may be measured
5 as either 3% of the agency's annual PP&E expenditures or 3% of an agency's net PP&E
6 amount as reported on prior years' fiscal balance sheet. The 3% measure is a tool used
7 by the GAO to establish planning materiality when designing audit tests and referenced
8 in the *GAO Financial Audit Manual (FAM), Aug '95*. In spite of this, GAO
9 representatives stated that they believe a federal entity should use whatever capitalization
10 threshold constitutes good management practices for recording and safeguarding assets.

11 Federal government entities should establish appropriate capitalization thresholds to
12 ensure investments in tangible assets are properly reported in financial statements, thus
13 meeting reporting requirements established by FASAB and the users of the information
14 themselves. The selection and implementation of a capitalization threshold should be
15 considered from the perspective of financial statement presentation and the needs of the
16 information users.

17 The Accounting Working Group reviewed the GAO's audit reports and
18 recommendations, analyzed the capitalization thresholds used by other federal agencies,
19 and evaluated the impact of a revised capitalization threshold on the I&E operations and
20 asset accountability in the "To-Be" environment.

21

22 **2.4.2 Regulatory Requirement**

23 The following financial requirements address the application of Capitalization Threshold
24 within DoD and other federal entities:

25

26 **Federal Accounting Standards Advisory Board (FASAB)** 27 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**

28

29 The Board believes that capitalization thresholds should be established by Federal entities
30 rather than centrally by the Board. Because Federal entities are diverse in size and in uses
31 of PP&E, entities must consider their own financial and operational conditions in
32 establishing an appropriate capitalization threshold or thresholds. Once established, this
33 threshold(s) should be consistently followed and disclosed in the financial reports.

34 Instead of setting a specific threshold, the Board has adopted a materiality approach—just
35 as is done in private sector accounting. Each entity would establish its own threshold as
36 well as guidance on applying the threshold to bulk purchases. The Board believes that
37 permitting management discretion in establishing capitalization policies will lead to a
38 more cost-effective application of the accounting standards.

39

40 **DoD Financial Management Regulation Volume 4, Chapter 6, 060103** 41 **General PP&E**

42

43 The General PP&E consists of tangible assets that have an initial acquisition cost, book
44 value or, when applicable, an estimated fair market value (see paragraph 060202 for
45 definitions of these terms) that equals, or exceeds, the DoD capitalization threshold. The

1 current DoD capitalization threshold is \$100,000 for both General and Working Capital
2 Funds.

3 Prior to FY 1996, the capitalization threshold was less than \$100,000 and varied
4 according to the year the item was acquired. Such PP&E shall remain capitalized and
5 subject to depreciation for WCF activities. However, for General Fund activities, all
6 PP&E that was capitalized prior to FY 1996 costing less than \$100,000 was written off as
7 a prior period adjustment in FY 1998. Therefore, such amounts no longer shall be
8 capitalized or depreciated.

9 Bulk purchases of General PP&E, that individually meet the capitalization threshold,
10 shall be capitalized and recorded in a property accountability system that is capable of
11 computing depreciation or interfaces with a system that is capable of computing
12 depreciation. If the per item cost of a bulk purchase does not meet the capitalization
13 threshold, such PP&E shall be expensed in the period acquired. Applying this policy, a
14 bulk purchase totaling \$800,000 could either be capitalized or expensed depending on the
15 cost of the individual items purchased. If such purchase consisted of 8 items costing
16 \$100,000 each, each of the items would be capitalized. If the purchase consisted of 80
17 items valued at \$10,000 each, the entire amount would be expensed. In both examples,
18 all of the items would be recorded in the activity's property accountability system. If a
19 bulk purchase is made that has a material effect on a DoD Component's financial
20 statements, that Component may request, in writing, a waiver to this policy. Such a
21 waiver shall be addressed to the Under Secretary of Defense (Comptroller).

22

23 **DoD Financial Management Regulation Volume 4, Chapter 6, 060205** 24 **Improvements to Existing General PP&E**

25

26 The costs to improve a General PP&E asset shall be capitalized when the costs of the
27 improvement increase the General PP&E asset's capacity, size, efficiency, or useful life.
28 In addition, the cost of an improvement shall be capitalized only when the cost of the
29 improvement equals or exceeds the DoD capitalization threshold (see paragraph
30 060103.A.1.d of this Chapter), regardless of funding source.

31 The cost of improvements to more than one General PP&E asset, when performed under
32 a single contract or work order and that cannot be specifically identified by asset, shall be
33 capitalized only if the allocated cost per General PP&E asset equals or exceeds the DoD
34 capitalization threshold. When more than one improvement is made to a single building,
35 and the improvements are part of one overall effort to increase the building's capacity,
36 size or useful life, the sum of the costs of the improvements shall be capitalized, if the
37 summed costs equal or exceed the DoD capitalization threshold. This is required even
38 when the improvements are funded separately. Once a determination has been made that
39 the aggregate costs of the improvements will be capitalized, each improvement should be
40 capitalized and depreciation begun when the improvement is completed.

41

42 **2.4.3 Recommendation**

43 The Accounting Working Group recommends the OUSD(C) consider linking the
44 financial reporting capitalization threshold to the physical accountability threshold. The

1 physical accountability threshold refers to the DoDI 5000.64 requirement to establish
2 accountable property records for all property purchased, leased, or otherwise obtained,
3 having a unit acquisition cost of \$5000 or more.⁹ In other words, assets with accountable
4 records tracked in property management systems, might warrant consideration for
5 financial reporting purposes.

6 The Capitalization Threshold Study acknowledged the “As-Is” difficulties in this
7 recommendation. However, as DoD modifies its reporting structure, accounting
8 procedures, and functional and technical capabilities, then financial thresholds for real
9 property capitalization and physical threshold should be the same. The “To-Be”
10 environment’s vision for modernized business and financial processes and systems in
11 which relevant, reliable, and timely business information is available on a routine basis,
12 might warrant reevaluation of DoD’s capitalization threshold and its materiality.

13 In the “To-Be” environment, the application of the capitalization threshold will not be
14 visible. However, it is essential that the capital assets and improvements are accurately
15 identified, as defined by FASAB, by the engineering community. Once such assets and
16 capital improvements are determined and recorded in the property management (non-
17 financial) systems, the proposed financial management and reporting solution will
18 provide the capability to extract the cost data from the non-financial systems,
19 automatically apply the capitalization threshold, and generate the appropriate financial
20 reports automatically.
21

⁹ DoDI 5000.64, August 13, 2002, Paragraph 5.3: Accountable records shall be established for all property purchased, leased (capital leases), or otherwise obtained, having a unit acquisition cost of \$5,000 or more (and land, regardless of cost), and items that are sensitive or classified. (See Volume 10, Table 61 of DoD 4100.39-M (reference (j)).) Property records and/or systems shall provide a complete trail of all transactions, suitable for audit (i.e., a transaction-based history of asset activity, including individual additions and deletions). In the event historical information is not available, the record should be appropriately annotated.

1 **2.5 Estimated Useful Life**

2 **2.5.1 Background and Current Deficiency**

3 There are three factors that affect the computation of depreciation:

- 4
- 5 • Cost: The acquisition cost plus all reasonable and necessary expenditures to
- 6 get the asset in place and ready for use.
- 7 • Residual Value (Salvage): An asset's estimated scrap, salvage, or trade-in
- 8 value as of the estimated date of disposal.
- 9 • Estimated Useful Life: Total number of service units expected from a long-
- 10 term asset.

11

12 In the "To-Be" environment, the financial reports shall provide reliable information to be
13 used by management for decision making purposes. Furthermore, real property
14 depreciation may be included in the rate fee calculations to establish user charges for the
15 Working Capital Fund (WCF) activities. Determining the estimated useful life has a
16 significant impact on the period expenses. Shortening the life will increase expenses in
17 the periods. An estimated life in excess of actual life understates the expenses in those
18 periods. Therefore, careful consideration should be given to ensuring that estimated life
19 is reasonably accurate.

20

21 Additionally, the audit community has expressed concern that DoD's current recovery
22 periods may not accurately represent the true useful lives of the assets.

23

24 The Accounting Working Group analyzed the Whitestone report titled, "Development of
25 a Restoration & Modernization Requirements Process", to possibly adopt better defined
26 economic useful lives to be included in the depreciation expense calculations. The intent
27 of the Whitestone project is to develop a technically sound and defensible method for
28 estimating DoD Restoration & Modernization funding requirements. The Whitestone
29 report outlines the economic service lives by DoD Facility Analysis Categories (FAC)
30 that are derived from the U.S. Bureau of Economic Analysis (BEA).

31 **2.5.2 Regulatory Requirement**

32 The following financial requirements address the Estimated Useful Life.

33

34 **Federal Accounting Standards Advisory Board (FASAB)**

35 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**

36

37 **Expense Recognition**

38

39 Paragraph 35: Depreciation expense is calculated through the systematic and rational
40 allocation of the cost of general PP&E, less its estimated salvage/residual value, over the
41 estimated useful life of the general PP&E. Depreciation expense shall be recognized on
42 all general PP&E, except land and land rights of unlimited duration. Estimates of useful
43 life of general PP&E must consider factors such as physical wear and tear and
44 technological change (e.g., obsolescence).

45

- 1 • Various methods can be used to compute periodic depreciation expense so long
- 2 as the method is systematic, rational, and best reflects the use of the PP&E.
- 3 • Any changes in estimated useful life or salvage/residual value shall be treated
- 4 prospectively. The change shall be accounted for in the period of the change
- 5 and future periods. No adjustments shall be made to previously recorded
- 6 depreciation or amortization.

7
 8 **DoD Financial Management Regulation Volume 4, Chapter 6**
 9 **Calculation of Depreciation**

10
 11 Depreciation expenses shall be calculated and accumulated using the straight-line method
 12 based on the recorded cost less salvage value, and divided equally among accounting
 13 periods during the asset’s useful life based on recovery periods in DoD FMR. Salvage
 14 value will be used in the calculation only if it exceeds 10 percent of the cost of the asset.
 15 Table below prescribes the recovery periods (useful lives) currently used for depreciable
 16 General PP&E assets.

17 *Table 9: DoD FMR Current Recovery Periods For Depreciable General PP&E Assets*
 18 *(Excludes National Defense PP&E 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-National Defense PP&E 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	40 Years

Description of General PP&E Assets	Recovery Period
Traffic Control Towers, and Other Real Property Buildings	
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

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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.

2.5.3 Recommendation

2.5.3.1 Data Elements

The I&E Domain recommends the following core data elements to provide for determining the proposed estimated useful lives of the real property assets in the to-be environment.

Table 10: FAC Data Element for Estimated Useful Life

Data Element	Data Element Description
Designed Use FAC	This data element represents the intended use of the real property asset. This information is the original FAC (or CATCODE) obtained from either the DD Form 1391 (FY, Military Construction Project Data) or DD Form 1354 (Transfer and Acceptance of Military Real Property).

15
16
17
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19
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23
24
25

2.5.3.2 Business Rules

The I&E Domain recommends the following business rules to standardize the implementation of the proposed estimated useful lives in the process of calculating the depreciation expense:

Original Facility

- In the to-be environment, since the economic useful lives of real property assets are recommended to be assigned by FAC, the designed use FAC assigned to the real property asset should represent the physical characteristics of that asset.

- 1
 - 2
 - 3
- For Real Properties with multiple FACs, the economic useful life of the predominant FAC should be used to calculate the depreciation expense for the entire asset, (not applicable to land).

1

2 Capital Improvement

3

- The estimated useful life of capital improvements involving a conversion of the functionality of the original asset: i.e., altering the original designed use of the facility will be determined by the new FAC assigned to the facility.

4

5

6

7

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11

- The estimated useful life of capital improvements, such as major renovation projects, that extend the useful life of an asset, but do not alter the original designed use of the facility should be determined by the engineering community during the project planning and design phase. The estimated useful life of the capital improvement should not exceed the standard useful life for the Designed Use FAC.

12

13

14

15

16

- The estimated useful life of capital improvements that increase the size, capacity or efficiency, such as raising the roof or installing HVAC where none existed, should be determined by the engineering community during the project planning and design phase. Suggest ASHRE Life and Times as an industry standard for determining the estimated useful life of building components.

17

2.5.3.3 Policy Revision

18

19

20

21

22

The I&E Domain recommends a refinement to DoD FMR Volume 4, Chapter 6, to adopt the economic useful lives by facility type as outlined in the Whitestone report (See Attachment B) and subsequent updates. The results better represent the true useful lives of the real property assets and shall be included in the depreciation expense calculation for the financial statements.

