Accounting for property, plant, and equipment
Federal Financial Accounting Standards no. 6

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Federal Accounting Standards Advisory Board
(FASAB)

ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

Statement of Federal Financial Accounting Standards No. 6

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[NOTE 1: THE FOOTNOTES INCLUDED IN THIS DOCUMENT ARE OFTEN CRITICAL TO UNDERSTANDING THE STANDARDS. DUE TO THE LIMITATIONS ON TEXT PRESENTATION THE FOOTNOTES ARE PRESENTED AS ENDNOTES. PLEASE BE SURE TO REFER TO THESE ENDNOTES AS YOU REVIEW THE STANDARDS.]
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EXECUTIVE SUMMARY

a This statement contains accounting standards for Federally owned property, plant, and equipment (PP&E); deferred maintenance on PP&E; and cleanup costs. Each standard is summarized below.

PROPERTY, PLANT, AND EQUIPMENT

b The Federal Government's investment in PP&E exceeds $1 trillion [SEE NOTE 1] PP&E used for many different purposes. "PP&E" is defined as follows:

> 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.

c The diversity among Federal PP&E creates a need for meaningful categories of PP&E with different accounting standards for each category. The Board identifies four categories of PP&E. The categories are:

- general PP&E are PP&E used to provide general government services or goods;
- Federal mission PP&E are PP&E exhibiting specific characteristics set by the Board;
- heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and
- stewardship land [SEE NOTE 2] (i.e., land other than that included in general PP&E).

d Complete accounting standards for general PP&E are included in this document.

e Federal mission PP&E, heritage assets, and stewardship land are the subject of a project on "Supplementary Stewardship Reporting." An exposure draft (ED) on this topic was issued in August 1995. The Supplementary Stewardship Reporting ED proposes accounting standards for these assets after their acquisition. The accounting standards in this document address (1) classification of PP&E in the categories, (2) accounting for the acquisition cost of PP&E falling into one of these three categories, and (3) implementation of these standards where it affects the basic financial statements. Because Federal mission PP&E, heritage assets, and stewardship land would be subject to supplementary stewardship reporting, they are referred to collectively as stewardship PP&E. This term is used for convenience only since each category has its own definition.

GENERAL PP&E

f The general PP&E category consists of items that:

- could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but are used by the Federal entity to produce goods or services, or to support the mission of the entity; or
- are used in business-type activities; [SEE NOTE 3] or
- are used by entities in activities whose costs can be compared to other entities (e.g., Federal hospitals compared with other hospitals).

g General PP&E includes land acquired for or in connection with other general PP&E. [SEE NOTE 4]

h General PP&E shall be reported in the basic financial statements: the balance sheet, [SEE NOTE 5] and the statement of net cost. [SEE NOTE 6] The acquisition cost of general PP&E shall be recognized [SEE NOTE 7] as an asset. Subsequently, except for land which is a nondepreciable asset, that acquisition cost shall be charged to expense through depreciation. [SEE NOTE 8] The depreciation expense shall be accumulated in a contra asset account--accumulated depreciation.

i The standards provide that certain costs of internally-developed software [SEE NOTE 9] can be capitalized and amortized over a period not to exceed five years. The costs to be capitalized are limited to direct costs incurred after technological feasibility has been established.

j In addition, the standard addresses donations, transfers, and retirements of general PP&E as well as disclosure [SEE NOTE 10] requirements.

STEWARDSHIP PP&E

k The following paragraphs describe Federal mission PP&E, heritage assets, and stewardship land, the categories for which supplementary stewardship reporting is being proposed. These standards are limited to accounting requirements for the basic financial statements--they do not address the information to be reported through supplementary stewardship reporting. The accounting standards provide guidance on:

- identifying stewardship PP&E, and
- elements associated with stewardship PP&E that are to be recognized on the basic financial statements (e.g., information shown on the statement of net costs).

Federal Mission PP&E

l Federal mission PP&E are specific types of PP&E identified by the Board (i.e., weapons systems and space exploration equipment) or exhibiting the characteristics established by the Board. [SEE NOTE 11] The Board specifically identified weapons systems and space exploration equipment as Federal mission PP&E because it does not believe applying depreciation accounting would contribute to measuring the cost of outputs produced, or to assessing operating performance, in any given accounting period. The Board believes that these assets are developed, used, and retired in a manner that does not lend itself to a "systematic and rational" assignment of costs to accounting periods (i.e., depreciation accounting) and, ultimately, to outputs.

m The Board did not find any other categories of PP&E that it believed should be explicitly included in the Federal mission category at this time. However, there are other types of PP&E, or PP&E may be developed in the future, that are similar to these two items, so the

Board has articulated characteristics of Federal mission PP&E. PP&E other than weapons systems and space exploration equipment clearly exhibiting these characteristics should be categorized as Federal mission PP&E. For example, based on comments from respondents and information provided by the Department of Energy, nuclear weapons production facilities do exhibit these characteristics and should be categorized as Federal mission PP&E.

n There are two types of characteristics. The first relates to the use of the PP&E. The second relates to expectations about, and risks associated with, its useful life. To be categorized as Federal mission PP&E, an item should have at least one characteristic from each of the two types of characteristics discussed below.

o Characteristics related to the use of Federal mission PP&E are that the PP&E:

- has no expected nongovernmental alternative uses; or
- is held for use in the event of emergency, war, or natural disaster; or
- is specifically designed for use in a program for which there is no other program or entity (Federal or non-Federal, governmental or nongovernmental) using similar PP&E with which to compare costs.

p Characteristics related to the useful life are that the PP&E:

- has an indeterminate or unpredictable useful life [SEE NOTE 12] due to the manner in which it is used, improved, retired, modified, or maintained; or
- is at a very high risk of being destroyed during use or of premature obsolescence.

q Annual expenditures to acquire, replace or improve Federal mission PP&E shall be shown as a cost in the period incurred. Separating these costs from other period expenses would facilitate analysis of the operating expense and prevent distortion due to large infrequent expenditures.

Heritage Assets

r Heritage assets include PP&E that have historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Expenditures to acquire, construct, reconstruct, or improve heritage assets shall be reported as a cost in the period incurred. Separating these costs from other period expenses would facilitate analysis of the operating expense and prevent distortion due to large infrequent expenditures.

Multi-use Heritage Assets

s Not all heritage assets are used solely for heritage purposes--some serve two purposes by providing reminders of our heritage and by being used in day-to-day government operations unrelated to the assets themselves. For example, the government has constructed "monumental" style office space, such as the Old Executive Office Building and the Pentagon. Such assets contribute to the day-to-day operations of programs but the cost of these assets can not be easily assigned to heritage and operating purposes.

t The cost of renovating, improving, or reconstructing operating components of heritage assets used in government operations shall be included in general PP&E. Following initial construction, any renovation, improvement or reconstruction costs to facilitate government operations (e.g., installation of communications wiring or redesign of office space) would be capitalized and depreciated over its expected useful life. The cost should not be depreciated over an unrealistically long life.

u Costs of renovating or reconstructing the heritage asset that can not be directly associated with operations shall be considered heritage asset costs. For example, installing a new roof should be considered a heritage asset cost.

Stewardship Land

v The Federal Government has vast holdings of land and puts land to various uses. If land is acquired for or in connection with an item of general PP&E, it shall be categorized as general PP&E. Other land (e.g., land in the public domain and national park or national forest land) shall be excluded from general PP&E and referred to as 4stewardship land.

w The acquisition cost of stewardship land shall be reported as a cost in the period incurred. Separating the cost of land acquisitions from other period expenses would facilitate analysis of the operating expense and prevent distortion due to large infrequent purchases.

DEFERRED MAINTENANCE

x The deferred maintenance standard requires disclosures related to the condition and the estimated cost to remedy deferred maintenance of PP&E. These disclosures are made as a note to a line item on the statement of net costs--no dollar amount shall be recognized on the statement.

y The standards recognize that there are many variables in estimating deferred maintenance amounts. The standards acknowledge that condition rating is a management function since different conditions might be considered acceptable by different entities as well as for different items of PP&E held by the same entity. In addition, management may use condition assessment surveys or life cycle cost plans to estimate the amount of deferred maintenance.

z The deferred maintenance standard applies to all PP&E whether reported on the balance sheet or through supplementary stewardship reporting.

CLEANUP COSTS

aa Cleanup costs are the costs associated with hazardous waste removal, containment, or disposal. In some instances, the Federal Government incurs liabilities [SEE NOTE 13] for cleaning up hazardous waste at sites or facilities it operates or has operated. Generally, cleanup cannot be, or is not, done until permanent or temporary closure or shutdown of sites or facilities. The Board has completed recommended accounting standards for liabilities which address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence. Those liability standards do not address inter-period cost allocation when cleanup relates to operations that span many periods.

ab Therefore, the Board chose to provide additional guidance relative to cleanup costs in this standard. The additional standards in this statement provide for the timing of recognition of the liability and related operating expense.

ac For cleanup costs associated with general PP&E, probable [SEE NOTE 14] and measurable cleanup costs shall be allocated to operating periods benefiting from operations of the general PP&E. This allocation shall be based on a systematic and rational method. For example, the estimated cost could be allocated to operating periods based on the expected physical capacity of the PP&E and the amount of capacity used each period. In addition, disclosure of the total estimated cost is required.

ad For cleanup costs associated with stewardship PP&E, probable and measurable liabilities shall be recognized when the stewardship PP&E is placed in service. Simultaneous to recognizing the liability, the related expense for cleanup cost shall be recognized.

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INTRODUCTION

PURPOSE

1 The purpose of this statement is to provide accounting standards for Federally owned

property, plant, and equipment (PP&E); deferred maintenance; and cleanup costs. This introduction provides information on:

- the scope of the standards,
- consideration of reporting objectives,
- applicability of the standards,
- capitalization threshold,
- materiality, and
- effective date.

2 Chapters 2, 3, and 4 present the accounting standards for PP&E, deferred maintenance, and cleanup costs respectively.

3 Appendix A presents the Basis for Conclusions. This appendix provides the Board's rationale for the decisions made and responds to the major issues raised in comment letters.

4 Appendix B presents illustrations to aid in categorizing PP&E.

5 Appendix C provides an example of a deferred maintenance disclosure.

6 Appendix D illustrates cleanup cost accounting.

7 Appendix E is a glossary of terms used in this statement.

SCOPE

8 This statement identifies and defines categories of PP&E and addresses recognition and measurement of, and disclosure requirements associated with property, plant, and equipment (as well as land), including accounting for deferred maintenance and cleanup costs. This statement does not address natural resources. However, the Board is undertaking a project to address accounting for natural resources.

REPORTING OBJECTIVES

9 In drafting accounting standards for PP&E, the Board relied on its Statement of Federal Financial Accounting Concepts Number 1, Objectives of Federal Financial Reporting. Ultimately, all accounting standards taken as a whole will help meet the four reporting objectives expressed in the Objectives statement: budgetary integrity, operating performance, stewardship, and systems and control. The focus of these standards is on the two reporting objectives most relevant to PP&E--operating performance and stewardship. These objectives and how they could be met through PP&E accounting are discussed under the headings (1) operating performance, and (2) stewardship.

OPERATING PERFORMANCE

10 The Board believes that it can contribute to meeting the operating performance objective [SEE NOTE 15] by measuring the cost associated with using property, plant, and equipment and including that cost in entity operating results. The Board first sought to identify PP&E costs that would be appropriate to include in operating expense. Then, from consideration of cost information required, the Board determined what balance sheet information would have to be reported.

11 To meet the operating performance objective, the Board seeks to provide accounting standards that will result in:

- relevant and reliable cost information for decision-making by internal users (e.g., program managers, budget examiners and officials),
- comprehensive, comparable cost information for decision-making and program evaluation

by Congress and the public, and
- information to help assess the efficiency and effectiveness of asset management (e.g., condition of assets including deferred maintenance).

