

June 19, 2002

TO: CFO Council

FROM: Edward R. McPherson /Signed/
Chief Financial Officer

SUBJECT: Change in Capitalization Threshold for Personal Property

This memorandum transmits a change in the Department's policy on capitalization of personal property.

Effective fiscal year (FY) 2003, all personal property purchases on or after October 1, 2002, with an initial acquisition cost of \$25,000 or more, will be capitalized. Conversely, any personal property purchased in FY 2003 or beyond, with a unit cost of less than \$25,000, shall be expensed in the year the personal property is put into service.

This letter does not affect internal use software capitalization policy, which was set at \$100,000 effective FY 2001.

The change in capitalization threshold, from \$5,000 per unit acquisition cost in previous years to \$25,000 in FY 2003 and beyond, is not retroactive. All personal property placed into service prior to FY 2003, with an initial capitalization cost of \$5,000 or greater, will remain capitalized.

Personal property consists of equipment, furniture and fixtures, motor vehicles, aircraft, hardware, and other non-real assets of a durable nature. These tangible assets have an estimated useful life of two or more years; are not intended for sale in the ordinary course of business; and are intended to be used, or available for use by the entity. Per *Statement of Federal Financial Accounting Standard Number 6*, "Accounting for Property, Plant, and Equipment," these assets do not include federal mission property, plant, and equipment, heritage assets, or stewardship land. They are all reported as expense in the period of the purchase.

The change in capitalization threshold to \$25,000 for personal property does not relieve agency managers from continuing to exercise accountability for personal property items valued at less than \$25,000 per unit acquisition cost. Regulations concerning accountability may be found in the *Agriculture Property Management Regulations*. The threshold for accountable property is \$5,000 or greater. This threshold will remain in effect in FY 2003 even though the capitalization threshold will be raised. The *Agriculture Financial Standards Manual* will be updated to reflect the new \$25,000 capitalization threshold for personal property. In addition, the Budget Object Classification Code (BOCC) listing will be updated to include this change, as illustrated in the attachment to this letter.

All changes illustrated on the attachment are effective in FY 2003, except for the added wording to BOCCs 3116, 3160, 3161, and 3180 indicating the internal use software threshold of \$100,000, which was effective in FY 2001.

Foundation Financial Information System (FFIS) guidance and instructions regarding this change will be issued from the Department's FFIS team. The points of contact for FFIS are Geneva Jones at (202) 619-7647 and Kay Levy at (202) 619-7648.

Questions regarding this memorandum may be addressed to Donna Bateman, Director, Credit, Travel, and Accounting Policy at (202) 720-8992.

Attachment

BUDGET OBJECT CLASSIFICATION CODES, SECTION 31

31 Equipment

3100 Equipment

Personal property may be categorized as capitalized, noncapitalized, accountable, or nonaccountable.

Capitalized property must meet the following criteria: (1) it must be of durable nature, (2) it must have a useful life of two or more years once it is placed into service, and (3) its initial acquisition cost must be \$25,000 or more, or \$100,000 or more for internal use software. All other personal property not meeting these criteria is classified as noncapitalized.

Accountable personal property is all leased personal property regardless of acquisition cost, and all owned personal property having an acquisition cost of \$5,000 or more. Accountable property is also any item valued less than \$5,000, but determined to be sensitive by the agency Property Management Officer. All other personal property is classified as nonaccountable. Personal property can be capitalized and accountable; noncapitalized and accountable; or noncapitalized and nonaccountable using the aforementioned criteria.

The feeder systems at NFC automatically capture and send capitalized or accountable personal property data to the Personal Property System (PROP) based on the budget object class codes. Items that are nonaccountable noncapitalized will not be distributed to PROP. Capitalized property includes the initial installation charges of the equipment when performed under contract. It excludes materials used in a conversion process during construction or manufacturing, or that which is used to form a minor part of equipment or fixed property.

The following information further describes the types of equipment covered under Object Class 31:

Transportation Equipment. Charges for vehicles including automobiles, trucks, motorcycles, tractors, aircraft, trains, steamships, barges, power launches, and other vessels.

Furniture and Fixtures. Charges for movable furniture, fittings, fixtures, and household equipment. This includes desks, tables, chairs, etc.