1

2 **2.6 Construction-in-Progress**3 **2.6.1 Background and Current Deficiency**

4 Construction-in-progress (CIP) is the accounting term that refers to the temporary
5 classification of assets that are being built before being placed in service. The CIP
6 account is used to accumulate the costs of construction projects and may track one to
7 hundreds of items. Each item may represent the sum of numerous expenses or invoices.
8 The sum of these individual expenses for an item in the CIP account will determine the
9 value of the asset when placed into service.

10 DoD's current processes to track and report CIP do not provide management visibility at
11 various levels and do not fully comply with the federal financial requirements. Military
12 Services may not always have easy access to the CIP account that is being managed by
13 their agents (USACE or NAVFAC) or handled by the defense agencies. In addition, CIP
14 may be tracked manually and reported to the Defense Finance and Accounting Service
15 (DFAS) directly to be included in the financial statements. Therefore, the process of
16 reporting CIP does not provide the capability to trace the cost reported to its original
17 transaction and to satisfy the audit trail requirements. Additionally, the current policies
18 and guidance related to accounting for CIP are not consistently applied, including
19 accounting for certain costs that result in the creation of a capital asset in the CIP
20 account.

21 DoD IG audit report number D-2000-172, issued on August 11, 2000, identified the
22 following audit deficiencies with regard to accounting for Construction-in-Progress.
23 Accurate reporting of the real property portion of the PP&E account is critical to
24 achieving the unqualified audit opinion on the financial statements.

- 25 • The internal controls were not adequate to ensure that completed real property
26 projects were properly transferred from the CIP account to the real property
27 accounts promptly and in the proper amount. Supporting documentation may
28 not be received from the construction agents or the CIP value reported on the
29 financial statements could not be reconciled with ongoing projects because
30 adequate supporting documentation could not be provided.
- 31 • The full cost of a completed project could not be easily reported. Project
32 managers responsible for ensuring that the final project cost included both
33 design and construction costs lacked a unique identifier to link the engineering
34 and design costs over several years to the construction funds
- 35 • The Military Services were not consistent in defining when completed
36 projects should be recorded in the real property databases.

37 The Accounting Working Group completed a review of the preceding audit deficiencies
38 and the relevant federal financial requirements. The Working Group analyzed the current
39 business processes and developed revisions related to tracking the Construction-in-
40 Progress value in support of management visibility. The Working Group drafted
41 business rules to accurately account for CIP, including certain costs (i.e., direct/indirect
42 labor and material, installed equipment), and assist in the timely transfer of completed
43 projects to the real property asset account.

1

2 **2.6.2 Regulatory Requirement**3 The following financial requirements define the accounting standards for recognition and
4 measurement of CIP.5 **Federal Accounting Standards Advisory Board (FASAB)**
6 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**

7

8 All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring
9 the PP&E to a form and location suitable for its intended use. For example, the cost of
10 acquiring property, plant, and equipment may include the following:

- 11
- 12 • amounts paid to vendors;
 - 13 • transportation charges to the point of initial use;
 - 14 • handling and storage costs;
 - 15 • labor and other direct or indirect production costs (for assets produced or
16 constructed);
 - 17 • engineering, architectural, and other outside services for designs, plans,
18 specifications, and surveys;
 - 19 • acquisition and preparation costs of buildings and other facilities;
 - 20 • appropriate share of the cost of the equipment and facilities used in
21 construction work;
 - 22 • fixed equipment and related installation costs required for activities in a
23 building or facility;
 - 24 • direct costs of inspection, supervision, and administration of construction
25 contracts and construction work;
 - 26 • legal and recording fees and damage claims;
 - 27 • fair market value of facilities and equipment donated to the government;
 - 28 • material amounts of interest costs paid.

28

29 PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is
30 delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the
31 PP&E shall be recorded as **construction work in process** until it is placed in service, at
32 which time the balance shall be transferred to general PP&E.33 **DoD Financial Management Regulation Volume 4, Chapter 6, 060203B**34 The Construction-in-Progress (CIP) account is used to accumulate the costs of real
35 property construction projects. The cost of equipment that is installed as an integral part
36 of the real property or that normally could not be removed without dismantling the
37 property also is included in the CIP account. Examples of such equipment include
38 heating and air conditioning systems and elevators. Costs included in the CIP account
39 are accumulated regardless of the source of funding, (Military Construction; Minor
40 Construction; Operation and Maintenance; Research, Development, Test and Evaluation;
41 etc.), and include direct labor, direct material and overhead.

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

6 CIP costs shall be captured and accumulated by real property asset or structure to
7 facilitate determining whether the capitalization threshold has been met. Engineering and
8 design costs also should be captured in the Construction-in-Progress account. Upon
9 completion, if the accumulated costs equal or exceed the DoD capitalization threshold,
10 the accumulated costs shall be transferred to the proper PP&E asset account as the
11 recorded cost of the real property. If the accumulated costs do not meet the DoD
12 capitalization threshold, such costs shall be expensed in the year management determines
13 that the capitalization threshold was not or will not be met. Costs related to in-house
14 construction, contractor construction, and construction by other government agencies also
15 shall be recorded in the CIP account.

16

17 **2.6.3 Recommendations**

18 **2.6.3.1 Data Elements**

19 The I&E Domain recommends that the key date is the Placed in Service Date as defined
20 in Table 1 in the Section headed “Alignment of Real Property Acquisition Dates” be
21 established. For constructed assets, this is the date the real property project costs are
22 transferred from the CIP account to the real property asset accounts.

23 **2.6.3.2 Business Rules**

24 The I&E Domain recommends business rules addressing the audit deficiency related to
25 the lack of consistency in when completed projects should be transferred from the CIP
26 account to the real property asset accounts. These rules are delineated in Table 4 in the
27 Section headed “Alignment of Real Property Acquisition Dates”. The Acquisition Cost
28 can be validated by audit of the CIP transactions as related to the RPUID.

29 The Accounting Working Group also recommends business rules to illustrate the types of
30 construction costs that should be accumulated in the CIP account to comply with the
31 federal financial requirements listed in SFFAS-6. If the construction is cancelled or not
32 programmed within the FYDP, the costs should be moved from CIP and shown as an
33 expense.

34 The real property assets shall be recorded at full cost. Cost of a new construction or a
35 capital improvement to an existing asset shall be accumulated in the CIP account. The
36 CIP should be reported by the Military Component funding the construction. This is
37 independent of the Appropriation. If the Construction Agent cites the funds of another
38 Component directly, then the agent must report CIP to the Funding Agency and maintain
39 the audit trail back to the RPUID. Cost shall include all costs incurred to bring the asset
40 to a form and location suitable for its intended use. These costs may include but not
41 limited to:

42 **Table 11: Construction-in-Progress Cost Matrix**

Cost Type	Description
Cost of contract work	Contract work cost includes amounts paid for work performed under contract, as well as any incentive fees paid to the contractors to reward performance goals.
Direct cost of labor	Cost of labor includes the direct cost of labor and all associated fringe benefits in connection with the construction project. This cost shall contain both military and civilian labor costs.
Direct cost of materials and supplies	Cost of materials and supplies includes the purchase price, the cost of inspection and loading assumed by the carrier.
Cost of Supervision, Inspection and Overhead (SIOH)	Cost of SIOH includes support associated with the administration of contracts for facility projects. This may include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of transportation	Cost of transportation includes amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Cost of handling and storage includes amount paid for packaging and storing the materials, supplies and equipment used in the construction project.
Cost of injuries and damages	Cost of damages includes costs of injuries to people or property incurred directly as a result of the construction project.
Cost of legal and recording fees	This cost includes any legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	This cost includes amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys. This cost may include any design reviews, environmental impact studies and soil testing for the new construction projects.
Cost of facility and site preparation	This cost includes amounts paid for preparation of the site for the new construction, such as soil removal and restoration. Additionally, this cost includes any amount paid to prepare the asset for its intended use, such as installation of utilities in a facility.
Cost of installed equipment	This cost includes the fixed equipment and related installation costs required for activities in a facility.
Cost of government	This cost includes an appropriate share of the cost of the

Cost Type	Description
furnished equipment or material (GFE, GFM)	government furnished equipment, material and facilities used in construction work.
Cost of donated assets	This cost includes the fair market value of facilities and equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

1

2 **2.6.3.3 Business Process**

3 The I&E Domain recommends a Project Unique Identifier be established in addition to
4 the Real Property Unique Identifier (RPUID) to provide the capability to trace the
5 construction costs for a specific action to a specific real property asset and to ensure the
6 full cost of the real property projects are properly accumulated, tracked and reported for
7 that asset.

8 These two data elements work together as follows:

9 A real property record with a RPUID is created for all real property assets of interest. If
10 a new building or structure is constructed or acquired, even if constructed over an old
11 footprint, a new RPUID will be assigned. The RPUID will be created at the time of an
12 acquisition contract. For constructed facilities, the RPUID is created upon awarding the
13 construction or the design/build contract. As a result, the RPUID shall be mapped to the
14 CIP account to provide traceability for all the construction costs incurred to the real
15 property asset.

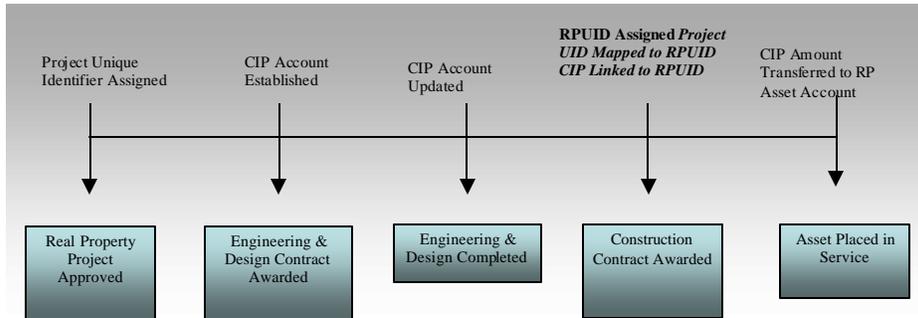
16 A project number with a unique identifier shall be assigned to all approved real property
17 projects. All engineering and design costs incurred prior to construction shall be
18 accumulated in the CIP account. The project unique identifier shall be mapped to the CIP
19 account to link all pre-construction engineering and design costs. Upon issuance of the
20 RPUID, the project unique identifier shall be mapped to the RPUID to link the pre-
21 construction cost accumulated in the CIP account to a specific real property asset.
22 Consequently, the pre-construction cost can be separately identified from the construction
23 cost. Additionally, the full cost of the real property projects can be adequately captured
24 and reported.

25 In a case where the project is cancelled or the construction funding is not within the
26 Future Year Defense Plan (FYDP), the project unique identifier should be archived and
27 the pre-construction cost in the CIP account should be charged to the operating expense
28 account.

29 Each project may represent one or more real property assets. Every real property asset
30 may consist of one or more projects. Consequently, each project unique identifier may be
31 mapped to one or more RPUID.

1 The diagram below illustrates the concepts described above and the relationship between
 2 the RPUID and the project unique identifier. The concept of the project unique identifier
 3 shall be further discussed with the BMMP Domains, and will be analyzed in the future
 4 initiatives.

5 *Figure 2: Project UID and RPUID Process Diagram for a Design-bid-Build Project¹⁰*



6
7

¹⁰ Under a Design-Build project the CIP account and the RPUID are established upon awarding the design contract.

1 **2.7 Preponderance of Use**

2 **2.7.1 Background and Current Deficiency**

3 In general, Property, Plant, and Equipment (PP&E) is recognized as an asset and
4 capitalized on the financial statements of the DoD component that acquires the asset.
5 There are some exceptions to this general rule when another DoD component uses or
6 occupies all or a portion of the asset, or makes a capital improvement to the asset.
7 Identifying the responsible component to report the asset and the associated capital
8 improvements is a critical factor, especially for Working Capital Fund (WCF) activities
9 to capture the full cost of their operations. Reporting the full cost of operations is
10 important for WCF activities in determining reimbursements, and setting fees and prices
11 for goods and services provided. The rates should be adequate to recover the full cost of
12 goods and services. It is important that the proper entity capitalizes the cost of PP&E and
13 depreciates that cost appropriately. The preponderance of use policy of DoD FMR,
14 referenced below in the Regulatory Requirements, sets forth the financial reporting
15 responsibilities for the Military Services and Defense Agencies.

16 By law, Defense Agencies are not permitted to own real properties. The Military
17 Services have jurisdiction over such properties; hence, they have administrative
18 accountability for properties used by DoD Agencies. Per the DoD FMR, the
19 preponderant user of the facility shall recognize and report facilities funded or used in
20 their operations. Furthermore, the WCF activity that funds a capital improvement shall
21 recognize and report the improvement and associated depreciation expense on its
22 financial statements.