STEWARDSHIP

12 The Board believes that Federal financial reporting can fulfill the stewardship objective [SEE NOTE 16] if the Board provides standards that will result in reporting information on:

- asset condition;
- changes in the amount and service potential of property, plant, and equipment;
- cost of property, plant, and equipment where applicable; and
- spending for acquisition of property, plant, and equipment versus non-capital spending.

CAPITALIZATION THRESHOLDS

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

APPLICABILITY

14 For guidance on the general applicability of this standard and all other Federal financial accounting standards please refer

to Statement of Federal Financial Accounting Concepts No. 2, Entity and Display.

MATERIALITY

15 The provisions of this statement need not be applied to immaterial items.

EFFECTIVE DATE

16 The Board recommends that the accounting standards presented in this proposed statement become effective for periods beginning after September 30, 1997. Earlier implementation is encouraged. In addition, under early implementation individual provisions of the accounting standards may be implemented before other provisions. For example, provisions for stewardship PP&E may be implemented before provisions for general PP&E.

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CHAPTER 2 -- ACCOUNTING STANDARD PROPERTY, PLANT, AND EQUIPMENT

DEFINITIONS

17 Property, plant, and equipment consists of tangible assets, including land, that meet the following criteria:

- they have estimated useful lives [SEE NOTE 17] of 2 years or more;
- they are not intended for sale in the ordinary course of operations; and
- they have been acquired or constructed with the intention of being used, or being available for use by the entity.

18 Property, plant, and equipment also includes:

- assets acquired through capital leases

(See paragraph 20), including leasehold improvements;

- property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and
- land rights. [SEE NOTE 18]

19 Property, plant, and equipment excludes items (1) held in anticipation of physical consumption such as operating materials and supplies [SEE NOTE 19] and (2) the Federal entity has a reversionary interest in. [SEE NOTE 20]

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

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life [SEE NOTE 23] of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value [SEE NOTE 24] of the leased property.

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

STANDARDS AND CATEGORIES

21 The following paragraphs provide recognition and measurement principles, and disclosure requirements for each category of PP&E. The categories identified are:

- general PP&E (including land acquired for or in connection with other general PP&E),
- Federal mission PP&E,
- heritage assets, and
- stewardship land (i.e., land not included in general PP&E).

22 In determining which category PP&E should be placed in, it will be necessary to identify the "base unit" [SEE NOTE 25] of PP&E against which the category definitions will be applied. For example, units as large as entire facilities or as small as computers could be categorized. In determining the level at which categorization takes place, an entity should consider the cost of maintaining different accounting methods for property and the usefulness of the information, the diversity in the PP&E to be categorized (e.g., useful lives, value, alternative uses), the programs being served by the PP&E, and future disposition of the PP&E (e.g., transferred to other entities or scrapped). [SEE NOTE 26]

GENERAL PROPERTY, PLANT, AND EQUIPMENT

23 General property, plant, and equipment is any property, plant, and equipment used in providing goods or services. General PP&E typically has one or more of the following characteristics:

- it could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or

services, or to support the mission of the entity, or
- it is used in business-type activities, [SEE NOTE 27] or
- it is used by entities in activities whose costs can be compared [SEE NOTE 28] to those of other entities performing similar activities (e.g., Federal hospital services in comparison to other hospitals).

24 For entities operating as business-type activities, all PP&E shall be categorized as general PP&E whether or not it meets the definition of any other PP&E categories.

25 Land and land rights acquired for or in connection with other general PP&E [SEE NOTE 29] shall be included in general PP&E. In some instance, general PP&E may be built on existing Federal lands. In this case, the land cost would often not be identifiable. In these instances, general PP&E shall include only land and land rights with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E.

Asset Recognition

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

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other

outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and
- material amounts of interest costs paid. [SEE NOTE 30]

27 Internally-developed [SEE NOTE 31] software may be included in general PP&E (or other asset accounts [SEE NOTE 32]) if its cost is intended primarily to be recovered through charges to users. [SEE NOTE 33] Other internally-developed software costs shall be expensed when incurred.

28 If an entity elects to capitalize internally-developed software costs under the circumstances described in the preceding paragraph, costs that may be capitalized are limited to:

- those clearly identifiable with major new software projects and distinguishable from recurring maintenance-type activities;
- costs incurred after technological feasibility [SEE NOTE 34] has been established; and
- direct costs of developing the software, initial training material, and documentation manuals incurred after technological feasibility has been established (e.g., salaries of programmers, systems analysts, project

management, and administrative personnel directly involved in the planning, designing, coding, or testing; associated employee benefits, outside consultants fees, and supplies).

The amortization or depreciation of these costs shall not exceed five years.

29 The cost of general PP&E acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception (i.e., the net present value of the lease payments calculated as specified in the liability standard [SEE NOTE 35] unless the net present value exceeds the fair value of the asset).

30 The cost of general PP&E acquired through donation, devise, [SEE NOTE 36] or judicial process excluding forfeiture (See paragraph 33) shall be estimated fair value at the time acquired by the government.

31 The cost of general PP&E transferred from other Federal entities shall be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred.

32 The cost of general PP&E acquired through exchange [SEE NOTE 37] shall be the fair value of the PP&E surrendered at the time of exchange. [SEE NOTE 38] If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair value of PP&E acquired. If neither fair value is determinable the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. Any difference between the net recorded amount of the PP&E

surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

33 The cost of general PP&E acquired through forfeiture shall be determined in accordance with Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property (SFFAS 3). [SEE NOTE 39] Amounts recorded for forfeited assets based on SFFAS 3 shall be recognized as the cost of general PP&E when placed into official use.

34 PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. [SEE NOTE 40] In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

Expense Recognition

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

- Estimates of useful life of general PP&E must consider factors such as physical wear and tear and technological change (e.g., obsolescence).
- Various methods can be used to compute periodic depreciation expense so long as

the method is systematic, rational, and best reflects the use of the PP&E.

- Any changes in estimated useful life or salvage/residual value shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization.

36 Depreciation expense shall be accumulated in a contra asset [SEE NOTE 43] account--accumulated depreciation. Amortization expense shall be accumulated in a contra asset account--accumulated amortization.

37 Costs which either extend the useful life of existing general PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated general PP&E.

38 In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized [SEE NOTE 44] shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.

39 General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and

its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

Implementation Guidance

40 For existing general PP&E, if historical cost information necessary to comply with the above recognition and measurement provisions has not been maintained, estimates are required. Estimates shall be based on:

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

41 Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the PP&E has been in use relative to its estimated useful life. Alternatively, the PP&E may be recorded at its estimated net remaining cost [SEE NOTE 45] and depreciation/amortization charged over the remaining life based on that net remaining cost.

42 For general PP&E that would be substantially depreciated/amortized had it been recorded upon acquisition based on these standards, materiality and cost-benefit should be weighed heavily in determining estimates. Consideration should be given to:

- recording only improvements made during the period beyond the initial expected useful life of general PP&E, and
- making an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building by building estimate).

43 In recording existing general PP&E, the difference in amounts added to asset and contra asset accounts shall be credited (or charged) to Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the statement of changes in net position. For published financial statements presenting prior year information, no prior year amounts shall be restated.

44 In the period that these standards are implemented, disclosure of the adjustments, by major class [SEE NOTE 46] of PP&E, made to general PP&E and accumulated depreciation/amortization is required.

Disclosure Requirements

45 The following are minimum general PP&E disclosure requirements:

- the cost, associated accumulated depreciation, and book value by major class;
- the estimated useful lives for each major class;
- the method(s) of depreciation for each major class;
- capitalization threshold(s) including any changes in threshold(s) during the period; and
- restrictions on the use or convertability of general PP&E.

FEDERAL MISSION PROPERTY,

PLANT, AND EQUIPMENT

46 Federal mission PP&E includes certain items used to meet a Federal Government mission in which the specific PP&E used is an integral part of the output of the mission. [SEE NOTE 47] PP&E should be considered Federal mission PP&E if it possesses at least one of each of the two types of characteristics presented below. One type of characteristic relates to the use of Federal mission PP&E and the other relates to its useful life.

47 Characteristics related to the use of the Federal mission PP&E are that it:

- has no expected nongovernmental alternative uses; or
- is held for use in the event of emergency, war or natural disaster; or
- is specifically designed for use in a program for which there is no other program or entity (Federal or non-Federal) using similar PP&E with which to compare costs.

48 Characteristics related to the useful life are that it:

- has an indeterminate or unpredictable useful life [SEE NOTE 48] due to the unusual manner in which it is used, improved, retired, modified, or maintained; or
- is at a very high risk of being destroyed during use or premature obsolescence.

WP Federal mission PP&E specifically includes (1) weapons systems PP&E (e.g., fighter/attack aircraft, submarines, and tracked combat vehicles) and (2) space exploration equipment (e.g., space hardware and launch, tracking, and recovery facilities) which will be defined in paragraphs 50 and 52. Federal mission PP&E excludes land.

50 "Weapons systems" are a combination of one or more weapons [SEE NOTE 49] with all related equipment, materials, services, personnel and means of delivery and deployment required for self-sufficiency. [SEE NOTE 50] This standard addresses only the PP&E component of weapons systems. PP&E included in weapons systems are distinguished from general property, plant, and equipment held by defense agencies and defense support agencies in that they are intended to be used directly by the armed forces to carry out combat missions, when necessary, and to train in peacetime.

51 Weapons systems include only those assets owned by defense agencies and defense-support agencies that would otherwise meet the PP&E definition. Items meeting other than the PP&E asset category definitions (such as items of inventory or operating materials and supplies) are excluded from Federal mission PP&E.

52 "Space exploration equipment" includes items that are:

- intended to operate above the atmosphere for space exploration purposes, and
- any specially designed equipment to aid, service, or operate other equipment engaged in the exploration of space.

Recognition and Measurement

53 The periodic cost of acquiring, constructing, improving, reconstructing, or renovating Federal mission PP&E shall be recognized as a cost on the statement of net cost when incurred. The cost shall be disclosed [SEE NOTE 51] as "cost of Federal mission PP&E." The cost shall include all costs incurred to bring the PP&E to its current condition and location (See paragraph

26 for examples of the costs to be considered).

54 Additional reporting requirements for stewardship reporting will be developed in a separate standard.

Implementation Guidance

55 Federal mission PP&E previously recognized as assets and contra-assets for balance sheet reporting shall be removed. The amounts removed shall be charged to Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the statement of changes in net position. The amounts removed from the balance sheet shall be disclosed in a footnote.

56 For published financial statements presenting prior year information, no prior year amounts shall be restated.

HERITAGE ASSETS

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

- historical or natural significance;
- cultural, educational or artistic (e.g., aesthetic) importance; or
- significant architectural characteristics.

58 Heritage assets are generally expected to be preserved indefinitely. One example of evidence that a particular asset is heritage in nature is that it is listed on the National Register of Historic Places.

59 Heritage assets may in some cases be used in general government operations (e.g., office buildings such as the main Treasury building). These assets are referred to as

multi-use heritage assets. The costs to maintain these assets serve two purposes--they preserve the heritage features and permit continued use of the asset for government operations. Costs of renovation, improvement, restoration, or reconstruction that can be directly related to government operations (e.g., modification or improvement of office space, upgrading of electrical or communications equipment/wiring) shall be treated as general PP&E and depreciated over the period of time they are expected to provide service or produce benefits.

60 Cost to renovate, restore, or reconstruct the heritage asset itself shall be excluded from general PP&E (i.e., not capitalized).

Recognition and Measurement

61 The cost of improving, reconstructing, or renovating heritage assets (excluding any costs designated as general PP&E) shall be recognized as a cost in the period incurred. Also, in the event that heritage assets are acquired or constructed, the cost shall be recognized as a cost of the period incurred. These costs shall be disclosed [SEE NOTE 52] as "Cost of Heritage Assets." The cost shall include all costs incurred to bring the PP&E to its current condition and location (See paragraph 26 for examples of the costs to be considered).

