

June 19, 2002

TO: CFO Council

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

SUBJECT: Change in Capitalization Threshold for Real Property

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

Effective fiscal year (FY) 2002, all real property (lands and structures) purchases on or after October 1, 2001, with an initial acquisition cost of \$25,000 or more, will be capitalized. Conversely, any real property purchased in FY 2002 or beyond with a unit cost of less than \$25,000 shall be expensed in the year the real property is put into service.

The change in capitalization threshold, from \$5,000 per unit acquisition cost in previous years to \$25,000 in FY 2002 and beyond, is not retroactive. All real property placed into service prior to FY 2002, with an initial capitalization cost of \$5,000 or greater will remain capitalized.

Real property consists of land and interest on land, buildings, and other structures, additions to buildings, nonstructural improvements, and fixed equipment (whether an addition or replacement). 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, which are reported as expense in the period of the purchase.

The change in capitalization threshold to \$25,000 for real property does not relieve agency managers from continuing to exercise accountability for real property items valued at less than \$25,000. Regulations concerning accountability may be found in the *Agriculture Property Management Regulations*. The *Agriculture Financial Standards Manual* will be updated to reflect the new \$25,000 capitalization threshold for real property. In addition, the Budget Object Classification Code listing section 32 will be updated to include non-capitalized real property, as illustrated in the attachment

Agencies should take steps to review their real property acquisitions for FY 2002, as well as items first placed into service during FY 2002 to ensure that only items at \$25,000 acquisition cost or greater are added to the agency's capitalized real property balance sheet line item. To reiterate, **purchases that were capitalized in previous years should remain on the balance sheet until disposal.**

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

cc: Russ Ashworth, OPPM
Bob Young, OIG
Wanda Phillippi, OIG

BUDGET OBJECT CLASSIFICATION CODES, SECTION 31

32 Lands and Structures

3200 Lands and Structures

This object class covers charges for land and interest on land, buildings, and other structures, additions to buildings, nonstructural improvements, and fixed equipment (whether an addition or replacement).

Property in this object class may be characterized as capitalized, noncapitalized, accountable, or nonaccountable.

Capitalized property must have an initial acquisition cost of \$25,000 or more. All other property is classified as noncapitalized. Accountable property in this object class is all property having an acquisition cost of \$5,000 or more. Property can be both capitalized and accountable, or noncapitalized and accountable, or noncapitalized and nonaccountable according to the aforementioned criteria.

The following information further describes the types of property covered under object class 32:

Lands and Interest on Lands, Including Easements and Rights-of-Way

Buildings and Other Structures. Charges for additions to buildings and acquisition or construction of buildings. Includes principal payments under lease-purchase contracts for construction of buildings.

Nonstructural Improvements. Charges for improvements to land, such as landscaping, fences, sewers, wells, and reservoirs.

Fixed Equipment. Charges for fixtures and equipment that become permanently attached to or a part of buildings or structures, such as elevators, plumbing, power-plant boilers, fire-alarm systems, lighting and heating systems, and air conditioning or refrigerating systems (whether an addition or replacement). Includes charges for services in connection with the initial installation of fixed equipment. This also includes telephone systems.

Guidelines for Using Object Class 3200

If the property has an...	Use object class(es):
acquisition cost of \$25,000 or more	3210, 3211, 3220, 3221, 3222, 3230, 3240, 3250, 3260
acquisition cost greater than or equal to \$5,000 and less than \$25,000	3280
acquisition cost of less than \$5,000	3290

BUDGET OBJECT CLASSIFICATION CODES, SECTION 31

3210 Land – Capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3211 Easements – WRP – Capitalized

3220 Buildings and Attached Fixtures – Capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3221 Fixed telephone equipment (voice) – capitalized

3222 Fixed telephone equipment (data) – capitalized

3230 Other Structures and Improvements – capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3240 Leasehold Improvements – capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3250 Cooperative Project Assets - capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3260 Other Assets - capitalized

Items in this summary level object class must have an initial acquisition cost of \$25,000 or more.

3280 Accountable – Noncapitalized Lands and Structures

Items in this summary level object class must have an initial acquisition cost greater than or equal to \$5,000, and less than \$25,000.

3290 Nonaccountable – Noncapitalized Lands and Structures

Items in this summary level object class must have an acquisition cost less than \$5,000