23 Currently, there is no reconciliation process between the Military Services and the
24 Defense Agencies systems. This may result in a property not being reported; duplicate
25 reporting, or inaccurate valuation of the property and/or capital improvements. To ensure
26 accurate recording of an asset and/or a capital improvement by the appropriate DoD
27 Component, all components need to adopt a standard process to identify the tenants - the
28 users of a facility. This information will assist the Components in applying the
29 preponderance of use policy.

30 The RPI workshop identified various core data elements related to the recognition of real
31 properties and capital improvements. The Accounting Working Group, representatives
32 from various DoD organizations (see Working Group Member List), analyzed and
33 discussed these data elements and determined that additional data elements and business
34 rules were needed to provide for the accurate recognition and recording of the assets in
35 accordance with the preponderance of use policy and the reporting requirements for the
36 WCF activities. The Working Group developed various cases to enhance the
37 interpretation of the preponderance of use policy. Refer to Preponderance of Use Policy
38 examples in the attachment to review the scenarios. Additionally, the Working Group
39 developed a long-term solution to allow all DoD components to account for their share of
40 expenditures and cost of operations.

41 **2.7.2 Regulatory Requirements**

42 The following financial requirement defines the preponderance of use policy.

43 **DoD Financial Management Regulation Volume 4, Chapter 6, 060105 B4**

1 DoD components shall only report predominately used General PP&E assets owned by
2 other DoD Components when the cost of those assets, taken as a whole, are material to
3 the predominant user Component's financial statements.

4 **General Fund**

5 Military Departments: Generally, a Military Department shall not recognize or report
6 facilities occupied on another Military Department's installation. For example, if the Air
7 Force is a tenant on an Army installation and the predominant user of a building on that
8 installation, the Army would still report the building on the Army's financial statements;
9 not the Air Force.

10 Defense Agencies: The Defense Agencies that produce financial statements and/or are
11 included in the DoD Consolidated Financial Statements are an exception. These, users of
12 Service-owned facilities, generally must recognize and report the facilities used in their
13 operations. The facilities are material to the performance of their mission. Most facilities
14 used by the Defense Agencies are owned by, or titled to, the Military Departments.
15 Generally, these facilities are significant to the operation of the Agencies and form an
16 integral or necessary part of their output. As such, these facilities are material to the
17 Defense Agencies and must be excluded from the financial statements of the Military
18 Departments. The Defense Agencies and Military Departments should coordinate with
19 each other to ensure completeness and avoid duplicate reporting of General PP&E.

20 **Working Capital Funds (WCF)**

21 General: When a WCF activity is the preponderant user of a facility, that WCF activity
22 shall report and depreciate that facility on its financial statements. This requirement
23 exists without regard to whether the WCF activity belongs to a Military Department or a
24 Defense Agency.

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

35 **2.7.3 Recommendation**

36 **2.7.3.1 Short Term Resolution**

37 The I&E Domain recommends no change to the preponderance of use policy as stated in
38 the DoD FMR Volume 4, Chapter 6, but does recommend the following be implemented
39 as a short-term resolution to provide for accurate reporting of the real property assets and
40 to assist in achieving the clean audit opinion on the DoD's financial statements.

1 The Accounting Working Group emphasized the need for the ‘to-be’ environment to
 2 provide an integrated solution, single property record with a unique identifier, and
 3 management visibility at various levels within the entity. Additionally, the Working
 4 Group expressed the requirement for the ‘to-be’ environment to provide the capability for
 5 automation of all reconciliation processes.

6
 7

8 **Data Elements**

9 The following RPI core data elements were identified by the Accounting Working Group
 10 as critical to managing the real property assets:

11 *Table 12: Recommended Core Data Elements for Physical Accountability*

Data Element	Data Element Description
Using Org Code	A code identifying each user of the facility.
Replacement Org Code	Identifies the organization responsible for replacement of the entire facility. Not applicable for Land asset. There can be only one replacement org code for a facility.
Replacement Funding Code	Identifies the fund type for replacement of the entire facility. Not applicable for Land asset. There can be only one replacement funding code for a facility.
Sustainment Org Code	Identifies the organization responsible for sustainment of the facility. The code ‘99’ will be used for facilities that will not be sustained. There can be multiple sustainment org codes per facility.
Sustainment Funding Code	Identifies the primary fund type for sustainment. The code ‘99’ will be used for facilities that will not be sustained. There can be multiple sustainment funding codes per facility.

12

13 The I&E Domain recommends the following core data elements to assist in the proper
 14 application of the preponderance of use policy. Specifically, the Capital Improvement data
 15 elements were created because not all replacements or restorations, listed in the preceding table,
 16 meet the criteria of capital improvements, as defined by the Statement of Federal Financial
 17 Accounting Standard No. 6 (SFFAS -6).

18 *Table 13: Recommended Core Data Elements for Financial Accountability*

Data Element	Data Element Description
Financial Reporting Org Code	The organization responsible to report and depreciate the original asset or capital improvement made to the original

	asset, or both on its financial statements.
Preponderant Using Org Code	Identifies the preponderant – largest - user of the space/facility. This is a calculated field based on the largest quantity utilized (i.e., largest square footage).
Capital Improvement Org Code	The organization responsible for making capital improvements to the facility.
Capital Improvement Funding Code	The primary fund type for capital improvements made to the facility.

1

2 **Business Rules**

3 The I&E Domain recommends the following business rules as established by the Accounting
 4 Working Group in order to elaborate on the definition of data elements listed above and
 5 standardize the application of the preceding recommendations in various scenarios.

6 *Table 14: Recommended Business Rules*

Data Element	Business Rule
Financial Reporting Org Code	<p>The Financial Reporting Org Code is used to report and depreciate the <u>original acquisition cost</u> of the facilities on the financial statements as follows:</p> <p>In the case of a General Fund (GF) Military Service : Financial Reporting Org Code for the original asset represents the owner of the facility.</p> <p>Defense Agencies and WCF Activities: Financial Reporting Org Code for the original asset is the predominant user of the facility (Preponderant Using Org Code). Defense Agencies do not report Land.</p> <p>If the funding for the original acquisition cost is Working Capital Funds, then the WCF funding activity must report those costs and the associated depreciation as long as that original funding activity continues to be the predominant user of the facility.</p> <p>The Financial Reporting Org Code is used to report and depreciate the <u>capital improvements</u> on the financial statements, as follows:</p> <p>In the case of a GF Military: Financial Reporting Org Code for the capital improvement represents the owner of the facility.</p> <p>Defense Agencies:</p> <p>General Fund (GF): Financial Reporting Org Code for the capital improvement is the predominant user of the facility (Preponderant Using Org Code)</p>

Data Element	Business Rule
	WCF: Financial Reporting Org Code for the capital improvement represents the activity funding the capital improvement (Capital Improvement Org Code) as long as that original funding activity continues to use the facility.
Preponderant Using Org Code	When reporting an asset and the associated depreciation expense, the predominant user at the end of the reporting period shall report the asset on the financial statements.
Using Org Code	In any given facility there may be multiple DoD tenants. Each occupant shall be recorded as a user of the facility via the Using Org Code in the real property inventory.
Capital Improvement Org Code	The WCF activity making/funding the capital improvement shall report and depreciate the capital improvement. In this case, the Capital Improvement Org Code = Financial Reporting Org Code for the capital improvement. However, the original asset may have a different Financial Reporting Org Code.
Capital Improvement Funding Code	The fund type for each capital improvement shall be recorded in the real property inventory. Various organizations and fund types may fund capital improvements. However, the WCF activities shall account for and report their share of capital improvement investments, whether they are the preponderant user or not.

1

2 **Policy Revision**

3

4 The Accounting Working Group proposes the refinement to DoD FMR Volume 4,
 5 Chapter 6, to include the scenarios, described in the Attachment of this document, to
 6 enhance the definition and illustrate the application of the preponderance of use policy.

7 **2.7.3.2 Long Term Resolution**

8 The Accounting Working Group analyzed the preponderance of use policy as stated in
 9 DoD FMR and the ‘to-be’ vision of the DoD enterprise to provide an effective and
 10 efficient asset management process and enable optimal financial management reporting.

11 The DoD enterprise ‘to-be’ environment will provide capabilities to combine cost
 12 accounting, performance measurement, financial reporting, asset management and
 13 budgetary control in an integrated solution to accomplish many objectives associated
 14 with planning, decision-making and reporting by reasonable allocation of federal
 15 resources. SFFAS-4 defines a cost accounting solution as a continuous and systematic
 16 cost accounting process which may be designed to accumulate and assign costs to a
 17 variety of objects routinely or as desired by the management. In describing the purposes

1 of using cost information, SFFAS-4 says, “In managing federal government programs,
2 cost information is essential in the following five areas: (1) budgeting and cost control,
3 (2) performance measurement, (3) determining reimbursements and setting fees and
4 prices, (4) program evaluations, and (5) making economic choice decisions.”

5 Due to the lack of a systematic cost accounting process, the preponderance of use policy
6 was introduced as an intermediate solution to account for the cost of the real property
7 assets and the capital improvements. To accurately allocate the cost of operations to the
8 proper entities, operations, programs and outputs, the proposed ‘to-be’ processes will
9 provide the capability to allocate the cost of the real property assets and the depreciation
10 expense, on a prorated basis, to each occupant regardless of the funding source. The
11 current policy requires the preponderant user of the facility to account for the asset and its
12 depreciation expense. Under this methodology, the costs of operation may be overstated
13 for the preponderant user of the facility and understated for other tenant organizations.

14 **Business Rules**

15 The I&E Domain recommend the following business rules to be considered for the ‘to-
16 be’ environment:

17 **Real Property Cost & Depreciation**

18 The preponderance of use policy may be refined to allow each tenant organization to
19 recognize and report its share of the cost of the real property asset and the depreciation
20 expense on its financial statements.

21 **Capital Improvement**

22 The cost of a capital improvement that is exclusively funded by one organization shall be
23 recognized and reported on the funding organization’s financial statements. However,
24 the cost of a capital improvement that is funded by multiple organizations and embodies
25 future benefits that contributes to the operations of those organizations shall be allocated
26 on a prorated basis to the funding organizations and reported on their financial
27 statements.

1

2 **2.8 Government Owned, Contractor Operated (GOCO)**

3

4 **2.8.1 Background and Current Deficiency**

5 In accordance with Federal Acquisition Regulation (FAR), part 45, “Government
6 Property”, subpart 45.505-7, “Records of Real Property”, Government Owned Contractor
7 Operated (GOCO) facilities represent those facilities that are owned by DoD and
8 operated and maintained by Federal Contractors. The Contractor is responsible for the
9 function, mission, and operation of the facility. According to the FAR, the contractor is
10 responsible for maintaining the official property records for the government.

11 Each Contractor occupying Government property is required, by contract, to report real
12 property annually on the DD Form 1662, DoD Property in the Custody of Contractors.
13 The Contractor has the responsibility to maintain detailed records for the real property
14 and annually report to the Government property administrator the beginning and ending
15 balances of the property, to include any changes to the real property, such as capital
16 improvements. In addition, the Military Services must include GOCO real properties in
17 their real property databases because they retain the title to the property and the GOCO
18 properties are reported on their financial statements.

19 The cost of a capital improvement that is exclusively funded by one organization shall be
20 recognized and reported on the funding organization’s financial statements. The cost of a
21 capital improvement that is funded by multiple organizations and embodies future
22 benefits that contributes to the operations of those organizations shall be allocated on a
23 prorated basis to the funding organizations and reported on Government Owned
24 Contractor Operated Facilities.

25 Currently, there are deficiencies in managing the GOCO properties. The DoD is not able
26 to properly account for the GOCO facilities and the associated capital improvements. In
27 addition, they are not able to track capital improvements made by the contractor in
28 GOCO facilities at the detailed level required for the property management systems.
29 According to the DoD IG Audit Report, “Accuracy of the Government – Owned
30 Contractor – Occupied Real Property in the Military Department’s Real Property
31 Databases”, dated December 22, 2000, the real property inventories do not contain
32 accurate GOCO information due to the lack of management controls to ensure that the
33 real property government personnel obtained the information needed to update the real
34 property databases for the changes that the contractors made. The DoD IG Audit Report
35 also reported that the military services did not comply with DoD regulations that required
36 accurate valuation of all real property. The real property inventories did not reflect the
37 updated or final cost of the GOCO properties.

38 The Accounting Working Group discussed the above deficiencies and proposed to refine
39 the current processes and data requirements related to accumulating GOCO property
40 information to support management control over such properties and provide accurate
41 information for complete asset accountability and visibility. It was determined that
42 contractors must follow the same business rules identified for accountability of real
43 property assets. These business rules include those for the acceptance and transfer of

1 military real property, the date triggering depreciation and accounting for construction-in-
2 progress (CIP).