- The cost of heritage assets transferred from other Federal entities shall be the book value of the asset recorded on the transferring entity's books. If the receiving entity does not know the book value, the fair value shall be disclosed in notes to the statement of net cost. If fair value is not estimable, information related to the type and quantity of assets transferred shall be disclosed.
- No amounts for heritage assets acquired

through donation, or devise [SEE NOTE 53] shall be recognized in the cost of heritage assets. [SEE NOTE 54] The assets' fair value, if known and material, shall be disclosed in notes to the statement of net cost in the year received. If fair value is not known or reasonably estimable, information related to the type and quantity of assets received shall be disclosed.

62 Additional reporting requirements will be developed for stewardship report items in a separate standard.

Implementation Guidance

63 Heritage assets previously recognized as assets for balance sheet reporting shall be removed. The amounts removed shall be charged to Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the statement of changes in net position. The amounts removed from the balance sheet shall be disclosed in a footnote.

64 If records are not available to determine which costs are associated with heritage assets and which are general PP&E, the entity may estimate the cost of heritage assets by classes of PP&E (e.g., entire facilities rather than a building by building estimate).

65 For published financial statements presenting prior year information, no prior year amounts shall be restated.

STEWARDSHIP LAND

66 Land is defined as the solid part of the surface of the earth.

67 Excluded from the definition of land are

materials beneath the surface (i.e., depletable resources such as mineral deposits and petroleum), the space above the surface (i.e., renewable resources such as timber), and the outer-continental shelf resources. The materials excluded from the definition of land will be addressed in a separate accounting and reporting standard related to them.

68 Land and land rights owned by the Federal Government and not acquired for or in connection with other general PP&E [SEE NOTE 55] will be referred to as stewardship land and will not be reported on the balance sheet. Examples of land not associated with other items of general PP&E include land used as forests and parks and land used for wildlife and grazing. General PP&E may be built on existing Federal lands. In this case, the cost of the land would often not be identifiable. In these instances, general PP&E shall include only land or land rights with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E.

Recognition and Measurement

69 The acquisition cost of stewardship land shall be recognized as a cost in the period incurred. The cost shall be disclosed [SEE NOTE 56] as "cost of stewardship land." The cost shall include all costs incurred to bring the PP&E to its current condition and location (See paragraph 26 for examples of the costs to be considered).

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

- if the structure is significant in and of itself, the entity shall use its judgment as to whether the acquisition cost shall be treated as the cost of stewardship land, heritage asset, or both;

- if the structure is to be used in operations (e.g., as general PP&E) but (1) the value of the structure is insignificant as compared to the value of the land, (2) it has little or no inherent value, and/or (3) it is merely a byproduct of the acquisition of the land, the cost shall be treated as an acquisition of stewardship land in its entirety; or
- only significant structures which have a significant operating use (e.g., a recently constructed hotel or employee housing block) shall be treated as general PP&E by identifying the cost attributable general PP&E and segregating it from the cost of the stewardship land acquired.

71 However, no amounts for stewardship land acquired through donation or devise [SEE NOTE 57] shall be recognized as a cost on the statement of net cost. Its fair value, if known and material, shall be disclosed in notes to the statement of net cost. If fair value is not estimable, information related to the type and quantity of assets received shall be disclosed in the year received.

72 Land may be transferred between Federal entities. In some cases, land included in general PP&E may be transferred to an entity for use as stewardship land. In this instance, the cost of stewardship land transferred from another Federal entity shall be the book value of the land recorded on the transferring entity's books. If the receiving entity does not know the book value, the transfer shall be disclosed in notes if material. In other cases, stewardship land may be transferred between Federal entities. Transfers of stewardship land shall be disclosed in the notes if material.

73 Any costs to prepare stewardship land for its intended use (e. g., razing a building)

shall be expensed as a part of the cost of stewardship land.

74 Additional reporting requirements will be developed for stewardship report items in a separate standard.

Implementation Guidance

75 Land previously recognized as assets for balance sheet reporting shall be removed. The amounts removed shall be charged to Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the statement of changes in net position. The amounts removed from the balance sheet shall be disclosed in a footnote.

76 For published financial statements presenting prior year information, no prior year amounts shall be restated.

The provisions of this statement need not be applied to immaterial items.***
*

CHAPTER 3 -- ACCOUNTING STANDARDS: DEFERRED MAINTENANCE

DEFINITION

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

78 For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its

expected life. [SEE NOTE 58] Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

RECOGNITION

79 A line item for "deferred maintenance amounts" [SEE NOTE 59] shall be presented on the statement of net cost with a note reference in lieu of a dollar amount. [SEE NOTE 60] No amounts shall be recognized for deferred maintenance.

DISCLOSURE REQUIREMENTS

MEASUREMENT

80 Amounts disclosed for deferred maintenance may be measured using:

- condition assessment surveys, or
- life-cycle cost forecasts. [SEE NOTE 61]

81 Condition assessment surveys are periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied. [SEE NOTE 62]

82 Life-cycle costing is an acquisition or procurement technique which considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in a forecast of maintenance expense, these forecasts may serve as a basis against which to compare actual maintenance expense and estimate deferred maintenance.

DISCLOSURES

83 At a minimum, the following information shall be presented for all PP&E (each of the four categories established in the PP&E standard should be included).

- Identification of each major class [SEE NOTE 63] of asset for which maintenance has been deferred.

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

- If the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each major class of PP&E:
  * description of requirements or standards for acceptable operating condition,
  * any changes in the condition requirements or standards, and
  * asset condition [SEE NOTE 64] and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

- If the total life-cycle cost method is used the following should be presented for each major class of PP&E:
  * the original date of the maintenance forecast and an explanation for any changes to the forecast,
  * prior year balance of the cumulative deferred maintenance amount,
  * the dollar amount of maintenance that was defined by the professionals who designed, built or manage the PP&E as required maintenance for the reporting period,
  * the dollar amount of maintenance actually performed during the period,
  * the difference between the forecast and actual maintenance,
  * any adjustments to the scheduled

amounts deemed necessary by the managers of the PP&E, [SEE NOTE 65] and

* the ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.

OPTIONAL DISCLOSURES

84 Stratification between critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition. If management elects to disclose critical and noncritical amounts, the disclosure shall include management's definition of these categories.

The provisions of this statement need not be applied to immaterial items.

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CHAPTER 4 -- ACCOUNTING STANDARDS: CLEANUP COSTS

DEFINITION

85 Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste (See paragraph 86) from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.

86 Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible,

illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

87 Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs.

SCOPE

88 This standard applies only to cleanup costs from Federal operations known to result in hazardous waste which the Federal Government is required by Federal, state and/or local statutes and/or regulations that have been approved as of the balance sheet date, regardless of the effective date, to cleanup (i.e., remove, contain or dispose of). [SEE NOTE 66] These cleanup costs meet the definition of liability provided in Statement of Recommended Accounting Standards no. 5, Accounting for Liabilities of the Federal Government (SRAS no. 5).

89 However, due to the nature of the liability and the timing associated with cleanup costs, additional guidance is provided in this standard on the recognition of cleanup costs over the life of the related PP&E. Guidance is required since cleanup can not occur until the end of the useful life of the PP&E or at regular intervals during that life.

90 This standard is intended to supplement the accounting requirements for liabilities in SRAS no. 5. SRAS no. 5 defines liabilities as a "probable future outflow or other sacrifice of resources as a result of past transactions or events." Further, SRAS no. 5 requires recognition of liabilities that are probable and measurable. Measurable means that an item has a relevant attribute that can be

quantified in monetary units with sufficient reliability to be reasonably estimable.

91 The recognition and measurement standards provided in this standard are subject to the criteria for recognition of liabilities included in SRAS no. 5. That is, liabilities shall be recognized when three conditions are met:

- a past transaction or event has occurred,
- a future outflow or other sacrifice of resources is probable, [SEE NOTE 67] and
- the future outflow or sacrifice of resources is measurable. [SEE NOTE 68]

92 SRAS no. 5 also provides for disclosure of liabilities that do not meet all of the above criteria; these standards apply to cleanup costs as well.

93 Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard. This guidance does not apply to these other types of cleanup since the cleanup effort is not deferred until operation of associated PP&E ceases either permanently or temporarily. [SEE NOTE 69]

RECOGNITION AND MEASUREMENT

ESTIMATION METHODS

94 Cleanup costs, as defined above, shall be estimated when the associated PP&E is placed in service . The estimate shall be referred to as the "estimated total cleanup cost." There are two approaches to recognizing this total--one applies to general PP&E and another to stewardship PP&E.

95 The estimate shall contemplate:

- the cleanup plan, including
  * level of restoration to be performed,
  * current legal or regulatory requirements, [SEE NOTE 70] and
  * current technology; and

- current cost which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.

96 Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing.

CLEANUP COST FOR GENERAL PP&E

97 A portion of estimated total cleanup costs shall be recognized as expense during each period that general PP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E (e.g., expected usable landfill area) whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability.

98 Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation.

99 As reestimates (See paragraph 96) are made,

the cumulative effect of changes in total estimated cleanup costs related to current and past operations shall be recognized as expense and the liability adjusted in the period of the change in estimate.

100 As cleanup costs are paid, payments shall be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities.

CLEANUP COST FOR STEWARDSHIP PP&E

101 Consistent with the treatment of the acquisition cost of stewardship PP&E (i.e., expensing in the period placed in service), the total estimated cleanup cost shall be recognized as expense in the period that the stewardship asset is placed in service and a liability established.

102 The liability shall be adjusted when the estimated total cleanup costs are reestimated as described in paragraph 96. Adjustments to the liability shall be recognized in expense as "changes in estimated cleanup costs from prior periods."

103 As cleanup costs are paid, payments shall be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities.

IMPLEMENTATION GUIDANCE

104 Two implementation approaches have been provided for liabilities related to general PP&E in service at the effective date of this standard:

- A liability shall be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. The remaining cost shall be allocated as provided in paragraphs 97 through 99.

- If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated total cleanup cost as a liability upon implementation. In addition, in periods following the implementation period, any changes in the estimated total cleanup cost shall be expensed when reestimates occur and the liability balance adjusted. The provisions for cost allocation provided in paragraphs 97 through 99 shall not apply under this implementation method.

105 The offsetting charge for any liability recognized upon implementation shall be made to Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in any statement of changes in net position that may be required. No amounts shall be recognized as expense in the period of implementation. The amounts involved shall be disclosed and to the extent possible the amount associated with current and prior periods should be noted.

106 For stewardship PP&E that are in service at the effective date of this standard, the liability for cleanup costs shall be recognized and an adjustment made to the Net Position of the entity.The amount of the adjustment shall be shown as a "prior period adjustment" in any statement of changes in net position that may be required. The amounts involved shall be disclosed.

DISCLOSURE REQUIREMENTS

107 The sources (applicable laws and regulations) of cleanup requirements.

108 The method for assigning estimated total cleanup costs to current operating periods (e.g., physical capacity versus passage of time).

109 For cleanup cost associated with general PP&E, the unrecognized portion of estimated total cleanup costs (e.g., the estimated total cleanup costs less the cumulative amounts charged to expense at the balance sheet date).

110 Material changes in total estimated cleanup costs due to changes in laws, technology, or plans shall be disclosed. In addition, the portion of the change in estimate that relates to prior period operations shall be disclosed.

111 The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.

The provisions of this statement need not be applied to immaterial items.

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APPENDIX A -- BASIS FOR THE BOARD'S CONCLUSIONS

112 This appendix summarizes significant considerations by the Board in reaching the conclusions in this statement. In the following paragraphs, the Board's considerations in developing these standards as well as positions on specific issues raised in alternative views, comment letters, and during public hearings are explained. The Board relied extensively on input from a task

force on Capital Expenditures as well as a small working subgroup on Physical Property. These paragraphs include reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.