Books for Permanent Collections

Tools and Implements

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Machinery. Charges for engines, generators, manufacturing machinery, transformers, ship equipment, pumps, and other production and construction machinery.

Instruments and Apparatus. Charges for surgical instruments, X-ray apparatus, signaling equipment, telephone and telegraph equipment, electronic equipment, scientific instruments and appliances, measuring and weighing instruments and accessories, photographic equipment, picture projection equipment and accessories, and mechanical drafting devices.

Purchase of Information Technology (IT) Equipment. Includes central processing units, peripheral input/output devices, control units, and data entry machines.

Guidelines for Using Object Class 3100

If the property has an...	Use object class(es):
acquisition cost of \$25,000 or more	3110-3114, 3118, 3120-3130, 3165-3167
acquisition cost \geq \$5,000 and less than \$25,000 (not software)	3150, 3151, 3153, 3154, 3155
acquisition cost \geq \$5,000 and less than \$100,000 (software only)	3152
acquisition cost of \$100,000 or more (software only)	3116, 3160, 3161, 3180
acquisition cost of less than \$5,000 and is not considered high risk sensitive	3140
value of less than \$5,000 and is considered high risk sensitive	3141
loaned property regardless of the acquisition amount	3190

3110 Capitalized Equipment – Other

Items in this summary level object class and its detail subobject classes will automatically be sent by the feeder systems to PROP. The items in 3110 must have an initial acquisition cost of \$25,000 or more. 3110 includes all capitalized equipment except the following specific items:

- 3111 Motor vehicles and WCF fleet equipment (excludes aircraft)
- 3112 Furniture and fixtures - Includes office and residential furniture and fixtures
- 3113 Aircraft
- 3114 Cooperative project assets (capitalized only)

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3116 IT software - except personal computers - capitalized (\$100,000 or more)

3118 Telephone equipment

3120 Machinery and Equipment (Including Heavy Vehicles) – Capitalized

Items in this summary level object class and its detail object classes will automatically be sent by the feeder systems to PROP. These items must have an initial acquisition cost of \$25,000 or more. 3120 excludes equipment or machinery listed elsewhere in object class 31.

3121 Agricultural

3122 Laboratory

3123 Radio and communications

3124 IT equipment (except personal computers) capitalized

3125 Office machines and reproduction machinery and equipment (Includes office machines that are owned (not leased) by the Government.)

3129 Engineering equipment

3130 Miscellaneous Motor Equipment - Capitalized

3140 Nonaccountable - Noncapitalized Equipment

This object class should be used for personal property with an initial acquisition cost of less than \$5,000. Items charged to Object Class 3140 will **not** be updated to PROP. All personal property items with an initial acquisition cost of less than \$5,000 should be charged to Object Class 3140 **except** for high risk sensitive property, as defined by the agency, which should be charged to Object Class 3141. This object class code will be updated to PROP.

3141 Sensitive property (This object class is for personal property determined to be accountable by the owning agency due to its sensitive nature as defined by the agency. The purpose of this classification is to capture and account for sensitive noncapitalized personal property valued less than \$5,000 in PROP.

3150 Accountable, Noncapitalized Equipment - Other

Items in this summary level object class and its detail object classes will automatically be sent by the feeder systems to PROP. Property in these object classes must have an initial acquisition cost of greater than or equal to \$5,000 and less than \$25,000, except for software, which must have an initial acquisition cost of greater than or equal to \$5,000 and less than \$100,000.

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- 3151 Machinery and Equipment
- 3152 IT Software
- 3153 IT Hardware
- 3154 Furniture and Fixtures
- 3155 Motor Vehicles

3160 IT Software (Personal Computers) – Capitalized

Property in these object classes must have an initial acquisition cost of \$100,000 or more.

- 3161 Project 615 Software (Forest Service Only)

3165 IT Equipment (Personal Computers) – Capitalized

- 3166 Project 615 Hardware (Forest Service Only)
- 3167 Owned mainframe or minicomputers subject to P.L. 89-306 reporting

3180 FFIS Development Costs (NFC Only) – Capitalized

Software in this object class must have an initial acquisition cost of \$100,000 or more.

3190 Loaned Property - Noncapitalized

Items in this summary level object class and its detail object classes will NOT be fed to PROP.