3 The Accounting Working Group further developed standard data attributes and business
4 rules, illustrated below, to support the GOCO asset accountability.

5 **2.8.2 Regulatory Requirement**

6 The following federal financial requirements define the contractor's requirements and
7 responsibilities in accounting for a GOCO facility. The general regulatory requirements
8 relating to accounting for real property, such as acquisition costs, depreciation expense
9 recognition, capitalization thresholds, capital improvements, and asset disposal also
10 apply.

11 12 **Federal Accounting Standards Advisory Board (FASAB)** 13 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**

14 15 **Chapter 2 – Accounting Standard Property, Plant, & Equipment Definitions**

16
17 Property, Plant, and equipment (PP&E) consists of tangible assets, including land, that
18 meet the following criteria: they have estimated useful lives of 2 years or more; they are
19 not intended for sale in the ordinary course of operations; and they have been acquired or
20 constructed with the intention of being used, or being available for use by the entity.

21
22 PP&E also includes: assets acquired through capital leases, including leasehold
23 improvements; property owned by the reporting entity in the hands of others (e.g., state
24 and local governments, colleges and universities, or Federal Contractors).

25 26 **DoD Financial Management Regulation Volume 4, Chapter 6, 060108** 27 **Government Property in the Possession of Contractors**

28
29 Government property in the possession of contractors, whether government-furnished,
30 contractor-acquired or contractor-fabricated, consists of seven mutually exclusive
31 categories, as reflected on DD Form 1662: Land, Other Real Property, Other Plant
32 Equipment, Industrial Plant Equipment, Special Test Equipment, Special Tooling, and
33 Military Property (Agency Peculiar). Material (contractor acquired or government
34 furnished) also reported on the DD Form 1662 generally is not PP&E.

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

42 43 **Federal Acquisition Regulation, 45.5 – Management of Government Property in the** 44 **Possession of Contractors 45.505-7 – Records of Real Property**

The contractor shall maintain an itemized record of the description, location, acquisition cost, and disposition of all Government real property (including unimproved real property); all alterations, all construction work, and sites connected with such alteration and construction, acquired by purchase, lease, or otherwise. These records, including maps, drawings, plans, specifications, and supplementary data where necessary, shall-

- 1) Be complete;
- 2) Show the original cost of the property and improvements and the cost of any changes and additions; and
- 3) Be appropriately indexed.

Costs incurred by the contractor or the Government for new construction, including erection, installation, or assembly of Government real property in possession of the contractor, shall be capitalized in the official Government real property records and financial accounts maintained by the contractor for the Government.

Costs incurred for additions, expansions, extensions, conversions, alterations, and improvements, including applicable portions of capital maintenance, that increase the value, life, utility, capability, or serviceability of Government real property shall be capitalized.

Costs incurred for portable buildings or facilities specifically constructed for tests that involve destruction of the facility shall not be capitalized in the Government real property records or financial accounts.

Costs incurred for maintenance, repair, or rearrangement to maintain the Government real property in good physical condition, utility, capacity, or serviceability shall be charged to expense, and the real property records shall not be affected.

When Government-owned real property is sold, transferred, donated, destroyed by fire or other cause, abandoned-in-place, or condemned, the financial accounts shall be reduced by the presently recorded cost and the real property records annotated with a supporting statement, including pertinent facts.

2.8.3 Recommendations

2.8.3.1 Data Attributes

The I&E Domain recommends an additional data attribute for the following standard core data element to facilitate the identification of the Government Owned Contractor Operated facilities.

Table 15: Proposed Data Attribute to Identify GOCO

Data Element	Data Element Description	Data Value
Site Status Code	Operational status of site	For GOCOs

E –Active, Industrial, Contractor Operated

L –Inactive, Industrial, Contractor Operated

N –Excess, Industrial, Contractor Operated

1

2 The I&E Domain recommends adding a data attribute to the following core data elements
 3 to distinguish each as belonging to the government or a non-government entity. These
 4 data elements are:

5

6

Table 16: Proposed Data Attributes to Distinguish Contractor Funded Projects

Data Element	Data Element Description	Data Value
Capital Improvement Funding Code	A code that identifies the primary fund type for capital improvements.	Government vs. non-Government
Capital Improvement Org Code	A code that identifies the organization responsible for making capital improvements to the facility. Not all restorations are capital improvements. Capital Improvements may be funded by various organizations and fund types. The WCF activities will account for and report their share of investments, whether they are the preponderant user or not.	Government vs. non-Government
Sustainment Funding Code	Identifies the primary fund type for sustainment. The code ‘99’ will be used for facilities that will not be sustained.	Government vs. non-Government
Sustainment Org Code	Identifies the organization responsible for sustainment of the facility. The code ‘99’ will be used for facilities that will not be sustained.	Government vs. non-Government
Replacement Funding Code	A code that identifies the primary fund type for replacement of the entire facility. Not applicable to Land assets.	Government vs. non-Government

Data Element	Data Element Description	Data Value
Replacement Org Code	A code that identifies the organization responsible for replacement of the entire facility. Not applicable for Land asset.	Government vs. non-Government

1

1 **Business Rules**

2 The I&E Domain recommends the following business rules as established by the
3 Working Group in order to elaborate on the definition of the data elements listed above
4 and standardize the application of the preceding recommendations in various scenarios.

5 The Contractor must follow the same business rules identified for accountability of real
6 property assets. These business rules include those for the acceptance and transfer of
7 military real property, the date triggering depreciation expense, accounting for capital
8 improvements including construction-in-progress, leased property, and disposal of
9 property.

10 **Acceptance and Transfer of Military Real Property**

11 The Contractor will be responsible for maintaining the acquisition information of the
12 Government real property it is using or occupying, which is identified on the Final
13 Transfer and Acceptance of Military Real Property, Form DD1354. The acquisition
14 information must include the Asset Acquired Date, Asset Built Date, and the acquisition
15 cost. For construction projects, the cost is transferred from the construction-in-progress
16 account to the asset account at the time it is placed in service. If the asset is transferred,
17 the cost of the asset is the book value recorded on the transferring DoD component's
18 financial records.

19 **Depreciation Expense**

20 The Contractor must be responsible for the accurate Placed in Service Date, because this
21 is the date that triggers the depreciation process in the financial system of the
22 Government.

23 **Capital Improvements**

24 The construction-in-progress (CIP) will be reported on the Government financial records
25 for any Capital Improvement. The Contractor is responsible for reporting the partial
26 payments that need to be accumulated in the CIP account. All business rules and
27 processes related to the CIP account apply. Upon date placed in service, the cost is
28 transferred from the CIP account to the asset/capital improvement account via a "Transfer
29 and Acceptance of Military Real Property" document. At that point the depreciation of
30 the capital improvement commences.

31 It is expected that in the to-be environment the contractor will be required to track the
32 cost and physical attributes of the capital improvement separately from the other
33 operating expenses and report detail information as needed to properly record the
34 information in the Services' real property management systems.

35 **Disposal of Property**

36 The Contractor must follow the business rules regarding the disposal of a Government-
37 owned property when it is sold, transferred, donated, or destroyed:

- 38 • The "Real Property Disposal Start Date" shall represent the date the real
39 property and its associated depreciation and accumulated depreciation (except
40 for land) are removed from the financial records.

- 1
 - 2
 - 3
- The “Real Property Disposal Completed Date” shall represent the date the physical accountability of the real property asset ends.

1 ***Policy Revision***

2 The I&E Domain recommends modifying the contracts that the Federal Contractors sign
3 with the DoD Components, to require the application of DoD business rules and record
4 the data directly into the Services' property management systems, which would require
5 providing appropriate training and operating manuals to the Contractors. It is
6 recommended that the information should be secured so that the Contractors cannot
7 access each other's proprietary information.

8 The Accounting Working Group proposes a refinement to DoD FMR Volume 4, Chapter
9 6, and the FAR 45.5, in order to include the data elements and their corresponding
10 business rules described above in order to support the implementation of a standard
11 process for Contractors to record and account for GOCO facilities, capital improvements,
12 and leases in the DoD components' systems.

1 **2.9 Audit Trail**

2 **2.9.1 Background and Current Deficiency**

3 The Chief Financial Officers Act requires federal agencies to prepare auditable annual
4 financial statements. To date, the DoD-wide statements have received a disclaimer of
5 opinion from the auditors, which means the statements are unauditable. One of the
6 financial statement weaknesses concentrates on the DoD's inability to verify the reported
7 amount for General Property, Plant and Equipment as documentation supporting the
8 reported amount no longer exists or cannot be located.

9 The auditors identify significant line items and accounts in the financial statements and
10 significant related financial statement assertions. Financial statement assertions, as
11 defined by GAO Financial Audit Manual (FAM), are management representations that
12 are embodied in financial statement components. Most of the auditor's work in forming
13 an opinion on financial statements consists of obtaining and evaluating evidential matter
14 concerning the assertions in such financial statements. The assertions are classified into
15 the following broad categories:

- 16
- 17 • **Existence or occurrence:** An entity's assets or liabilities exist at a given date, and
18 recorded transactions have occurred during a given period.
- 19 • **Completeness:** All transactions and accounts that should be presented in the
20 financial statements are so included.
- 21 • **Rights and obligations:** Assets are the rights of the entity, and liabilities are the
22 obligations of the entity at a given date.
- 23 • **Valuation or allocation:** Asset, liability, revenue, and expense components have
24 been included in the financial statements at appropriate amounts.
25

26 To support the evidence required for the financial statements assertions, an audit trail is
27 required. As defined by GAO FAM¹¹, the audit trail is the evidence that demonstrates
28 how a specific transaction was initiated, processed, and summarized. For example, the
29 audit trail for a purchase could include a purchase order, a receiving report, an invoice,
30 invoice register (purchases summarized by day, month, and/or account), and general
31 ledger postings from the invoice register.

32 An audit trail provides transaction accountability. It is a step-by-step record by which
33 financial data can be traced to its source. An electronic audit trail is a form of electronic
34 evidence that can be used to trace real property inventory (RPI) transactions to their
35 source documentation, which verifies their validity and accuracy. Audit trails are also
36 useful for maintaining security of the financial and non-financial data in the RPI and for
37 recovering any lost transactions that may occur.

38 **Recommendations:**

¹¹ GAO Financial Audit Manual Volume 1: Methodology; Section 200: Planning Phase; Identify Risk Factors, 17(d)

1 The I&E Domain recommends a list of supporting documentation to be maintained as
2 evidence to verify the reported amount of DoD's property on the financial statements.

3 4 **2.9.2 Regulatory Requirements**

5 Joint Financial Management Improvement Program *Property Management Systems*
6 *Requirements* (JFMIP-SR-00-04)

7 **General Requirements, Mandatory:**

8 The property management system must support the following common requirements for
9 all property management functions:

- 10 • Provide an audit trail for entries to a property record, including the
11 identification of the individual(s) entering or approving the information and/or
12 data.

13 **Acquisition of Property; Changes in Asset Values, Mandatory:**

- 14 • For capitalized property and stewardship assets:
15 • Provide an audit trail for all adjustments to quantities and units.
16 • For capitalized property only:
17 • Provide an audit trail for all adjustments to property values.

18 **Depreciation, Amortization, or Depletion of Capitalized Assets, Mandatory:**

- 19 • Provide an audit trail for amortization, depletion, and depreciation expense.

20 **Transfer, Disposal or Retirement of Assets**

- 21 1 Maintain an audit trail of transfer, disposal, and retirement actions.

22 **2.9.3 Recommendations**

23 The I&E Domain recommends a list of supporting documentation to be maintained as
24 evidence to verify the reported amount of DoD's property on the financial statements.

25 26 **Business Rules**

27 The I&E Domain recommends the following business rules to be considered for the 'to-
28 be' environment:

29 **Acquisition and Capital Improvements**

30 To provide an adequate audit trail for the recording of an acquisition and any capital
31 improvements associated with real property assets, all documents that make up the
32 DD1354 (Transfer and Acceptance of Military Real Property) will be electronically
33 maintained. Specifically, the following documents should be readily available to
34 support the changes in asset value or physical attributes as a result of a new
35 acquisition or capital improvement:

- 36 • Final bid documents
37 • Signed acceptance document by the government.

- 1 • Contract/Other Legal Instrument (i.e., lease)
- 2 • Invoices to support the amount accumulated in the CIP account
- 3 • DD1391 (MILCON) and work orders to include the design cost during the
- 4 planning phase
- 5 • Appraisal results for the donated assets
- 6 • Transfer documents for transferred assets

7 The RPUID is mandated as one index to link this supporting documentation to each
8 property record. The National Archives and Records Administration allows for
9 electronic retention of this audit trail and specifies methods to transfer the data to
10 NARA custody.