113 This appendix addresses each of the three standards in sequence.

PROPERTY, PLANT, AND EQUIPMENT

BACKGROUND

114 Before addressing specific issues resolved following issuance of the exposure draft, this section provides a broad basis for the main provisions of the standard on investments in PP&E. The Federal Government makes many expenditures that can be characterized as investments or investment-type expenditures. These include expenditures for Federally owned PP&E.

115 Accounting for expenditures for PP&E as well as for the existing stock of PP&E is a significant undertaking because the Federal Government owns substantial amounts of diverse PP&E. Federal PP&E includes approximately 650 million acres of land, buildings containing over 1.5 billion square feet of floor space, many different forms of equipment, and military hardware.

116 These are used for a wide range of purposes; including, among others, operating, defense, conservation, and heritage purposes. Some of these purposes relate to the Federal Government's responsibility to provide for the Nation's common defense and general welfare. Specific types of PP&E are used by the Federal Government to meet this responsibility. Other types of PP&E are held and used for operating purposes that are not

unlike those of non-federal entities.

117 Some Federal operations are similar to profit-seeking enterprises and can be described as business-type activities. However, these business-type activities account for a small portion of the investment in PP&E. The majority of the investment in PP&E is used to provide government services and goods where user charges are not the primary source of revenues.

118 The Board found that a single accounting method for such diverse Federal PP&E would not meet the objectives established in its Objectives of Federal Financial Reporting.Therefore, the Board identified categories of PP&E and set different accounting methods for each category.

Categories Required

119 The PP&E standards incorporate the following categories:

- general PP&E are PP&E used to provide general government services;
- Federal mission PP&E are PP&E that are an integral part of the output of certain unique Federal Government missions;
- heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and
- stewardship land [SEE NOTE 71] is land other than that included in general PP&E.

120 The latter three categories of assets are referred to as stewardship PP&E. The term "stewardship PP&E" is used simply to refer to those categories of PP&E to be reported on a stewardship report.

General PP&E

121 General PP&E are items used to provide

general government services; including PP&E that:

- could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity, or
- is used in business-type activities, or
- is used by entities whose costs can be compared to other entities (e.g., Federal hospital services in comparison to other hospitals).

122 Allocation of the cost of general PP&E, excluding land, among accounting periods is essential to assessing operating performance. The Board's concepts statement, Objectives of Federal Financial Reporting, focuses on relating cost to accomplishments in reporting an entity's operating performance. Cost information is of fundamental importance both to program managers in operating their activities efficiently and effectively and to executive and congressional decision makers in deciding on resource allocation. General PP&E will be capitalized and depreciated to provide this information.

Stewardship PP&E

123 For stewardship PP&E, [SEE NOTE 72] the predominant reporting objective is stewardship. This is in contrast to general PP&E, for which the Board is concerned with providing information to assess operating performance and, therefore, provided for depreciation accounting. The most relevant information is about the existence of stewardship PP&E and that information can be provided through a new type of reporting--supplementary stewardship reporting.

124 For stewardship PP&E, the Board believes that allocation of historical cost to

operating expense for each period would not contribute to the measurement of entity operating performance. Prior to issuing its Objectives statement, the Board conducted a user needs study and met with representatives of a wide variety of user groups. Most users specifically indicated that depreciating stewardship PP&E such as weapons systems would not provide meaningful information for assessing the entity's operating performance. The Board believes that its standards should address the needs of users and the Board has found that users do not need information which includes depreciation expense on this category of PP&E.

125 The Board noted in its Objectives statement that the government's responsibility for the nation's common defense and general welfare is unique and that, in some cases, the most relevant measures of performance are nonfinancial. [SEE NOTE 73] Despite the preference for nonfinancial performance measures for stewardship PP&E, the government must demonstrate that it is being an appropriate "steward" for these assets. To meet the stewardship objective, the government must be able to answer basic questions such as:

- What and where are the important assets?
- Is the government effectively managing and safeguarding its assets?

126 Answers to these questions can be provided through supplementary stewardship reporting. The stewardship information provided would not necessarily have the same measurement basis as information shown on the balance sheet. Information could include value, quantity, and capacity depending on the category being reported on. These types of information are not typically found in balance sheet reporting. (Also, see discussion of deferred maintenance starting at paragraph 171, 181 regarding other

information that users consider relevant.)

127 The Board is addressing supplementary stewardship reporting in another standard. The information to be provided for stewardship PP&E is proposed in detail in that standard. Each of the stewardship PP&E categories are discussed further in the following paragraphs.

Federal Mission PP&E

128 Federal mission PP&E are specific PP&E acquired to provide a unique good or service for which there is not necessarily a periodic output against which to match costs. For example, the existence of and readiness of weapons systems supports national defense regardless of their actual combat use on a period by period basis. Also, space exploration equipment is used in long-term research efforts which may or may not produce an output each period but which nevertheless benefits the nation in the long run.

129 The standard specifically identifies weapons systems and space exploration equipment as Federal mission PP&E as well as providing a list of characteristics of Federal mission PP&E. The Board articulated characteristics of Federal mission PP&E because it recognizes that there are other types of PP&E, or PP&E may be developed in the future, that are similar to these two items. To be categorized as Federal mission PP&E an item shall meet at least one characteristic from each of the following two types of characteristics.

130 Characteristics related to the use of Federal mission PP&E are that it:

- has no expected nongovernmental alternative uses; or
- is held for use in the event of emergency, war or natural disaster; or

- is specifically designed for use in a program for which there is no other program or entity (Federal or non-Federal) using similar PP&E with which to compare costs.

131 Characteristics related to the useful life are that it:

- has an indeterminate or unpredictable useful life [SEE NOTE 74] due to the manner in which it is used, improved, retired, modified, or maintained; or
- is at a very high risk of being destroyed during use or of premature obsolescence.

132 The cost of Federal mission PP&E acquired during the period be shown on the operating statement.

Heritage assets

133 Heritage assets are held for their cultural, architectural, or aesthetic characteristics. Users have identified nonfinancial information as being relevant for these assets. For assessing operating performance, the Board believes that relevant cost information is provided through reporting of periodic maintenance cost since heritage assets are intended to be preserved as national treasures. It is anticipated that they will be maintained in reasonable repair and that there will be no diminution in their usefulness over time.

134 In addition to assets held purely for heritage purposes (e.g., the Washington Monument), the Federal Government uses heritage assets in its day-to-day operations. For example, many Federal office buildings, such as the Old Executive Office Building, have monumental characteristics. The Board considered whether these multi-use heritage assets would be more appropriately categorized as general PP&E.

135 Despite their heritage characteristics, these assets serve a function that could otherwise be served by assets that do not possess heritage characteristics. Therefore, the standards provide that costs of reconstruction, renovation, or improvements that are directly associated with supporting operations be treated in a manner consistent with general PP&E. The Board based this decision on the need to measure cost for operations and to compare cost between entities.

Stewardship Land

136 The Federal Government owns vast amounts of land and its use of land is diverse. In some instances Federal land is integral to the ownership of general PP&E. For example, the cost of land upon which an office building is sited is integral to the cost of that building. Land acquired for or in connection with general PP&E will be recognized on the balance sheet to provide a more comprehensive measure of the assets devoted to general government operations. However, since land is not a depreciating asset, depreciation expense will not be recognized on land included in general PP&E.

137 Most Federal land is not directly related to general PP&E. For example, the national parks and forests are not used to support general PP&E. The Board concluded that land other than that acquired for or in connection with other general PP&E should not be reported on the balance sheet. This is consistent with the Board's treatment of heritage assets in that much of the government's land is held for the general welfare of the nation and is intended to be preserved and protected.

ISSUES

138 Following issuance of the ED, the Board specifically considered several issues related to the PP&E standard. These issues are addressed in the sequence that they appear in the standard.

Definitions

139 The Board asked respondents to comment on the appropriateness of the definitions of PP&E, general PP&E, Federal mission PP&E, heritage assets, and stewardship land. Respondents raised issues on the overall definition of PP&E including (1) internally-developed software, (2) land rights, (3) capitalization threshold, and (4) reversionary interests in property. These four issues are discussed below. An issue raised regarding the Federal mission PP&E definition is also addressed below.

Internally-developed Software

140 The ED proposed that internally-developed software be excluded from PP&E -- in effect, that it be expensed when incurred. In making this proposal, the Board pointed to concerns affecting the objectivity/accuracy of any capitalized cost for internally-developed software in general PP&E. [SEE NOTE 75] The Board was concerned that costs could be overcapitalized thus understating expense for the period and that it would be difficult to provide for the removal or write-off of costs related to unsuccessful projects and/or cost overruns. Given these practical concerns and the expectation that costs for software development efforts would not fluctuate dramatically since they related to continuous agency efforts, the Board proposed that these costs be expensed. [SEE NOTE 76]

141 Many respondents supported the Board's view. They noted that, among other problems,

it would be difficult to distinguish new development efforts from ongoing system maintenance. In fact, some respondents commented that software undergoes continuous improvement and updating.

142 On the other hand, the majority of respondents objected to the exclusion of these costs from PP&E. Many argued that internally-developed software met the overall definition of PP&E and that accounting could accommodate the problems of cost overruns and unsuccessful efforts. Many suggested that costs be held in a work-in-process account and any unsuccessful efforts subsequently written off in the period deemed unsuccessful. In addition, many believed that cost overruns were appropriate to include in the cost of the asset.

143 Ultimately, the Board made two changes to the PP&E definitions -- they removed the statement excluding internally-developed software from PP&E and they added a provision for recognition of internally-developed software as a component of general PP&E under certain circumstances. Since the Board's concern was with the potential for overcapitalization of these costs, they found that it was not necessary to exclude the costs from the PP&E categories for which costs would not be capitalized. Therefore, any internally-developed software costs appropriately classified as an item of stewardship PP&E may be included in those categories.

144 For internally-developed software costs that would be categorized as general PP&E, the Board placed several restrictions on the capitalization of costs. To be capitalized, it must be intended that the costs be recovered through charges to users. In addition, only certain costs may be capitalized after it has been established that the software project is likely to be

successful. Once capitalized, the costs can not be amortized over a period longer than five years.

145 In addition to internally-developed software, the Board discussed accounting for contractor-developed software. In principle, the Board's consensus was that the same accounting should be provided for contractor-developed software as for internally-developed software. However, the Board believed that this proposal should be exposed for comment prior to establishing a standard to that effect. Therefore, the standards do not provide specific provisions restricting the capitalization of contractor-developed software.

Land Rights

146 The Board received a request to address restrictive easements acquired by a Federal agency. This agency acquires restrictive easements limiting the use of land adjoining the agency's own property. The Board considers these easements a "land right." Land rights are interests and privileges held by an entity in land owned by others.

147 The Board provided for the recognition of land rights as part of PP&E since they are generally associated with other items of PP&E actually owned by the entity. In addition, where land rights are for a limited period of time and are includable in the general PP&E category, the Board provided for depreciation of the cost.

Capitalization Threshold

148 Many respondents requested that the Board provide a capitalization threshold as an element of the PP&E definition. The Board addressed this issue in developing the ED. At that time, the Board carefully considered whether to take a prescriptive approach by

setting a threshold or to permit entities the latitude to establish a threshold suited to their particular operating environment. The Board believes that Federal entities are sufficiently diverse that one threshold would not be suitable for all entities. For example, Title 2's $5,000 threshold would be immaterial for defense department operations but perhaps not for a smaller entity such as the Small Business Administration.

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

Reversionary Interests in PP&E

150 The Board also received a request to address reversionary interests in PP&E. In some instances, the Federal Government provides grants to state and local governments for the acquisition of PP&E. If the state or local government eventually decides that it no longer needs to use the PP&E for the purpose specified in the original grant there is often a provision that the PP&E must revert to Federal ownership. In these cases, the Federal Government maintains a reversionary interest in PP&E. In essence, these are contingent assets and should not be recognized on the balance sheet. The Board elected to specifically exclude these items from PP&E.

Federal Mission PP&E

151 Some respondents indicated that the term "Federal mission PP&E" had broader

implications than intended by its definition. It was suggested that some may assume any PP&E used to meet an agency's mission would fit this category (e.g., essentially all Federally owned PP&E).

152 The Board agreed that it was possible that a mere reading of the term "Federal mission PP&E" could lead to broader application of the category than permitted under the standard. However, the Board found that there was no brief term that would effectively communicate the nature of the PP&E properly includable in this category. The Board believes that the characteristics provided as well as the illustrations included in Appendix B of this document will clearly establish the appropriate use of this category. In addition, the Board has incorporated in the standard a cautionary footnote regarding loose interpretations drawn from the term "Federal mission PP&E."

Depreciation

153 The exposure draft posed several questions related to depreciation accounting for general PP&E. Briefly, the questions addressed:

- usefulness of depreciation expense for the assessment of operating performance,
- an alternative view suggesting that depreciation accounting be limited to business-type activities,
- usefulness of the allocation of depreciation expense to responsibility segments, and
- cost/benefit of allocating depreciation expense to programs

154 Overall, the respondents supported the Board's proposal to require depreciation accounting on all general PP&E. Many indicated that depreciation accounting would

improve performance measurement by producing comprehensive, comparable cost information. In addition, operating expenses would not be overstated in periods that assets were purchased and understated in other periods.

155 A few respondents supported the alternative view that would limit depreciation accounting to business-type activities. They argued that depreciation was only necessary where expenses were to be matched to revenues. This view is contrary to the operating performance objective and would not support development of cost information to associate with performance measures.

156 The Board did not make any changes to its requirements to apply depreciation accounting to general PP&E.

Multi-use Heritage Assets

157 The ED addressed renovation, reconstruction, improvement, and rebuilding costs for multi-use heritage assets (e.g., monumental style office buildings). Under the ED's proposal, any costs not directly associated with the heritage nature of the asset would be capitalized and depreciated as general PP&E. The ED also provided that abnormally high costs due to the heritage features of the assets (e.g., replacement of a specialized roofing material versus a modern day equivalent) be treated as heritage asset costs.

158 Respondents indicated that it would be very difficult to apply the proposed standards. Difficulties would include segregating the cost associated with preserving the heritage assets and supporting operations as well as identifying abnormal costs. In response to these concerns, the Board modified the treatment of multi-use heritage assets. The standard now provides that only renovation,

reconstruction, and improvement costs directly attributable to operations be capitalized as general PP&E.

Current Value

159 The ED included an alternative view espousing the use of current value accounting for Federal Government PP&E. This view was not supported by the respondents. The majority of respondents believed that current values would be difficult and costly to obtain, and subject to manipulation. Many indicated that current values were often useful to decision makers and should be provided on an as needed basis rather than incorporated in the basic financial statements.

Federal Mission PP&E

160 Overall, the reaction to the Federal mission PP&E category was favorable. Respondents indicated that they would not have difficulty applying the category descriptions. However, the Board received the following specific requests for major revisions in the Federal mission PP&E category:

- to retain the definition but include Federal mission PP&E on the balance sheet and apply depreciation accounting to these assets, and
- to make use of the category optional (e.g., managers would be free to use the general PP&E category for PP&E that would otherwise qualify as Federal mission PP&E).

Depreciate Federal Mission PP&E

161 The Board did not adopt the first proposal--to apply depreciation accounting to Federal mission PP&E. While there may be management

uses of this information, no persuasive examples of management uses have been identified. The Board remains convinced that depreciation accounting for these unusual items of PP&E would not provide meaningful information--a view that is supported by the Board's 1992 user needs study. Further, the Board wishes to note that nothing precludes management from developing depreciation information through cost finding means if it desires to do so for particular management purposes.

Make the Federal Mission
PP&E Category Permissive

162 It was proposed that classification of PP&E as Federal mission be permissive rather than mandatory. Two reasons were given for this proposal:

- some PP&E is used as both Federal mission and general PP&E (for example, office facilities located at nuclear weapons production plants), and
- entity management should be free to decide that depreciation information on Federal mission PP&E is useful.

163 It was suggested that adopting this proposal would allow agencies to classify property as best suits their needs. The Board discussed this proposal at length. Some Board members were favorably inclined to permit entity managers to exercise judgment regarding the accounting treatment of Federal mission PP&E. However, the majority of the Board members believed that making the category optional would be inappropriate.

164 These members argued that (1) the user needs study supported their belief that historical cost depreciation on these types of items was not useful, (2) it would not be appropriate to give entities the latitude to use different accounting methods for similar

assets, and (3) it would not be cost-beneficial to permit entities to make item by item judgments on appropriate accounting treatment. The members noted that, in connection with the proposal to require depreciation accounting for Federal mission PP&E (See paragraph 161), they had not been able to identify any management uses of depreciation information on Federal mission PP&E. The Board was concerned that entities may make unsupported, and costly, decisions regarding the election to categorize items as general or Federal mission PP&E. While entities can use cost finding to determine depreciation expense for internal purposes if they so desire, the Board does not believe that depreciation of Federal mission PP&E would be useful for general purpose financial reports.

165 The Board decided that use of the Federal mission PP&E category would remain mandatory for PP&E exhibiting the designated characteristics. The Board did add guidance in the standard regarding the selection of the base unit to be used in categorizing PP&E (See paragraph 22). One respondent had proposed that this guidance be added and stated that it would aid entities in establishing the level of detail necessary to properly categorize PP&E. For example, should PP&E be categorized on a site by site basis or by a smaller unit such as building by building. As with the capitalization threshold, the Board has indicated the factors that should enter into the selection of a base unit but has ultimately left the actual selection up to management.

Other PP&E Meeting the Characteristics

166 The Board posed a question in the ED regarding the classification of nuclear weapons production facilities and military base facilities as Federal mission PP&E. [SEE

NOTE 77] This question was posed because of a discussion among the Board members as to whether these items would or would not meet the Federal mission PP&E definition.

167 The majority of the respondents indicated that nuclear weapons production facilities meet the current characteristics of Federal mission PP&E--confirming the initial reaction of the Board members. One respondent did indicate that these facilities could be converted to other uses--as had munitions plants following World War II--however, the Board believes that the cost of such a conversion would be so great as to make it improbable in the near term. The Board has not elected to add this as another specifically identified item that qualifies as Federal mission PP&E because it is a good illustration of the purpose and application of the characteristics developed. In addition, the Board prefers not to engage in an exercise of listing all items that qualify since the absence of certain items may lead practitioners to assume that an item was specifically excluded.

168 The majority of respondents indicated that military base facilities would not as a group meet the definition of Federal mission PP&E and that the category should not be expanded to accommodate these assets. Many respondents pointed out that military base facilities have alternative uses and are currently being reviewed for just that purpose. The Board agrees with these views and has not modified the definition to permit inclusion of military base facilities in the category.

Audit of Federal Mission PP&E

169 Several respondents expressed concern regarding the level of audit coverage applicable to Federal mission PP&E. Although the ED did not specifically address

supplementary stewardship reporting for those categories of PP&E removed from the balance sheet, there was concern that removing these categories would lessen the audit coverage. Respondents noted that military weapons systems and space exploration equipment represented a substantial investment. They were concerned that the changes could lead to poor tracking systems for these items as well as weak internal controls over them. Other respondents pointed out that the key information is the existence and condition of these assets rather than the historical cost of the items. In addition, they suggested that devoting audit resources to verifying historical cost dollar amounts would detract from auditing more important existence and condition information.

170 The Board responded with the following points:

- auditing standards are beyond the scope of the Board's responsibilities,
- Board members representing the General Accounting Office (GAO) and the Office of Management and Budget (OMB) indicated that the audit coverage would be appropriately addressed in their work on Federal audit requirements,
- accounting standards should be established based on information needs not audit concerns, and
- the ED on supplementary stewardship reporting will include a statement to the effect that the Board expects that the responsible parties will produce audit requirements to satisfy concerns of the respondents.

DEFERRED MAINTENANCE

171 The deferred maintenance standard was well received by the majority of respondents. The Board addressed the issue in part due to the

many state and local governments as well as national groups that concerned over the deteriorating condition of government owned PP&E. A report of the U.S. Advisory Commission on Intergovernmental Relations (ACIR), High Performance Public Works, [SEE NOTE 78] notes that maintenance competes for funding with other government programs and is often underfunded. Contributing to this underfunding is the fact that the consequences of underfunding maintenance are often not immediately reported. The consequences include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations.

172 The ACIR recommended that entities disclose information on:

- the condition of assets,
- the cost of unfunded maintenance,
- the consequences of unfunded maintenance, and
- the uncertainty in estimates of unfunded maintenance.

173 The Capital Expenditures task force also recognized that deferred maintenance was an issue for Federal PP&E and requested that the Board address it. The policies and initiatives related to deferred maintenance at three Federal agencies [SEE NOTE 79] were reviewed and it was found that Federal agencies are developing systems to report on deferred maintenance. Although the systems are different, the goals of the systems are consistent--to provide reliable information on the condition of PP&E and to estimate the cost of correcting deficiencies.

174 Under these accounting standards, deferred maintenance information will be incorporated in the financial reports despite the differences in measurement among the agencies. The Board believes that deferred

maintenance is a cost--a cost that management, at whatever level, has elected not to fund. However, the Board found that deferred maintenance is not sufficiently measurable to be recognized in the accounting systems.

175 However, to highlight the reality that the cost remains despite being unfunded, the standards provide that deferred maintenance be disclosed by placing a line item on the statement of net cost with a note reference in lieu of a dollar amount on the financial statements. This recommendation is consistent with the findings of the Board's user needs study; that information on the cost of deferred maintenance is important to users. In addition, due to the measurement differences between entities, the disclosure requirements are flexible.

176 The standards provide two alternatives for estimating amounts to be disclosed--condition assessment surveys and life cycle cost analyses. Condition assessment surveys would provide disclosure of the estimated cost to return the PP&E to its desired condition. Life cycle cost analyses would highlight differences between planned maintenance and actual maintenance.

177 Both of these methods will be under the control of entity program managers since deferred maintenance is dependent on the purpose for which PP&E is held and on judgment regarding what condition PP&E should be in to meet that purpose. Entities are permitted flexibility in (1) setting standards for maintenance requirements and (2) establishing cost beneficial methods to estimate the cost of deferred maintenance.

178 The proposed standards require disclosure of information on the condition of PP&E, estimates of the cost of deferred maintenance, and methods used to assess

deferred maintenance. The standards apply to both PP&E reported on the balance sheet and the stewardship report.

179 In response to the ED, two opposing suggestions were raised--(1) recognize the amounts as a liability, and (2) remove the information from the notes.

RECOGNITION

180 A few respondents, including two appearing at the public hearing, suggested that the Board provide for recognition of the liability associated with deferred maintenance. The Board does not believe that deferred maintenance can or should be recognized as a liability because it is not sufficiently measurable to be recognized. Deferred maintenance reporting is in an evolutionary phase with Federal agencies currently developing a variety of systems to assess deferred maintenance. Measurement can not be described at this time as consistent or comparable. The deferred maintenance standard will remain as drafted. However, if and when government maintenance standards (e.g., minimum acceptable condition and standard repair costs) are set, the Board will revisit the accounting and consider requiring recognition of the liability and the cost.

REMOVE FROM NOTES

181 A few respondents requested that the Board provide for deferred maintenance information through required supplemental information to lessen the audit burden associated with the information. The Board--as was the case with Federal mission PP&E--does not believe that audit coverage should govern the placement of information in the annual reports. Deferred maintenance information is considered important because it ensures that readers are

informed of the condition of Federally owned PP&E. If there is a need to reduce the audit coverage, the Board believes that GAO and OMB can best address this need.

CLEANUP COST

182 The Board elected to address cleanup costs from long-term Federal operations as one of the costs associated with PP&E. For example, the Federal Government operates nuclear facilities and is required by law to cleanup any hazardous materials upon closing the facilities. This obligation meets the Board's definition of liability. [SEE NOTE 80] However, because the cleanup of these types of facilities would not occur until operations cease, additional guidance is needed to determine when and how to recognize these costs and liabilities.