11 To provide an adequate audit trail for the recording of depreciation, capitalization and
12 depletion of a real property asset the engineering study used to determine the
13 estimated useful life of the real property will be retained. If the FAC and the
14 estimated useful life of an asset changes, the document used to determine the new
15 useful life and the date of each revision will be retained to provide adequate and
16 complete support of the depreciation or capitalization calculation.

17 **Disposals**

18 The following supporting documentation is required to provide an adequate audit trail
19 for the disposal of a real property asset. Again, the RPUID shall be referenced on all
20 supporting documents. Certain disposal events trigger financial or administrative
21 accountability transactions.

- 22 • Declaration of Excess document.
- 23 • Approval documentation (to include disposal of land).
- 24 • Legal instruments (such as deed, contract) to indicate legal obligation to
- 25 dispose of an asset.
- 26 • Document showing the disposal start date.

1 **2.10 Lease and Other Non-Ownership Data Elements and Business Rules**

2 ***2.10.1 Background and Current Deficiency***

3 DoD must account for and report non-owned real property it occupies and uses in the
4 same manner as it does owned real property. In general, the essential data elements and
5 business rules regarding owned real property will apply to non-owned property. The RPI
6 will include the basic physical, location and geo-political characteristics of the property,
7 exactly the same as for owned property. However, additional data elements must be
8 added to the RPI to fulfill asset management and financial management requirements as
9 highlighted below. These are required by the very nature of the agreements that created
10 the interest in the property. Business rules were also promulgated to address specific
11 issues and to give overall guidance about the nature of the data attributes and their
12 inclusion in the RPI.

13 ***2.10.2 Regulatory Requirements***

14 The following financial requirements define the accounting standards for recognition and
15 measurement of leases, which emphasize the requirement for the core financial data
16 elements described later in this attachment:

17 **Federal Accounting Standards Advisory Board (FASAB)**
18 **Statement of Federal Financial Accounting Standard No. 6 (SFFAS -6)**
19 **AND**
20 **DoD Financial Management Regulation Volume 4, Chapter 6, 060207**

21
22 Capital leases are leases that transfer substantially all the benefits and risks of ownership
23 to the lessee. If, at its inception, a lease meets one or more of the following four criteria,
24 the lease should be classified as a capital lease by the lessee. Otherwise, it should be
25 classified as an operating lease.

- 26 • The lease transfers ownership of the property to the lessee by the end of the lease
27 term.
- 28 • The lease contains an option to purchase the leased property at a bargain price.
- 29 • The lease term is equal to or greater than 75 percent of the estimated economic
30 life of the leased property.
- 31 • The present value of rental and other minimum lease payments, excluding that
32 portion of the payments representing executory cost, equals or exceeds 90 percent
33 of the fair market value (FMV) of the leased property.

34 The last two criteria are not applicable when the beginning of the lease term falls within
35 the last 25 percent of the total estimated economic life of the leased property.

36

37 **SFFAS 5 – Accounting for the Liabilities of the Federal Government**

38

39 Capital leases - In a lease transaction, the lessee should report a liability when one or
40 more of four specified capital lease criteria are met. The amount to be recorded by the
41 lessee as a liability [FN 6: "The cost of general property, plant, and equipment acquired
42 under a capital lease shall be equal to the amount recognized as a liability for the capital

1 lease at its inception." (See SFFAS No. 6, "Property, Plant, and Equipment".)] under a
2 capital lease is the present value of the rental and other minimum lease payments during
3 the lease term, excluding that portion of the payments representing executory cost to be
4 paid by the lessor.

5
6 However, if the amount so determined exceeds the fair value of the leased property at the
7 inception of the lease, the amount recorded as the liability should be the fair market
8 value. If the portion of the minimum lease payments representing executory cost is not
9 determinable from the lease provisions, the amount should be estimated.

10 11 **DoD Financial Management Regulation Volume 4, Chapter 6, 060209 A**

12
13 The Leasehold Improvement account is used to record the value of capitalized
14 improvements to leased property. When leasehold improvements meet or exceed the DoD
15 capitalization criteria, such improvements shall be capitalized and amortized. If a
16 leasehold improvement that meets the DoD capitalization threshold has been made to a
17 capital lease, the improvement shall be amortized over the term of the lease. If a
18 leasehold improvement that meets the DoD capitalization threshold has been made to an
19 asset that has been procured by an operating lease, the leasehold improvement shall be
20 amortized over 20 years or the expected duration of the lease, whichever is less.

21 22 **Disclosure Requirement**

23 **DoD Financial Management Regulation Volume 6B, Chapter 10**

24 25 **Note 24 – Other Disclosures**

26 27 **A. Entity as Lessee**

- 28 • Description of Operating Lease Arrangements (Line 1.A). Report information that
29 would disclose the level of the agency's funding commitments including, but not
30 limited to, the major asset categories and such lease terms as the existence and
31 terms of renewal options, escalation clauses, restrictions imposed by lease
32 agreements, contingent rentals, and the lease period.
- 33 • Future Payments Due for Operating Leases (Line 1.B). Enter future lease
34 payments, by major category, for all non-cancelable leases with terms longer than
35 1 year.

36 37 **B. Entity as Lessor**

- 38 • Description of Capital Lease Arrangements (Line 2.A.1). Provide the information
39 necessary to disclose the commitments of the entity's assets including but not
40 limited to the major asset category and lease terms.
- 41 • Future Project Receipts from Capital Leases (Line 2.A.2). Enter future lease
42 revenues by asset category for all non-cancelable leases with terms longer than 1
43 year.
- 44 • Description of Operating Lease Arrangements (Line 2.B.1). Provide the
45 information necessary to disclose the commitments of the entity's assets including
46 but not limited to the major asset category and lease terms.

- 1 • Future Project Receipts from Operating Leases (Line 2.B.2). Enter future lease
2 revenues by asset category for all non-cancelable leases with terms longer than 1
3 year.
4

5 **2.10.3 Recommendations**

6 The Department of Defense Instruction (DoDI) 4165.14, the current Service-specific data
7 elements and the draft RPI Core Data Elements database served as the initial basis to
8 identify and define the RPI data elements related directly to DoD non-owned real
9 property. The attributes to be included in the RPI were defined as those additional data
10 elements essential for non-owned asset stewardship and financial accounting reporting

11 The Working Group identified the following new or modified Leasing Data Elements to
12 be added to the RPI core data elements database to meet the above financial
13 requirements:

- 14 • **Interest Code (Capital or Operating)** - This data element represents the type
15 interest DoD has in the Real Property. For Leases this code will allow the
16 lease interest to be identified as either a capital or operating lease.
- 17 • **Acquisition Cost** –This data element represents the cost of real property
18 acquired under a capital lease that is the lesser of the fair market value or the
19 present value of the rental and other minimum lease payments during the lease
20 term, excluding that portion of the payments representing executory cost to be
21 paid by the lessor; derived from Acquisition
- 22 • **Capital Lease Criteria** – Reason(s) why lease was classified as a capital lease.
23 This is derived from Acquisition.
- 24 • **Capital Improvement Cost** – For leased facilities, the cost of each leasehold
25 improvement, meeting the same the capitalization criteria as applied to owned
26 facilities. Leasehold improvements represent physical enhancements made to
27 property by or on behalf of the property’s lessee, regardless of the method of
28 payment (installment vs. lump-sum). Based on the “Leased” interest, this will
29 have a different affect on the General Ledger than a Capital Improvement
30 made to an Owned Facility. May apply to either operating or capital leases.
- 31 • **Date of Leasehold Improvement** – The Placed in Service Date is date a
32 Leasehold Improvement (Capital Improvement) is made to a Leased Facility.
33 On this date, an interim Transfer and Acceptance of Military Real Property document
34 (i.e. DD1354) is signed. This date triggers amortization of the leasehold
35 improvement. The useful life for a leasehold improvement is the lesser of the
36 useful life of the improvement or the term of the underlying lease.
- 37 • **Estimated Useful Life** – Total number of service units expected from a long-
38 term asset. In other words, the amount of time that an asset is expected to be
39 in use or the amount of output it is expected to produce. The useful life of
40 each asset is determined by its associated “DOD FACILITY ANALYSIS
41 CATEGORY”. The estimated useful life is needed for amortization of capital
42 leases and leasehold improvements.

- 1
 - 2
 - 3
 - 4
- ***Lease Term*** - The length of time for the lease. The capital lease acquisition cost and the leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the asset. Lease term is a derived field from the “Lease Start Date” and the “Lease End Date”.

1 **Attachments and References**

2 **A. Capital Improvement Depreciation**

3 At present the DoD FMR permits the acquisition costs for all permanent buildings to be
 4 depreciated over 40 years and each capital improvement made to the building to be
 5 independently depreciated over 20 years. The following Cases I through VIII illustrate
 6 depreciation methodology for capital improvements more closely in compliance with the
 7 FASAB requirements. The Accounting Working Group recommends that the DoD FMR be
 8 changed to reflect this methodology.

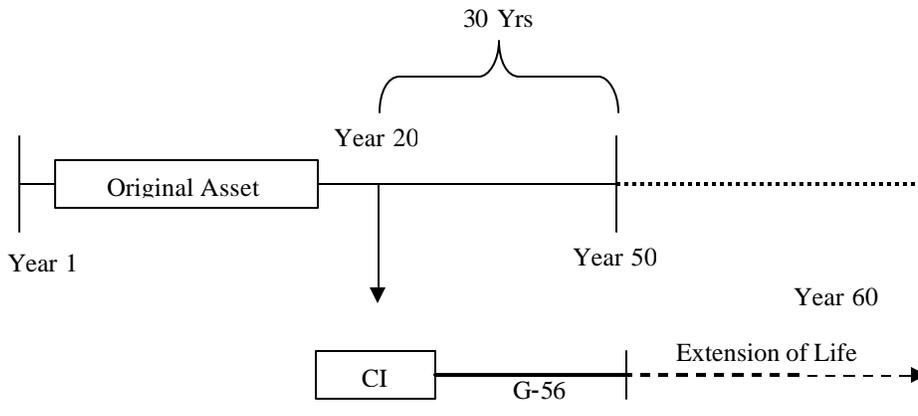
9 **Case I: The Capital Improvement Extends the Useful Life of Existing PP&E**

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

10
11
12
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14
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16

Examples – Extends the Useful Life:

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



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

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

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

5
 6 **Examples**

7 **Increase Capacity**

- 8 • Raising the roof of the warehouse to
 9 increase cubic feet

10 **Increase Size**

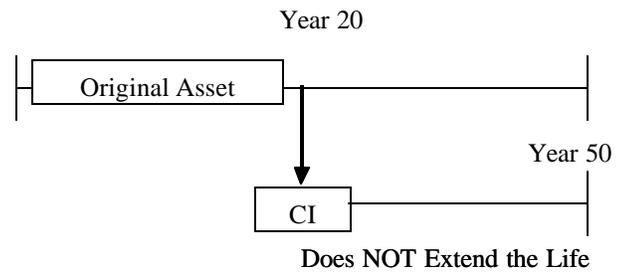
- 11 • Build an addition, expansion or extension
 12 to the building, i.e. increase foot print

13 **Increase Efficiency**

- 14 • Install building insulation

15 **Modify Functionality**

- 16 • Converting an office to a warehouse
 17 • Upgrade architectural element of a facility that has not or is not failing, e.g. upgrade a flat
 18 roof to a pitched roof



1 **Case III: The Capital Improvement Increases the General PP&E Asset’s**
 2 **Capacity, Size & Efficiency or Modifies the Functionality/Use**

3 The improvement has an expected useful life that differs from the expected useful life of the
 4 PP&E asset to which it relates. The improvement doesn’t extend the life of the associated PP&E
 5 asset.

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

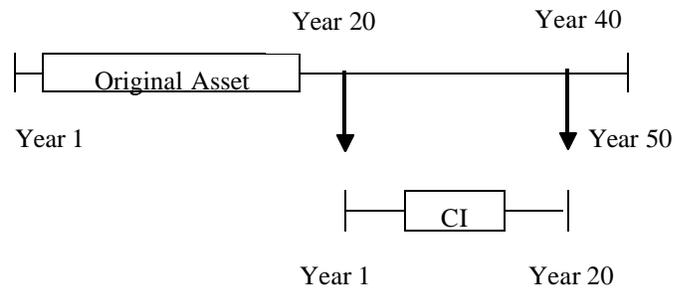
6
 7 **Examples**

8 **Increase Efficiency**

- 9 • Install HVAC system where
 10 none existed.

11 **Modify Functionality**

- 12 • Install elevator where none existed.



1 **Case IV: The Original Asset Is Fully Depreciated**

2 The capital improvement increases the original asset’s size, capacity, and efficiency or modifies
 3 the functionality. The improvement doesn’t extend the life of the associated PP&E asset.