183 The guidance in this standard builds on the accounting standards developed for liabilities. These standards were published in the Board's statement entitled Accounting for Liabilities of the Federal Government (liabilities standard). The liabilities standard includes:

- the liability definition,
- recognition criteria, and
- disclosure requirements.

184 The liabilities standard is applicable to cleanup costs. For example, if cleanup costs are not both probable and measurable the disclosure requirements in the liabilities standard would apply. The standards in this statement address cleanup cost accounting including:

- allocating cleanup costs to operating periods,
- estimating cleanup costs to be paid far in the future (e.g., using a current cost

approach), and
- recognizing changes in estimates prior to actual cleanup.

185 Because of the differences in accounting for the costs of general PP&E and stewardship PP&E, the Board developed different methods for allocating cleanup costs to operating periods depending on the category of the related PP&E.

CLEANUP OF GENERAL PP&E

186 The Board concluded that the liability for cleanup costs related to the operation of general PP&E would be recognized in a systematic and rational manner over the periods that the associated general PP&E is in use. This approach is consistent with the requirement to depreciate general PP&E. In addition, the Board requires disclosure of the estimate of total cleanup costs.

CLEANUP OF STEWARDSHIP PP&E

187 For cleanup costs related to stewardship PP&E, the Board concluded that the total estimated liability for cleanup cost would be recognized at the time that the stewardship PP&E is placed in service. This is consistent with the treatment of the acquisition cost of the stewardship PP&E which is recognized as a cost of operations in the period that the PP&E is placed in service.

ESTIMATING CLEANUP COSTS

188 With regard to estimating cleanup cost, the Board concluded that the estimate would be based on the current cost to perform the cleanup. Current cost should be based on existing laws, technology and management plans. An alternative to current cost would

have been to estimate costs in the future, factoring in expected inflation, and discounting this amount to current dollars. The Board did not believe that this approach offered any greater degree of accuracy in return for the additional effort involved in making the estimate.

189 As with all estimates, the estimates of cleanup costs will change over time. These changes will be due to inflation as well as to changes in laws and technology.

190 For cleanup costs associated with general PP&E, changes in estimates related to current and prior period operations be recognized as an expense in the period of the change. For example, if a facility with a capacity to produce 100 tons of material has produced 60 tons of material, then 60% of the change in estimate should be recognized as expense in the year that the estimate changes.

191 For cleanup costs associated with stewardship PP&E, the total change in estimate be recognized in the period of the change.

CLEANUP COST ISSUES

192 Respondents to the ED were supportive of the Board's efforts to address cleanup costs. However, several suggested that the Board's treatment of the liability associated with general PP&E--recognizing it incrementally over the life of the PP&E--was inconsistent with its definition of a liability. In some cases, respondents argued, the cleanup liability is incurred at the time the PP&E is placed in service. These respondents suggested that the Board provide for full recognition of the liability if an amount is reasonably measurable at that time.

193 The Board did not adopt this suggestion.

While the Board recognizes that in fact the liability may be incurred at the date that general PP&E is put in service, the actual recognition of the liability is problematic in a double entry accounting system. Generally, the recognition of a liability, a credit account, generates a concurrent recognition of either an expense (e.g., accounts payable for fuel bills is offset by fuel expense) or an asset (e.g., a capital lease liability is offset by an asset--PP&E), both typically debit accounts. In this case, the cleanup cost is not appropriately includable in operating expense of the period that the PP&E is placed in service. This would create a need for a balance sheet debit to offset the liability.

194 The Board does not believe that it would be appropriate to recognize an asset to offset the cleanup liability. Although some argue cleanup cost is a deferred cost of associated PP&E, the Board does not believe that these costs meet the asset definition and finds that recognition of cleanup cost as a component of PP&E would significantly overstate assets.

195 Other respondents expressed the opposite position, suggesting that it is not appropriate to recognize cleanup costs until they are budgeted for. This approach is not only inconsistent with the definition of a liability but would keep users of the financial statements in the dark as to the magnitude of Federal commitments for environmental cleanup.

196 The Board believes that the standards it has developed will contribute to meeting the operating performance and stewardship reporting objectives of Federal financial reporting. The cleanup cost standards have not been modified for either of these recommendations.

197 One modification that was made relates to implementation of the standard. Implementation is a significant issue given the magnitude of the Government's existing facilities and its obligations for cleanup of those facilities. One Board member requested that the implementation guidance related to cleanup of general PP&E provide an alternative method. It was suggested that provision of a second method would lower the cost of implementing the standard in situations where the related PP&E had been in service for a substantial portion of its estimated useful life.

198 The second method would be to recognize the entire estimated total cleanup cost as a liability upon implementation. In periods following implementation, entities electing this method would recognize any changes in the estimated total cleanup cost as expense for that period in lieu of the pro-rata amount of the estimated total cleanup cost. This method could be applied only by entities not seeking to recover their costs through user charges.

199 The Board adopted this recommendation in light of the large number of Federal facilities that will be affected by this standard and the cost of implementing the standard.

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APPENDIX B -- ILLUSTRATIONS OF CATEGORIES

200 In developing categories for Federal mission PP&E, Heritage Assets and Stewardship Land (See paragraphs 46, 57 and 66), the Board sought input from Federal agencies, the Standard General Ledger Issues Resolution Committee (SGLIRC), and other subgroup members. The Board found that there were many cases where similar assets could fit more than one category.

201 For example, aircraft and ships are used by law enforcement agencies as well as by the Department of Defense. Under the proposed categories, only those used by the Department of Defense would meet the criteria for Federal mission PP&E. The illustrations provided are intended to clarify the application of the categories to actual assets.

ILLUSTRATION 1:
FEDERAL MISSION PROPERTY, PLANT, AND EQUIPMENT

ILLUSTRATION 1A:
COAST GUARD PP&E

202 The Coast Guard has unique duties as both a peacetime operating agency and one of the military services. Its mission includes:

- public safety,
- law enforcement, and
- service in the event of conflict, national emergency, or natural and man-made disasters.

203 The Coast Guard uses vessels and aircraft in its operations. Vessels include buoy tenders, buoy boats, and lifeboats. This is general PP&E rather than Federal mission PP&E. The cost of PP&E used in providing general government services (e.g., law enforcement) is relevant for assessing operating performance on a period-by-period basis since PP&E is used routinely in providing these services. The Coast Guard's accomplishments are linked to the inputs available to it (e.g., PP&E) and associating the cost of inputs with accomplishments or outputs is useful for assessing operating performance.

ILLUSTRATION 1B:
SPACE EXPLORATION EQUIPMENT

204 The application of the Federal mission PP&E characteristics to NASA's space shuttles is illustrated in this section. Of the three characteristics related to the use of the PP&E, the shuttle only meets the third--that is, it was specifically developed for use in a program for which there is no other program or entity using similar PP&E with which to compare costs.

205 Of the characteristics related to useful life, the shuttle meets the first--that is, it has an indeterminate or unpredictable useful life. A shuttle was first flown in 1981. Since that first flight, the fleet has completed 68 missions. Several factors would influence estimates of shuttles' useful lives:

- following the Challenger accident, the fleet was grounded for 32 months with some predicting that another similar accident could end the shuttle program,
- current schedules call for seven flights in 1996 but the space station project would require more frequent space shuttle flights in the future, and
- the possible development of a replacement vehicle which may be available by 2010.

206 Given the uncertainties and variables in estimating a useful life, it would be difficult, and not very meaningful, to assign the shuttle's acquisition cost to the shuttle's output--for example, flights. In the event that charges are made to users, NASA may wish to develop depreciation information for internal use only in setting prices. However, there is no broad need for depreciation information related to use of the shuttle.

207 Another example of space exploration equipment involves equipment that is used once and never recovered. The spacecraft Magellan was launched by a space shuttle in

1989 and is expected to burn up in the atmosphere around Venus. During the flight to Venus, the Magellan's signal was lost and recovered five times. In addition, many technical problems endangered the mission. However, in 1990, the Magellan reached Venus and began transmitting data back to NASA. Research based on this data is expected to continue for years following the life of the spacecraft. In contrast, the Mars Observer space probe disappeared during its approach to Mars and never reappeared.

208 Given the uncertainties involved in space exploration and the timing of any benefits, it is not useful to capitalize and depreciate space exploration equipment.

ILLUSTRATION 1C:
LAW ENFORCEMENT EQUIPMENT

209 A respondent to the ED Accounting for Property, Plant, and Equipment, questioned whether vehicles used in law enforcement activities qualified as Federal mission PP&E. It was noted that vehicles used for law enforcement purposes may have an abbreviated life expectancy. In addition, these vehicles may be modified for law enforcement uses.

210 However, in applying the two types of characteristics to these items of PP&E, one finds that they do not exhibit one characteristic from each category. The characteristics are repeated below for convenience.

211 Characteristics related to the use of the Federal mission PP&E are that it:

- has no expected nongovernmental alternative uses; or
- is held for use in the event of emergency, war or natural disaster; or
- is specifically designed for use in a program for which there is no other

program or entity (Federal or non-Federal) using similar PP&E with which to compare costs.

212 Characteristics related to the useful life are that it:

- has an indeterminate or unpredictable useful life [SEE NOTE 81] due to the unusual manner in which it is used, improved, retired, modified, or maintained, and
- is at a very high risk of being destroyed during use or premature obsolescence.

213 Vehicles used in law enforcement programs do not exhibit any of the three characteristics in the first group since (1) the basic vehicle can be used by other entities in other activities, (2) it is used routinely in operations rather than being held in anticipation of use, and (3) other entities, primarily state and local governments, have law enforcement activities and use similar vehicles. With regard to the second group of characteristics, the useful life may be abbreviated due to the manner in which it is used but it should nevertheless be predictable based on past experience with similar use. While it is possible that the vehicles are at somewhat greater risk of being destroyed than other vehicles, it is a matter of judgment whether this qualifies as very high risk. Overall, it is apparent that these items do not possess one characteristic from each group and do not qualify as Federal mission PP&E.

ILLUSTRATION 2: HERITAGE ASSETS

214 Many assets are clearly heritage assets. For example, the National Park Service manages the Washington Monument, the Lincoln Memorial and the Mall. However, other assets, particularly Federal office buildings, have

historical, cultural or architectural significance as well as being used for general operations.

215 The Board has found that these multi-use heritage assets should still be categorized as heritage assets. Any costs to maintain the assets themselves should be treated as heritage assets. However, any costs that are operational in nature (e.g., reconfiguring of office space or modernized communications wiring) should be classified as general PP&E. Costs of these types of improvements or renovations would then be capitalized and depreciated--providing useful information for performance measurement.

216 For assets that are used solely for heritage purposes (e.g., the Washington Monument), the Board believes that the cost of operation, maintenance, and other periodic expenses combined with deferred maintenance disclosures, are sufficient to assess operating performance. Allocating the cost of heritage assets to accounting periods through depreciation would not enhance the information available for performance assessment.

217 Following are examples of general PP&E that exhibit characteristics of heritage assets.

ILLUSTRATION 2A:
MAJOR OFFICE BUILDING

218 A Federal agency constructed a central office building in 1950 to house its headquarters personnel. The building was subsequently placed on the historical registry but continued to serve as headquarters' office space.

219 Public tours are available and educational exhibits are provided in the hallways. However, public access is restricted to guided tours. The majority of floor space is devoted to offices, meeting rooms,

cafeterias, and storage.

220 The building is currently undergoing major renovations. The cost of these renovations should be capitalized and depreciated over their expected useful lives only to the extent that the work is tied to operations rather than to preserving the building. Additional information on the heritage nature of the asset would be provided through stewardship reporting.