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

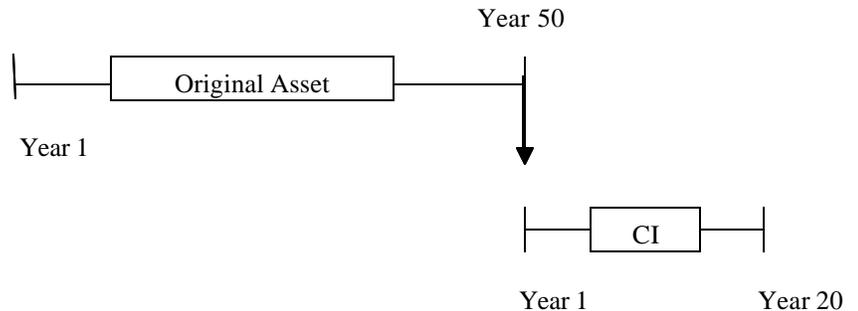
4
 5 **Examples**

6 **Increase Size**

- 7 • Extend utility system (e.g. power lines) to the previously un-served areas

8 **Modify Functionality**

- 9 • Construct office space within
 10 a warehouse



1 **Case V: The Original Asset Is Fully Depreciated**

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

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

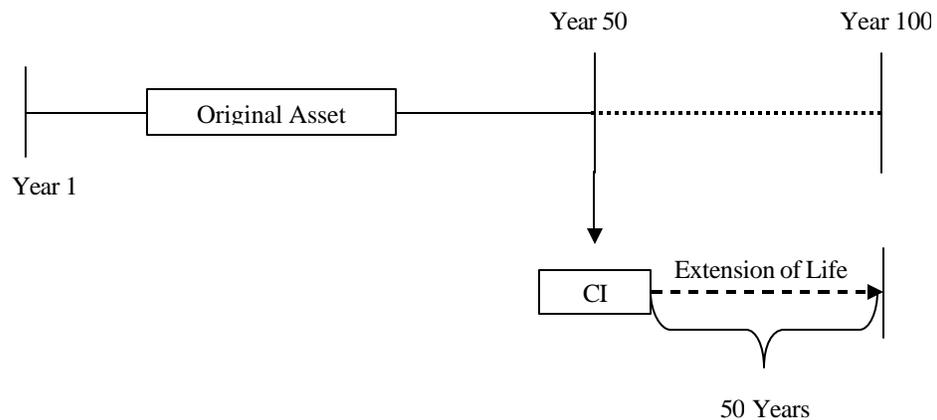
3

4 **Examples**

5 **Extends the Useful Life**

- 6 • Pentagon renovation project.

7



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

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

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

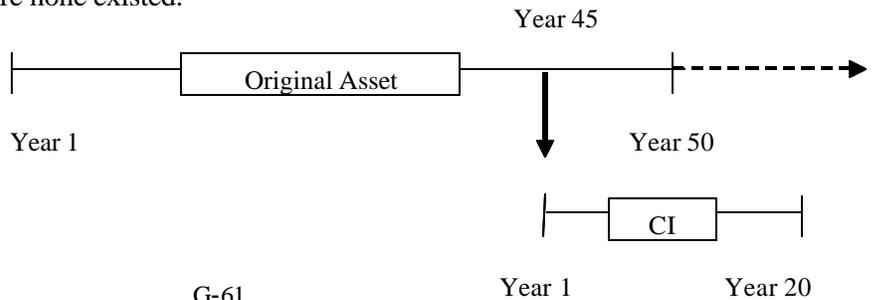
7
 8 **Examples**

9 **Increase Efficiency**

- 10 • Install HVAC system where none existed.

11 **Modify Functionality**

- 12 • Install elevator
 13 where none existed.



1 **Case VII: The Capital Improvement Increases the General PP&E Asset’s**
 2 **Capacity, Size & Efficiency or Modifies the Functionality/Use**

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

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

7

8 **Examples:**

9 **Increase Capacity**

- 10 • Raising the roof of the warehouse to increase cubic feet.

11 **Increase Size**

- 12 • Build an addition, expansion or extension to the building, i.e. increase foot print

13 **Increase Efficiency**

- 14 • Install building insulation
- 15 • Install HVAC system where none existed.

1 **Modify Functionality**

- 2 • Converting an office to a warehouse
- 3 • Construct office space within a warehouse
- 4 • Upgrade architectural element of a facility that has not or is not failing, e.g. upgrade a flat
- 5 roof to a pitched roof
- 6 • Install elevator where none existed.

1

2 **B. Preponderance of Use Policy**3 This section illustrates the preponderance of use policy as defined in DoD FMR Volume
4 4, Chapter 6:5 **Case I – General Fund Military Services**6 **Criteria:**

- 7
- Army is a tenant on an Air Force Installation.
 - Army is the preponderant user of the facility.
- 8

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>Air Force</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>Air Force</i>

9

10 **Case II – General Fund Military Services**11 **Criteria:**

- 12
- Army is a tenant on an Air Force Installation.
 - Army is NOT the preponderant user of the facility.
 - Air Force is the preponderant user of the facility.
- 14
-
- 15

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>Air Force</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>Air Force</i>

16

1 **Case III– General Fund Defense Agency**

2 **Criteria:**

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

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>Reporting Defense Agency</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>Reporting Defense Agency</i>

5

6 **Case IV– General Fund Defense Agency**

7 **Criteria:**

- 8 • GF Defense Agency is a tenant on an Air Force Installation.
 9 • GF Defense Agency is NOT the preponderant user of the facility.
 10 • Air Force is the preponderant user of the facility.

11

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>Air Force</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>Air Force</i>

12

1 **Case V– Working Capital Fund Activity**

2 **Criteria:**

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

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>DLA</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>DLA</i>

5

6 **Case VI – Working Capital Fund Activity**

7 **Criteria:**

- 8 • DLA is a tenant on an Air Force Installation.
 9 • DLA is NOT the preponderant user of the facility.
 10 • Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	\$200,000.00
<i>Financial Reporting Entity for Acquisition Cost</i>	<i>Air Force</i>
Capital Improvement	
Capital Improvement Cost	\$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
<i>Financial Reporting Entity for Capital Improvement</i>	<i>DLA</i>

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1 **Case VII – Working Capital Fund Activity**

2 **Criteria:**

- 3 • DLA is a tenant on an Air Force Installation.
- 4 • DLA is the preponderant user of the facility.
- 5 • The capital improvement to the facility is funded as follows:
- 6 - DLA 50% - WCF
- 7 - DeCA 30% - WCF
- 8 - Air Force 20% - GF

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

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Case VIII – Working Capital Fund Activity

Criteria:

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

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

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1 **C. Real Property Estimated Useful Lives by FAC**

2 The table below represents the Whitestone research results and the Accounting Working
3 Team's recommendations.

4

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
1111	Fixed Wing Runway, Surfaced	Local Transit	20	20
1112	Rotary Wing Landing Area, Surfaced	Local Transit	20	20
1113	Runway Overrun Area	Local Transit	20	20
1422	Helium Storage Facility	Industrial Buildings	36	35
1114	Runway, Unsurfaced	Local Transit	20	20
1121	Taxiway, Surfaced	Local Transit	20	20
1122	Rotary Wing Taxiway, Surfaced	Local Transit	20	20
1131	Aircraft Apron, Surfaced	Local Transit	20	20
1161	Compass Calibration Pad, Surfaced	Local Transit	20	20
1162	Missile Launching Pad, Surfaced	Local Transit	32	30
1163	Aircraft Washing Pad, Surfaced	Local Transit	32	30
1164	Miscellaneous Airfield Pavement, Surfaced	Local Transit	20	20
1165	Aircraft Pavement Shoulder	Local Transit	20	20
1166	Miscellaneous Airfield Pavement, Unsurfaced	Local Transit	20	20
1167	Aircraft Rinse Facility	Industrial Buildings	30	30
1211	Aircraft Fueling Facility	Industrial Buildings	30	30
1212	Aircraft Defueling Facility	Industrial Buildings	30	30
1221	Marine Fueling Facility	Industrial Buildings	37	35
1231	Vehicle Fueling Facility	Industrial Buildings	22	20
1241	Operating Fuel Storage	Gas/Petroleum – Public Utilities Aggregate	24	25
1251	POL Pipeline	Gas/Petroleum – Public Utilities Aggregate	20	20
1261	Liquid Fuel Loading/Unloading Facility	Industrial Buildings	20	20
1311	Communications Building	National Defense Building – Other	33	35
1321	Communications Facility	Communications Equipment	33	35
1331	Aircraft Navigation Building	National Defense Building – Other	33	35
1341	Aircraft Navigation Facility	Communications Equipment	33	35
1351	Communications Lines	Communications Equipment	28	30
1361	Airfield Pavement Lighting	Aircraft Equipment	20	20
1362	Airfield Lighting	Aircraft Equipment	20	20
1371	Ship Navigation Building	National Defense Building – Other	33	35
1381	Ship Navigation Facility	Communications Equipment	33	35
1402	Air Defense Operations Building	National Defense Building – Other	33	35
1403	Missile Operations Building	National Defense Building – Other	33	35
1404	Emergency Operations Center/SCIF	National Defense Building – Other	33	35
1411	Airfield Fire and Rescue Station	All Other Non Farm	28	30

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
1412	Aviation Operations Building	National Defense Building – Other	33	35
1413	Air Control Tower	Aircraft Equipment	33	35
1421	Helium Production/Storage Building	Industrial Buildings	36	35
1431	Ship Operations Building	Industrial Buildings	30	30
1441	Photo/TV Production Building	Telecommunications	33	35
1442	Operations Support Lab	Hospital and Institutional Buildings	36	35
1443	Operations Supply Building	Industrial Buildings	30	30
1444	Miscellaneous Operations Support Building	Industrial Buildings	41	40
1445	Working Animal Support Building	Farm	37	35
1446	Security Force Building	National Defense Building – Other	41	40
1451	Strategic Missile Launch Facility	National Defense Nonbuilding – Other	18	20
1452	Missile Guidance Facility	National Defense Nonbuilding – Other	33	35
1453	Missile Access Shaft	National Defense Nonbuilding – Other	60	60
1454	Missile Access Tunnel	National Defense Nonbuilding – Other	60	60
1456	Missile Defense Facility	National Defense Nonbuilding – Other	33	35
1461	Aircraft Arresting System	Aircraft Equipment	9	10
1462	Aircraft Catapult	Aircraft Equipment	9	10
1463	Aircraft Firing-In Butt	Aircraft Equipment	9	10
1464	Aircraft Blast Deflector	Aircraft Equipment	9	10
1465	Aircraft Shelter, Hardened	Aircraft Equipment	31	30
1466	Aircraft Shelter	Aircraft Equipment	31	30
1467	Aircraft Support Facility	Aircraft Equipment	30	30
1481	Nuclear Propulsion Support Facility	National Defense Nonbuilding – Other	30	30
1491	Nuclear Weapons Support Facility	National Defense Nonbuilding – Other	30	30
1492	Explosives Holding/Transfer Area	National Defense Nonbuilding – Other	18	20
1493	Explosives Railway Holding Yard	National Defense Nonbuilding – Other	40	40
1494	Explosives Holding/Transfer Facility	National Defense Nonbuilding – Other	30	30
1495	Revetment	National Defense Nonbuilding – Other	60	60
1496	Central Vehicle Wash Facility	Auto/ Vehicle Service Equipment	22	20
1497	Explosive Ordnance Disposal Area	National Defense Nonbuilding – Other	25	25
1498	Security Support Facility	National Defense Nonbuilding – Other	36	35
1499	Miscellaneous Operations Support Facility	National Defense Nonbuilding – Other	41	40
1511	Pier	Ships and Boat Equipment	31	30
1512	Wharf	Ships and Boat Equipment	31	30
1531	Marine Cargo Staging Area	Ships and Boat Equipment	37	35
1541	Shore Erosion Prevention Facility	Ships and Boat Equipment	37	35
1551	Small Craft Berthing	Ships and Boat Equipment	37	35
1552	Small Craft Building	Industrial Buildings	37	35
1591	Miscellaneous Waterfront Facility	Ships and Boat Equipment	37	35
1611	Harbor Control Facility	Ships and Boat Equipment	37	35
1631	Offshore Mooring Facility	Ships and Boat Equipment	31	30