ILLUSTRATION 2B:
NEW OFFICE BUILDING

221 A Federal facility previously used for industrial purposes (e.g., production of equipment parts) is being renovated and remodeled to serve as office space. The brick facade is being preserved because of its historic significance. Office space is being constructed inside of the brick facade.

222 The building can be viewed by visitors to the Federal facility, however, access to the office space will be restricted.

223 The original cost of the brick facade should not be included in the cost of the new office building. The cost of new construction should be capitalized and depreciated as part of general PP&E and none should be treated as a heritage asset. Additional information on the heritage nature of the existing brick facade, if material, would be provided through stewardship reporting.

ILLUSTRATION 2C:
LIBRARY OF CONGRESS

224 The Library of Congress is undergoing restoration and renovation. This includes:

- restoring artwork and architectural features,
- installing wiring for workstations, and
- building office space.

225 Expenditures for restoration of heritage aspects of the buildings should be treated as a period cost for heritage assets. However, expenditures for operational aspects of the renovation should be categorized as general PP&E. Additional information on the heritage nature of the asset would be provided through stewardship reporting.

ILLUSTRATION 3:
LAND

226 The proposed standard provides that land acquired for or in connection with other general PP&E be included in that category. For example, the cost of land on which facilities are located would be included in general PP&E. Other land would be subject to stewardship reporting.

227 The following illustrations cover two potential issues associated with land. First, identifying land associated with general PP&E. Second, identifying land improvements as general PP&E or PP&E subject to stewardship reporting.

ILLUSTRATION 3A:
MILITARY USES OF LAND

228 In general, land used for military bases would be considered general PP&E. However, in some cases, land is used by the military as a site for missile silos, testing grounds or firing ranges. Land used for these purposes meets the definition of stewardship land. The Board believes that period-by-period cost information related to holding land for defense purposes is not relevant to assessing operating performance.

ILLUSTRATION 3B:
ROADS ON PUBLIC LANDS

229 Public lands have various types of roads to provide access. These types include:

- rough dirt roads created from years of use,
- dirt roads created by non-Federal land users (e.g., oil & gas exploration crews) and then abandoned, and
- roads created by Federal entities to provide access (e.g., gravel & paved roads).

230 Some of these roads are maintained while others merely exist until natural conditions overtake them.

231 Under private sector accounting, permanent improvements to land are included in the cost of land on the balance sheet. Typically, the cost of clearing and establishing the road bed is considered a permanent improvement because, with routine maintenance, it will remain indefinitely. Any pavement or gravel that must be replaced periodically would be considered depreciable PP&E. For a Federal entity, if the road could be categorized as general PP&E this practice would be appropriate since the period-by-period cost of assets is relevant for assessing operating performance.

232 For land subject to stewardship reporting, the cost of establishing the roadbed would be expensed in the year incurred since the land improved by the roadbed is not capitalized on the balance sheet. On the other hand, the paved and gravel roads are general PP&E because they are operational and the period-by-period cost is essential for assessing operating performance. The cost of pavement or gravel would be capitalized and depreciated. Decisions about the quality of the road conditions (e.g., how often roads are repaved) are an element of operating performance and of the cost of providing government services.

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APPENDIX C -- DEFERRED MAINTENANCE ILLUSTRATION

233 This appendix illustrates the footnote disclosures in paragraphs 77-83. The example shown here is for illustrative purposes only. Different entities may developed different asset categories, condition codes and descriptive terminology. The Board intends that this standard provide flexibility while providing relevant information on the condition of Federal assets. The following illustration presents text from a footnote meeting the requirements of the standard.

XYZ Hospital Facility

Note 4. Deferred Maintenance

XYZ operates a hospital facility at one of its remote sites. During the period maintenance expense is recognized as incurred. However, maintenance was insufficient over the past several years and resulted in deferred maintenance.

Information on deferred maintenance is based on an annual inspection of facilities. Standards are provided for evaluating facility condition. These standards include:

- minimum and desirable condition descriptions for facilities
- suggested maintenance schedules
- standard costs for maintenance actions
- standardized condition codes

There have not been material changes in the standards in recent years.

The following chart presents information on deferred maintenance on major categories of PP&E experiencing material amounts of deferred maintenance:

[SEE PRINTED COPY FOR TABLE 1]

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APPENDIX D -- CLEANUP COST ILLUSTRATIONS

234 This appendix illustrates one method of complying with the standards proposed for cleanup costs. The examples shown in this appendix are for illustrative purposes only. There are many types of cleanup that may be accounted for under this proposed standard (e.g., nuclear facilities, landfills, or laboratories). Applying this proposed standard may require consideration of estimated cost components other than those shown here.

235 The computations are based on a formula allocating the estimated total cleanup costs (i.e., the total amount to be spent in the future to accomplish cleanup) to accounting periods. In identifying the amount to be expensed for the period, the formula considers the cumulative amounts:

- of capacity used at the end of the accounting period; and
- recognized as expense in prior accounting periods.

236 The components of the formula are defined below:

a = total cleanup cost estimated as of end of period
b = cumulative capacity used at end of period [SEE NOTE 82]
c = total estimated capacity [SEE NOTE 83]
d = amount previously recognized as expense-beginning of period
e = cleanup expense recognized in the current period

237 To calculate the appropriate expense amount, the following formula is used:

$$(a \text{ X } b/c) - d = e$$

238 Simply put, the end of period estimated total cleanup cost (a) is multiplied by the percentage of capacity used up at the end of that period (b/c) to arrive at the portion of cleanup cost that has been generated by operations through the end of the period. Theoretically, that amount of expense has been incurred and should be recognized. Amounts recognized as expense in prior periods (d) should be deducted to arrive at the current period expense amount (e). If this is the first period, the deduction for expense recognized in prior periods (d) is zero.

ILLUSTRATION 1:
HAZARDOUS WASTE DISPOSAL SITE

Operating Assumptions

239 The hazardous waste disposal site will begin accepting waste in 1995. The following assumptions apply:

- the site capacity is 100,000 cubic yards of waste
- it is estimated that the site will accept waste for ten years at an average rate of 10,000 cubic yards per year
- after the site is closed the following cleanup efforts are required by state, local and Federal laws:
  * site closure & sealing
  * thirty year monitoring
  * remediation
- 1995 cost estimates are based on current cost for 1995
- 1996 cost estimates are based on 1996 costs adjusted for inflation at a rate of 1.0%
- 1997 cost estimates are based on current costs for 1997 and include new technology and changes in monitoring requirements

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS

FOR 1995 (Dollars in thousands)

Estimated Total Cleanup Cost [SEE NOTE 84] based on Current Cost in 1995

1. Site Closure and Sealing Cost:	
Facilities for monitoring operations	$ 100
Sealing site	750
Erosion and control facilities	500
2. Monitoring Cost (for a period of 30 years):	
Inspection	3,000
Sampling & Testing	2,250
Maintenance of facilities	300
3. Remediation Cost:	
Projected remediation based on statistical studies	500
TOTAL ESTIMATED CLEANUP COST	$7,400

Calculation of Annual Expense and Accrued Liability Amounts

This proposed standard would require that a portion of the estimated total cleanup costs be recognized as an expense and as a liability each period that the site operates. During 1995, the site accepts 15,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

(a x b/c) - d = e
($7,400 x 15,000/100,000) - 0 = e
$7,400 x .15 = e
$1,110 = e

where:
a = total cleanup cost estimated as of end of period
b = cumulative capacity used at end of period [SEE NOTE 85]
c = total estimated capacity [SEE NOTE 86]
d = amount previously recognized as expense-beginning of period
e = cleanup expense recognized in the current

period

The following journal entry would be required:

Dr. Cleanup expense $1,110
Cr. Cleanup liability $1,110

To recognize estimated cleanup costs.

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS FOR 1996 (Dollars in thousands)

Estimated Total Cleanup Cost based on Current Cost in 1996

1. Site Closure and Sealing Cost:		
Facilities for monitoring operations	$ 101	
Sealing site	758	
Erosion and control facilities	505	
2. Monitoring Cost (for a period of 30 years):		
Inspection	3,030	
Sampling & Testing	2,273	
Maintenance of facilities	303	
3. Remediation Cost:		
Projected remediation based on statistical studies	505	
TOTAL ESTIMATED CLEANUP COST		$7,475

Calculation of Annual Expense and Accrued Liability Amounts

During 1996, the estimated total cleanup costs were adjusted for inflation of 1.0% and site accepted 10,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

(a x b/c) - d = e
($7,475 x 25,000/100,000) - $1,110 = e
$7,475 x .25 - $1,110 = e
$759 = e

where:
a = total cleanup cost estimated as of end of period
b = cumulative capacity used at end of period [SEE NOTE 87]
c = total estimated capacity [SEE NOTE 88]
d = amount previously recognized as expense-beginning of period
e = cleanup expense recognized in the current period

The following journal entry would be required:

Dr. Cleanup expense $759
Cr. Cleanup liability $759

To recognize estimated cleanup costs.

In addition, the proposed standard would require that any material changes in the estimate due to changes in laws, technology, or cleanup plans be disclosed. However, there is no indication that material changes occurred.

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS FOR 1997 (Dollars in thousands)

Estimated Total Cleanup Cost Based on Current Cost in 1997

1. Site Closure and Sealing Cost:		
Facilities for monitoring operations	$ 115	
Sealing site	740	
Erosion and control facilities	500	
2. Monitoring Cost (for 30 years):		
Inspection	2,250	
Sampling & Testing	1,300	
Maintenance of facilities	300	
3. Remediation Cost:		
Projected remediation based on statistical studies	400	
TOTAL ESTIMATED CLEANUP COST		$5,605

Calculation of Annual Expense and Accrued Liability Amounts

During 1997, a new estimate of total cleanup costs was prepared and the site accepted 10,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

(a X b/c) - d =e
($5,605 x 35,000/100,000) - ($1,110 + 759)
$5,605 x .35 - $1,869 = e
$1,962 - $1,869 = e
$ 93 = e

where:
a = total cleanup cost estimated as of end of period
b = cumulative capacity used at end of period [SEE NOTE 89]
c = total estimated capacity [SEE NOTE 90]
d = amount previously recognized as expense-beginning of period
e = cleanup expense recognized in the current period

The following journal entry would be required:

Dr. Cleanup expense	$93	
Cr. Cleanup liability		$93

To recognize estimated cleanup costs.

In addition, the proposed standard would require that material changes in estimated cleanup costs be disclosed and that amounts attributable to prior period operations be disclosed. One means of calculating this amount is to segregate the amount recognized as cleanup expense for the current period between "changes in estimated cleanup cost from prior periods" and "current period cleanup cost." These two amounts would be disclosed.

Changes in estimated cleanup costs from prior periods are:

f = (a X b1/c) - d
f = ($5,605 x 25,000/100,000) - ($1,110 + 759)
f = $5,605 x .25 - $1,869
f = $1,401 - $1,869
f = $(468)

where:
a = total cleanup cost estimated as of end of period
b1 = cumulative capacity used at beginning of period [SEE NOTE 91]
c = total estimated capacity [SEE NOTE 92]
d = amount previously recognized as expense at beginning of period
f = changes in estimated cleanup cost from prior periods

Current period cleanup costs are:

g = e - f
g = $ 93 - $(468)
g = $ 561

where:
e = cleanup cost recognized in the current period
f = changes in estimated cleanup cost from prior periods
g = current period cleanup costs

SUMMARY:

FINANCIAL STMT.	1995	1996	1997
Operating expense	$1,110	$ 759	$ 93
Liability	$1,110	$1,869	$1,962

ILLUSTRATION 2:
NUCLEAR FACILITY QUALIFYING
AS GENERAL PP&E

Operating Assumptions

240 A nuclear facility was placed in operation in 1981. No recognition of cleanup cost was made under past accounting policy. At the end of 1995, the entity adopts the accounting policies presented in this proposed standard.