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
1641	Harbor Marine Improvements	Ships and Boat Equipment	37	35
1711	General Purpose Instruction Building	Educational Buildings	41	40
1712	Applied Instruction Building	Educational Buildings	41	40
1713	Band Training Facility	Educational Buildings	41	40
1714	Reserve Component Training Facility	Educational Buildings	41	40
1715	Physical Education Training Building	Educational Buildings	41	40
1717	Organizational Classroom	Educational Buildings	41	40
1718	Indoor Firing Range and Supporting Facility	Educational Buildings	36	35
1721	Flight Simulator Facility	Educational Buildings	41	40
1722	Physiological Training Facility	Educational Buildings	36	35
1723	Gas Training Facility	Educational Buildings	36	35
1724	General Purpose Simulator Facility	Educational Buildings	41	40
1725	Training Pool and Tank	Educational Buildings	36	35
1731	Range Support Building	Educational Buildings	33	35
1732	Training Aids Support Building	Educational Buildings	30	30
1733	Training Support Structure	Educational Buildings	25	25
1734	Observation Tower/Bunker	National Defense Building – Other	36	35
1741	Maneuver/Training Land, Light Forces	National Defense Building – Other		
1742	Maneuver/Training Land, Heavy Forces	National Defense Building – Other		
1743	Weapons Impact Area	National Defense Building – Other		
1744	Parachute Drop Zone	National Defense Building – Other		
1745	Parade and Drill Field	National Defense Building – Other	25	25
1750	General Purpose Direct Fire Range	National Defense Nonbuilding – Other	25	25
1751	Zero Range	National Defense Nonbuilding – Other	25	25
1752	Field Fire Range	National Defense Nonbuilding – Other	25	25
1753	Record Fire Range	National Defense Nonbuilding – Other	25	25
1754	Night Fire Range	National Defense Nonbuilding – Other	25	25
1755	Known Distance Range	National Defense Nonbuilding – Other	25	25
1756	Sniper Range	National Defense Nonbuilding – Other	25	25
1757	Pistol Range	National Defense Nonbuilding – Other	25	25
1758	Machinegun Range	National Defense Nonbuilding – Other	25	25
1760	General Purpose Direct Fire Range	National Defense Nonbuilding – Other	25	25
1761	Grenade Launcher Range	National Defense Nonbuilding – Other	25	25
1762	Grenade Machinegun Range	National Defense Nonbuilding – Other	25	25
1763	Light Antiarmor Weapon Range	National Defense Nonbuilding – Other	25	25
1764	Heavy Antiarmor Weapon Range	National Defense Nonbuilding – Other	25	25
1765	Artillery Direct Fire Range	National Defense Nonbuilding – Other	25	25
1766	Tank Stationary Gunnery Range	National Defense Nonbuilding – Other	25	25
1767	Indirect Fire Range	National Defense Nonbuilding – Other	25	25
1768	Scaled Indirect Fire Range	National Defense Nonbuilding – Other	25	25
1769	Scaled Gunnery Range	National Defense Nonbuilding – Other	25	25

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
1771	Armor Vehicle Crew Training Range	National Defense Nonbuilding – Other	25	25
1772	Armor Vehicle Unit Training Range	National Defense Nonbuilding – Other	25	25
1773	Fire and Movement Range	National Defense Nonbuilding – Other	25	25
1774	Squad Defense Range	National Defense Nonbuilding – Other	25	25
1775	Infantry Battle Course	National Defense Nonbuilding – Other	25	25
1776	Urban Combat Training Range	National Defense Nonbuilding – Other	25	25
1781	Live Hand Grenade Range	National Defense Nonbuilding – Other	25	25
1782	Engineer Qualification Range	National Defense Nonbuilding – Other	25	25
1783	Light Demolition and Flame Training Range	National Defense Nonbuilding – Other	25	25
1790	Miscellaneous Training Facility	National Defense Nonbuilding – Other	25	25
1791	Aircraft Weapons Calibration Range	National Defense Nonbuilding – Other	25	25
1792	Attack Helicopter Weapons Range	National Defense Nonbuilding – Other	25	25
1793	Aircraft Weapons Range	National Defense Nonbuilding – Other	25	25
1794	Air Defense Range	National Defense Nonbuilding – Other	25	25
1795	Fire and Rescue Training Facility	National Defense Nonbuilding – Other	25	25
1796	Urban Combat Training Area, Non Live-Fire	National Defense Nonbuilding – Other	25	25
1797	Hand Grenade Range, Non-Firing	National Defense Nonbuilding – Other	25	25
1798	Infiltration Course, Live-Fire	National Defense Nonbuilding – Other	25	25
1799	Confidence/Obstacle Course	National Defense Nonbuilding – Other	25	25
2111	Aircraft Maintenance Hangar	Industrial Buildings	31	30
2112	Aircraft Maintenance Shop	Industrial Buildings	31	30
2113	Aircraft Corrosion Control Hangar	Industrial Buildings	31	30
2114	Aircraft Engine Test Building	Industrial Buildings	26	25
2115	Aircraft Maintenance Hangar, Depot	Industrial Buildings	31	30
2116	Aircraft Maintenance Shop, Depot	Industrial Buildings	36	35
2118	Aircraft Engine Test Facility	Aircraft Equipment	26	25
2121	Missile Maintenance/Assembly Building	Industrial Buildings	26	25
2123	Missile/Launcher Maintenance Support Facility	Industrial Buildings	26	25
2124	Missile Test Tower	National Defense Nonbuilding – Other	26	25
2125	Missile Maintenance/Assembly Building, Depot	Industrial Buildings	36	35
2131	Ship Maintenance Dry-dock	Industrial Buildings	37	35
2132	Marine Railway	Ships and Boat Equipment	37	35
2133	Marine Maintenance Shop	Industrial Buildings	37	35
2134	Marine Maintenance Support Facility	Industrial Buildings	37	35
2135	Landing Craft Wash Facility	Industrial Buildings	37	35
2136	Nuclear Repair Shop	Industrial Buildings	26	25
2137	Fixed Crane Structure	Ships and Boat Equipment	6	10
2141	Vehicle Maintenance Shop	Industrial Buildings	22	20
2142	Vehicle Maintenance Shop, Depot	Industrial Buildings	22	20
2143	Vehicle Maintenance Shop, National Guard	Industrial Buildings	22	20
2144	Vehicle Maintenance Shop, Reserve	Industrial Buildings	22	20

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
2145	Vehicle Maintenance Facility	Auto/ Vehicle Service Equipment	22	20
2146	Launch Vehicle Test Facility	Auto/ Vehicle Service Equipment	30	30
2151	Weapon Maintenance Shop	Industrial Buildings	30	30
2152	Weapon Maintenance Shop, Depot	Industrial Buildings	30	30
2153	Special Weapon Maintenance Shop	Industrial Buildings	30	30
2154	Weapon Maintenance Facility, Depot	Industrial Buildings	30	30
2161	Ammunition Maintenance Shop	Industrial Buildings	30	30
2162	Ammunition Maintenance Shop, Depot	Industrial Buildings	30	30
2163	Ammunition Maintenance Facility, Depot	Industrial Buildings	30	30
2171	Electronic/Communication Maintenance Shop	Industrial Buildings	30	30
2172	Electronic/Communication Maintenance Shop, Depot	Industrial Buildings	30	30
2173	Electronic/Communication Maintenance Facility	Industrial Buildings	30	30
2181	Installation Support Vehicle Maintenance Shop	Industrial Buildings	22	20
2182	Installation Support Equipment Maintenance Shop	Industrial Buildings	30	30
2191	Facility Engineer Maintenance Shop	Industrial Buildings	30	30
2192	Facility Engineer Maintenance Facility	Auto/ Vehicle Service Equipment	30	30
2211	Aircraft Production Plant	Industrial Buildings	30	30
2221	Missile Production Plant	Industrial Buildings	30	30
2231	Ship Production Plant	Industrial Buildings	30	30
2232	Ship Building Way	Industrial Buildings	31	30
2241	Tank/Automotive Production Plant	Industrial Buildings	30	30
2251	Weapon Production Plant	Industrial Buildings	30	30
2261	Ammunition Production Plant	Industrial Buildings	30	30
2262	Ammunition Production Facility	National Defense Nonbuilding – Other	30	30
2264	Ammunition Demilitarization Plant	Industrial Buildings	30	30
2265	Ammunition Demilitarization Facility	National Defense Nonbuilding – Other	30	30
2271	Electronic/Communication Production Plant	Industrial Buildings	30	30
2281	Miscellaneous Support Production Plant	Industrial Buildings	30	30
2291	Construction Material Production Plant	Industrial Buildings	30	30
3101	RDT&E Laboratory	Hospital and Institutional Buildings	36	35
3102	Medical Research Laboratory	Hospital and Institutional Buildings	36	35
3111	Aircraft RDT&E Facility	Hospital and Institutional Buildings	36	35
3121	Missile and Space RDT&E Facility	Hospital and Institutional Buildings	36	35
3131	Ship and Marine RDT&E Facility	Hospital and Institutional Buildings	36	35
3141	Tank and Automotive RDT&E Facility	Hospital and Institutional Buildings	36	35
3151	Weapons RDT&E Facility	Hospital and Institutional Buildings	36	35
3161	Ammunition, Explosive, and Toxic RDT&E Facility	Hospital and Institutional Buildings	36	35
3171	Electronic and Communication RDT&E Facility	Hospital and Institutional Buildings	36	35
3181	Propulsion RDT&E Facility	Hospital and Institutional Buildings	36	35
3191	Miscellaneous Items and Equipment RDT&E Facility	Hospital and Institutional Buildings	36	35

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
3201	Underwater Equipment RDT&E Facility	Hospital and Institutional Buildings	36	35
3211	RDT&E Technical Service Facility	Hospital and Institutional Buildings	36	35
3711	RDT&E Range Building	Hospital and Institutional Buildings	36	35
3712	RDT&E Range Facility	National Defense Nonbuilding – Other	36	35
3713	RDT&E Range Complex	Hospital and Institutional Buildings	36	35
3901	Miscellaneous RDT&E Facility	Hospital and Institutional Buildings	36	35
3902	RDT&E Area	-		
3903	Aerodynamic Wind Tunnel	National Defense Nonbuilding – Other	26	25
3904	Propulsion Engine Test Cell	National Defense Nonbuilding – Other	26	25
4111	Bulk Liquid Fuel Storage	Gas/Petroleum – Public Utilities Aggregate	24	25
4121	Bulk Liquid Storage, Other Than Fuel	Gas/Petroleum – Public Utilities Aggregate	24	25
4122	Liquid Oxygen Storage	Gas/Petroleum – Public Utilities Aggregate	24	25
4211	Ammunition Storage, Depot and Arsenal	National Defense Building – Other	36	35
4221	Ammunition Storage, Installation	National Defense Building – Other	36	35
4231	Liquid Propellant Storage, Ammunition Related	Gas/Petroleum – Public Utilities Aggregate	34	35
4241	Battery Storage, Weapon Related	National Defense Building – Other	36	35
4251	Open Ammunition Storage	National Defense Nonbuilding – Other	36	35
4311	Cold Storage, Depot	Commercial Warehouses	36	35
4321	Cold Storage, Installation	Commercial Warehouses	36	35
4411	Covered Storage Building, Depot	Commercial Warehouses	36	35
4412	Covered Storage Shed, Depot	Commercial Warehouses	36	35
4413	Hazardous Materials Storage, Depot	Commercial Warehouses	36	35
4414	Controlled Humidity Storage, Depot	Commercial Warehouses	36	35
4421	Covered Storage Building, Installation	Commercial Warehouses	36	35
4422	Covered Storage Shed, Installation	Commercial Warehouses	36	35
4423	Hazardous Materials Storage, Installation	Commercial Warehouses	36	35
4424	Controlled Humidity Storage, Installation	Commercial Warehouses	36	35
4425	Vehicle Storage, Covered	Commercial Warehouses	26	25
4426	Storage Silo, Loose Material	Commercial Warehouses	36	35
4427	Small Arms Storage, Installation	Commercial Warehouses	36	35
4511	Open Storage, Depot	National Defense Nonbuilding – Other	26	25
4521	Open Storage, Installation	National Defense Nonbuilding – Other	26	25
5100	Medical Center/Hospital	Hospital and Institutional Buildings	40	40
5302	Medical Laboratory	Hospital and Institutional Buildings	36	35
5303	Morgue	Hospital and Institutional Buildings	40	40
5304	Veterinary Facility	Hospital and Institutional Buildings	40	40
5306	Medical Warehouse	Commercial Warehouses	36	35
5307	Ambulance Shelter	Commercial Warehouses	22	20
5400	Dental Facility	Hospital and Institutional Buildings	40	40
5500	Dispensary and Clinic	Hospital and Institutional Buildings	40	40
6100	General Administrative Building	Office Buildings	41	40

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
6101	Small Unit Headquarters Building	Office Buildings	41	40
6102	Large Unit Headquarters Building	Office Buildings	41	40
6103	Printing and Reproduction Plant	Other Commercial Building	30	30
6104	Automated Data Processing Center	Other Commercial Building	41	40
6200	Administrative Structure, Underground	Office Buildings	41	40
6900	Administrative Structure Other Than Building	Office Computing and Accounting Equipment	26	25
7110	Family Housing Dwelling	Residential Capital	80	80
7120	Family Housing Trailer/Relocatable	Residential Capital	20	20
7130	Family Housing Trailer Site	Residential Capital	20	20
7141	Family Housing Garage/Carport	Residential Capital	18	20
7142	Family Housing Storage Facility	Residential Capital	30	30
7143	Miscellaneous Family Housing Support Facility	Residential Capital	30	30
7145	Trailer Court Support Facility	Residential Capital	30	30
7146	Family Housing Attendant Facility	Residential Capital	30	30
7210	Enlisted UPH	Residential Capital	41	40
7212	Enlisted UPH, Transient	Residential Capital	41	40
7213	Student Barracks	Residential Capital	44	45
7214	Annual Training/Mobilization Barracks	Residential Capital	41	40
7218	Recruit/Trainee Barracks	Residential Capital	44	45
7220	Dining Facility	Other Structures	27	25
7231	Miscellaneous UPH Support Building	Other Structures	30	30
7232	UPH Garage/Carport	Residential Capital	18	20
7233	Dining Support Facility	Other Structures	27	25
7234	Latrine/Shower Facility	Other Structures	40	40
7235	Miscellaneous UPH Support Facility	All Other Government Nonbuilding	30	30
7240	Officer UPH	Residential Capital	41	40
7241	Officer UPH, Transient	Mobile Homes	41	40
7250	Emergency UPH	Mobile Homes	41	40
7251	Emergency UPH Tent Pad	Other Structures	41	40
7311	Fire Station Facility	Hospital and Institutional Buildings	28	30
7312	Prison/Confinement Facility	Hospital and Institutional Buildings	41	40
7313	Police Station	Hospital and Institutional Buildings	41	40
7314	Drug and Alcohol Abuse Center	Hospital and Institutional Buildings	40	40
7321	Bread/Pastry Kitchen	Other Structures	27	25
7322	Ice/Dairy Products Plant	Other Structures	26	25
7323	Greenhouse	Other Structures	26	25
7331	Exchange Eating Facility	Other Structures	27	25
7332	Non-Exchange Eating Facility	Other Structures	27	25
7333	Open Mess and Club Facility	Other Structures	27	25
7340	Thrift Shop	Other Structures	38	40

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
7341	Bus Station	Other Structures	33	35
7342	Laundry/Dry Cleaning Facility	Industrial Buildings	38	40
7343	Clothing Sales Store	Other Structures	38	40
7344	Postal Facility	Hospital and Institutional Buildings	38	40
7345	Exchange Automobile Facility	Other Structures	22	20
7346	Exchange Sales Facility	Other Structures	38	40
7347	Bank and Credit Union	Hospital and Institutional Buildings	38	40
7348	Car Wash Facility	Other Structures	22	20
7349	Commissary	Other Structures	38	40
7351	Education Center	Educational Buildings	41	40
7352	Dependent School	Educational Buildings	41	40
7353	Dependent School Support Facility	Educational Buildings	30	30
7361	Chapel Facility	Hospital and Institutional Buildings	47	45
7362	Religious Education Facility	Hospital and Institutional Buildings	47	45
7371	Nursery and Child Care Facility	Educational Buildings	42	40
7372	Family Service Center	Hospital and Institutional Buildings	36	35
7380	Homeless Support Facility			
7381	Forestry Guard Station	Other Structures	36	35
7382	Locker Room	Other Structures	36	35
7383	Air Raid/Fallout Shelter	National Defense Building – Other	36	35
7384	Miscellaneous Personnel Shelter	Other Structures	36	35
7385	Public Restroom/Shower	Other Structures	36	35
7386	Ceremonial Hall	Amusement and Recreational Buildings	41	40
7387	Exchange Support Facility	Other Commercial Building	36	35
7388	Exchange Warehouse	Commercial Warehouses	36	35
7389	Private Vehicle Inspection Facility	Local Transit	22	20
7411	Hobby and Craft Center	Amusement and Recreational Buildings	38	40
7412	Automobile Craft Center	Amusement and Recreational Buildings	22	20
7413	Golf Club House and Sales	Amusement and Recreational Buildings	36	35
7414	Club and Organization Building	Amusement and Recreational Buildings	36	35
7415	Bowling Center	Amusement and Recreational Buildings	36	35
7416	Library, General Use	Hospital and Institutional Buildings	35	35
7417	Recreation Center	Amusement and Recreational Buildings	36	35
7418	Indoor Skating Rink	Amusement and Recreational Buildings	36	35
7421	Indoor Physical Fitness Facility	Amusement and Recreational Buildings	36	35
7422	Indoor Swimming Pool	Amusement and Recreational Buildings	36	35
7431	Auditorium and Theater Facility	Amusement and Recreational Buildings	36	35
7441	Transient Lodging	Residential Capital	41	40
7442	Recreational Lodging	Residential Capital	41	40
7443	Transient/Recreational Lodging Support Facility	Residential Capital	41	40

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
7444	Stable	Amusement and Recreational Buildings	36	35
7445	Boathouse	Commercial Warehouses 17	31	30
7446	Miscellaneous MWR Facility	Amusement and Recreational Buildings	36	35
7447	Miscellaneous MWR Support Facility	Amusement and Recreational Buildings	36	35
7511	Playground	Amusement and Recreational Buildings	25	25
7512	Outdoor Swimming Pool	Amusement and Recreational Buildings	25	25
7513	Golf Course	Amusement and Recreational Buildings	25	25
7514	Golf Driving Range	Amusement and Recreational Buildings	25	25
7515	Golf Pitch and Putt Course	Amusement and Recreational Buildings	25	25
7516	Outdoor Recreation Area	Amusement and Recreational Buildings	25	25
7517	Recreational Pier	Amusement and Recreational Buildings	31	30
7518	Marina	Amusement and Recreational Buildings	37	35
7521	Outdoor Playing Court	Amusement and Recreational Buildings	25	25
7522	Athletic Field	Amusement and Recreational Buildings	25	25
7523	Running Track	Amusement and Recreational Buildings	25	25
7524	Stadium	Amusement and Recreational Buildings	25	25
7531	Pavilion	Amusement and Recreational Buildings	25	25
7532	Outdoor Theater	Amusement and Recreational Buildings	25	25
7541	Recreational Camp and Trailer Park	Amusement and Recreational Buildings	25	25
7542	Miscellaneous Outdoor Recreation Facility	Amusement and Recreational Buildings	25	25
7543	Wildlife Management Area			
7601	Museum	Educational Buildings	49	50
7602	Monument and Memorial	Educational Buildings	26	25
7603	Cemetery	All Other Government Nonbuilding	26	25
8111	Electrical Power Source	Electric Transmission and Industrial Apparatus	45	45
8112	Stand-By/Emergency Power	Electric Transmission and Industrial Apparatus	45	45
8121	Electrical Power Distribution Line	Electric Transmission and Industrial Apparatus	45	45
8122	Exterior Lighting Line	Electric Transmission and Industrial Apparatus	45	45
8131	Electrical Power Substation and Switching	Electric Transmission and Industrial Apparatus	45	45
8211	Heat Source	Gas/Petroleum – Public Utilities Aggregate	34	35
8221	Heat Distribution Line	Gas/Petroleum – Public Utilities Aggregate	34	35
8231	Heat Gas Production Plant	Gas/Petroleum – Public Utilities Aggregate	34	35
8232	Heat Gas Storage	Gas/Petroleum – Public Utilities Aggregate	24	25
8241	Heat Gas Distribution Line	Gas/Petroleum – Public Utilities Aggregate	36	35
8261	Refrigeration and Air Conditioning Source	Gas/Petroleum – Public Utilities Aggregate	14	15
8271	Chilled Water/Refrigerant Distribution Line	Gas/Petroleum – Public Utilities Aggregate	14	15
8311	Sewage Treatment	Other Non Residential Structures Aggregate	24	25
8312	Industrial Waste Treatment	Other Non Residential Structures Aggregate	43	45
8313	Water Separation Facility	Other Non Residential Structures Aggregate	43	45
8314	Septic Tank, Drain Field, and Lagoon	Other Non Residential Structures Aggregate	24	25
8321	Sewer and Industrial Waste Line	Other Non Residential Structures Aggregate	34	35

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
8331	Refuse Collection and Recycling Facility	Other Non Residential Structures Aggregate	36	35
8332	Incinerator	Other Non Residential Structures Aggregate	36	35
8333	Sanitary Landfill	Other Non Residential Structures Aggregate	36	35
8334	Hazardous Waste Landfill	Other Non Residential Structures Aggregate	36	35
8411	Water Source, Potable	Other Non Residential Structures Aggregate	33	35
8412	Water Treatment Facility	Other Non Residential Structures Aggregate	43	45
8413	Water Storage, Potable	Other Non Residential Structures Aggregate	24	25
8414	Well, Potable Water	Other Non Residential Structures Aggregate	39	40
8421	Water Distribution Line, Potable	Other Non Residential Structures Aggregate	33	35
8422	Water Pump Facility, Potable	Other Non Residential Structures Aggregate	43	45
8431	Water Source, Fire Protection	Other Non Residential Structures Aggregate	33	35
8432	Water Distribution Line, Fire Protection	Other Non Residential Structures Aggregate	33	35
8433	Water Impoundment, Fire Protection	Other Non Residential Structures Aggregate	24	25
8434	Water Pump Facility, Fire Protection	Other Non Residential Structures Aggregate	43	45
8441	Water Source, Non-Potable	Other Non Residential Structures Aggregate	33	35
8442	Water Storage, Non-Potable	Other Non Residential Structures Aggregate	33	35
8443	Reservoir, Water	Other Non Residential Structures Aggregate	39	40
8451	Water Distribution Line, Non-Potable	Other Non Residential Structures Aggregate	33	35
8452	Water Pump Facility, Non-Potable	Other Non Residential Structures Aggregate	43	45
8511	Road, Surfaced	Local Transit	28	30
8512	Road, Unsurfaced	Local Transit	28	30
8513	Vehicle Bridge	Local Transit	46	45
8521	Vehicle Parking, Surfaced	Local Transit	32	30
8522	Vehicle Parking, Unsurfaced	Local Transit	32	30
8523	Vehicle Staging Area	Local Transit	32	30
8524	Sidewalk and Walkway	Local Transit	28	30
8525	Pedestrian Bridge	Local Transit	46	45
8526	Miscellaneous Paved Area	Local Transit	32	30
8601	Railroad Track	Railroad Replacement Track	40	40
8611	Railroad Bridge	Other Railroad Structures	46	45
8612	Miscellaneous Railroad Facility	Other Railroad Structures	30	30
8711	Storm Drainage	Gas/Petroleum – Public Utilities Aggregate	34	35
8712	Retaining Structure	Other Non Residential Structures Aggregate	26	25
8713	Dam and Dike	Gas/Petroleum – Public Utilities Aggregate	39	40
8721	Fence and Wall	Other Non Residential Structures Aggregate	26	25
8910	Utility Building	General Industrial Equipment	12	10
8921	Installation Gas Production Plant	General Industrial Equipment	12	10
8922	Installation Gas Storage	Gas/Petroleum – Public Utilities Aggregate	30	30
8923	Vehicle Scales	Gas/Petroleum – Public Utilities Aggregate	28	30
8924	Miscellaneous Pump Station	Gas/Petroleum – Public Utilities Aggregate	43	45
8925	Energy Management and Control System	Gas/Petroleum – Public Utilities Aggregate	14	15

FAC	FAC Title	Whitestone Report: Bureau of Economic Analysis (BEA) Asset Type	Whitestone Report Service Life (Yrs)	Accounting Working Team Proposed Estimated Useful Life (Yrs)
8926	Hazardous Waste Storage or Disposal Facility	Gas/Petroleum – Public Utilities Aggregate	19	20
8927	Utility Vault	General Industrial Equipment	33	35
8928	Loading Ramp/Platform	Other Non Residential Structures Aggregate	18	20
8929	Miscellaneous Utility Facilities	Gas/Petroleum – Public Utilities Aggregate	30	30
8930	Installation Gas Distribution Line	Gas/Petroleum – Public Utilities Aggregate	36	35
8931	Utility Tunnel	Gas/Petroleum – Public Utilities Aggregate	60	60
8951	Miscellaneous Storage Tank and Basin	Gas/Petroleum – Public Utilities Aggregate	24	25
8999	Miscellaneous Component of Other Facility	Other Non Residential Structures Aggregate	26	25
9999	Not Real Property	Other Equipment	11	10

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