The following assumptions apply:

the entity has an expected useful life of thirty years

after the site is closed the following cleanup efforts are required by state, local and Federal laws:

- site closure & sealing
- thirty year monitoring
- remediation

1995 cost estimates are based on current cost for 1995

RECOGNITION OF LIABILITY AMOUNTS FOR 1995
(Dollars in thousands)

Estimated Total Cleanup Cost Based on Current Cost in 1995

1. Site Closure and Sealing Cost:	
Facilities for monitoring operations	$1,000
Sealing site	3,000
2. Monitoring Cost (for 30 years:	
Inspection	6,000
Sampling & Testing	3,000
Maintenance of facilities	600
3. Remediation Cost:	
Projected remediation based on statistical studies	2,000
TOTAL ESTIMATED CLEANUP COST	$15,600

Calculation of Liability Amount To be Recognized Upon Implementation

At the end of 1995, the estimated total cleanup costs was $15,600,000. The following calculations show the amounts that should have been recognized as of the end of 1995 if the proposed standard had been in effect since the facility began operating on October 1, 1980:

(a X b/c) - d = l
($15,600 x 15/30) - $0 = l
$15,600 x .5 - $0 = l
$7,800 = l

where:
a = total cleanup cost estimated as of end of period
b = number of years of operation
c = estimated useful life
d = amount previously recognized as expense-beginning of period
l = liability to be recognized at the end of 1995

Dr. Net Position $7,800
Cr. Cleanup liability
$7,800

To recognize estimated cleanup liability.

No expense is recognized in the year of implementation.

SUMMARY:

FINANCIAL STMT. 1995

Prior Period Adjustment $7,800
Liability $7,800

****

APPENDIX E -- GLOSSARY

Assets - Tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by a Federal Government entity.

Book value - The net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of an asset or liability minus an allowance or valuation amount.)

Business type activity - Significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue (See FASAB Exposure Draft, Statement of Recommended Accounting Standards, Revenue and Other Financing Sources).

Capital leases - Leases that transfer substantially all the benefits and risks of ownership to the lessee.

Capitalize - To record and carry forward into one or more future periods any expenditure the benefits or process from which will then be realized. (Kohler's Dictionary for Accountants)

Cleanup costs - The costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.

Condition assessment surveys - Periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies.

Cost object (also referred to as cost objective) - An activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, a function, task, product, service, or a customer.

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

Depreciation accounting - The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

Direct Cost - The cost of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities. A cost that is specifically identified with a single cost objective.

Disclosure - Reporting information in notes regarded as an integral part of the basic financial statements.

Discount rate - The interest rate used to adjust for the time value of money. (SFAS #87)

Donated capital - The amount of nonreciprocal transfers of assets or services from State, local, and foreign governments; individuals; or others not considered parties related to the Government. (Project on Standardization of Basic Financial Information Requirements of Central Agencies, JFMIP, October 1991)

Economic life - The period during which a fixed asset is capable of yielding services of value to its owner. (See "useful life".)

Expense - Outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period. (Adapted from Kohler's Dictionary and FASB Concepts Statement No. 6)

Executory cost - Those costs such as insurance, maintenance, and taxes incurred for leased property, whether paid by the lessor or lessee. (FASB, SFAS #13)

Good - A tangible product produced to provide to a customer.

Hazardous waste - A solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

Historical cost - Initially, the amount of cash (or its equivalent) paid to acquire an asset; subsequent to acquisition, the historical amount may be adjusted for amortization. (Kohler's Dictionary for Accountants)

Indirect cost - A cost that cannot be identified specifically with or traced to a given cost object in an economically feasible way.

Interest - The service charge for the use of money or capital, paid at agreed intervals by the user, commonly expressed as an annual percentage of outstanding principal. (Kohler's Dictionary for Accountants)

Liability - For Federal accounting purposes, a probable future outflow or other sacrifice of resources as a result of past transactions or events.

Life-cycle costing - An acquisition or procurement technique which considers operating, maintenance, and other costs in addition to the acquisition cost of assets.

Maintenance - The act of keeping fixed assets in useable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

Market value - The estimated amount that can be realized by disposing of an item through arm's length transactions in the marketplace; the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time.

Measurable - Can be determined with reasonable certainty or is reasonably estimable.

Operating lease - An agreement conveying the right to use property for a limited time in exchange for periodic rental payments. (Adapted from Financial Accounting: Principles and Issues, 4th Edition, Michael H. Granof and Philip W. Bell, p. 416.)

Opportunity Cost - The value of the alternatives foregone by adopting a particular strategy or employing resources in a specific manner. Also called Alternative Cost or Economic Cost.

Outputs - Any product or service generated from the consumption of resources. It can include information or paper work generated by the completion of tasks of an activity.

Output measure - A tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. It shall have two key characteristics: 1) it shall be systematically or periodically captured through accounting or management information system, and 2) there shall be a logical connection between the reported measures and the program's purpose.

Probable - That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven.

Product - Any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources.

Recognize - To record an amount in entity accounts and to report that amount in the entity financial statements either individually or in aggregate with other amounts.

Service - An intangible product or task rendered directly to a customer.

Useful Life - The normal operating life in terms of utility to the owner.

Weapon System - A combination of one or more weapons with all related equipment, materials, services, personnel and means of delivery and deployment required for self-sufficiency.

Write-off - An action to remove an amount from an entity's assets or financial resources.

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ENDNOTES

NOTE

1 Department of the Treasury, Financial Management Service, Consolidated Financial Statements of the United States Government,

prototype 1993, p. 23. The prototype statements provide gross historical cost investment amounts for all PP&E recorded by government entities. These amounts have not been audited.

NOTE
2 Land acquired for or in connection with general PP&E would be included in that category. Land not associated with general PP&E would be subject to supplementary stewardship reporting and is referred to throughout this document as stewardship land.

NOTE
3 Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in the Board's exposure draft on Revenue and Other Financing Sources.

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

NOTE
5 "Balance sheet" refers to the statement that reports on assets, liabilities, and net position of the entity at the end of the reporting period. This statement is referred to in OMB Bulletin 94-01, Form and Content of Agency Financial Statements, as the Statement of Financial Position.

NOTE
6 "Statement of Net Cost" refers to the statement providing information on the entity's flows of exchange revenues, expenses, gains, and losses. The Board presented this new statement in its Statement

of Recommended Accounting Concepts No. 2, Entity and Display. In addition, the Board has exposed for comment a standard for reporting net costs and has provided an illustrative statement which might give effect to this standard in the ED on Revenue and Other Financing Sources, July, 1995.

NOTE
7 "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.

NOTE
8 "Depreciation" is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

NOTE
9 "Internally-developed software" means software developed by personnel employed by the reporting entity. This includes modifications made by entity personnel to purchased or contractor-developed software. Standards for internally-developed software are not to be applied to purchased or contractor developed software. The Board recognizes that contractor-developed software is conceptually similar to internally-developed software and that standards for each should be similar. The Board intends to address the inconsistent treatment of these items at a later date.

NOTE
10 "Disclosure" refers to reporting information in notes regarded as an integral part of the basic financial statements.

NOTE
11 The term "federal mission" refers to

activities that are typically Federal--such as national defense. In addition, Federal mission PP&E is limited to PP&E that would not typically be used by non-Federal entities. Clearly, any functions performed by a "Federal" entity could be labeled "Federal mission." The definition of this category clarifies the characteristics of PP&E appropriately includable in this category--a much narrower group than inferred by the category's title.

NOTE
12 This may be evidenced by the ability (1) to retire the PP&E and later return it to service or (2) to continually upgrade the PP&E to maintain its usefulness.

NOTE
13 FASAB's Statement of Recommended Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, recommends the following definition for liability: a probable future outflow or other sacrifice of resources as a result of past transactions or events. The standards require recognition, in general purpose Federal financial reports, of probable and measurable liabilities arising from past exchange transactions; government-related injuries or damage; or non-exchange amounts that, according to current law and applicable policy, are due and payable to the ultimate recipient. The standards also provide guidance for disclosures related to liabilities that are not both probable and measurable at the balance sheet date.

NOTE
14 The term "probable" means that which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven. For example, cleanup costs would be probable if (1) laws and regulations that have been approved as of the balance sheet date, regardless of the

effective date of those laws and regulations, require cleanup or (2) compliance agreements (e.g., agreements with state or local authorities relating to the extent and the timing of remedial action) had been entered into by a Federal entity.

NOTE
15 Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:

a. the costs of providing specific programs and activities and the composition of, and changes in, these costs.

b. the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs.

c. the efficiency and effectiveness of the government's management of its assets and liabilities.

NOTE
16 Federal financial reporting should assist users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine:

a. whether the government's financial position improved or deteriorated over the period.

b. whether the future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

c. whether government operations have contributed to the nation's current and future well-being.

NOTE
17 Useful life is the normal operating life in terms of utility to the owner. (adapted from Kohler's Dictionary for Accountants)

NOTE
18 "Land rights" are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

NOTE
19 Accounting for operating materials and supplies is addressed in Statement of Federal FInancial Accounting Standards No. 3 Accounting for Inventory and Related Property.

NOTE
20 The Federal Government sometimes retains an interest in PP&E acquired with grant money. In the event that the grant recipient no longer uses the PP&E in the activity for which the grant was originally provided the PP&E reverts to the Federal Government.

NOTE
21 Note that the criteria for identifying capital leases for financial reporting purposes differ from OMB criteria for budget scoring of leases. OMB Circular No. A-11, Preparation and Submission of Budget Estimates, includes criteria for identifying operating leases in Appendix B. OMB provides four additional criteria which relate to the level of private sector risk involved in a lease-purchase agreement. This is necessary because, for budget purposes, there is a distinction between lease-purchases with more or less risk. This distinction is not made in the financial reports and, therefore, FASAB does not include the four criteria related to

risk levels.

NOTE
22 "Operating leases" of PP&E are leases in which the Federal entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.

NOTE
23 "Estimated economic life of leased property" is the estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

NOTE
24 "Fair value" is the price for which an asset could be bought or sold in an arm's-length transaction between unrelated parties (e.g., between a willing buyer and a willing seller). (adapted from Kohler's Dictionary for Accountants)

NOTE
25 "Base unit" refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. The term "base unit" may be used by others to have a different meaning--the meaning intended in this standard is limited to that specified above.

NOTE
26 The concept described here is intended for PP&E categorization purposes only. However, for the purpose of record keeping, greater detail may be necessary to maintain accountability for PP&E so that assets can be safeguarded against loss, theft, misappropriation, etc. Categorizing PP&E with

less detail considered does not necessarily mean that (1) accounting systems or (2) property records must follow the same level of detail.

NOTE
27 Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in the Board's exposure draft on Revenue and Other Financing Sources.

NOTE
28 The Board is not making a recommendation that cost comparisons actually be made. Nor is it suggesting that costs can be easily compared for a Federal and non-Federal entity. If the activities are somewhat comparable then one should presume that a cost comparison could be made.

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

NOTE
30 "Interest costs" refers to any interest paid by the reporting entity directly to providers of goods or services related to the acquisition or construction of PP&E.

NOTE
31 "Internally-developed" means that employees of the entity are actively involved in developing the software. This is distinguished from contractor developed software and purchased software which are subject to the provisions of the PP&E standard.

NOTE
32 Currently, the US Standard General Ledger includes an account titled Automated Data Processing Software, number 1830, which is not part of the PP&E account series. These standards do not require that software be accounted for as a component of the PP&E accounts. It is permissible to maintain a separate account for software and the accumulated amortization on software.

NOTE
33 In this case, users may be internal or external to the entity.

NOTE
34 Technological feasibility has been established when the entity has completed all planning, designing, coding, and testing activities that are necessary to establish that the software can meet its design specifications.

NOTE
35 See Statement of Recommended Accounting Standards No. 5, Accounting for Liabilities of the Federal Government.

NOTE
36 A will or clause of a will disposing of property.

NOTE
37 This paragraph applies only to exchanges between a Federal entity and a non-Federal entity. Exchanges between Federal entities shall be accounted for as transfers (See paragraph 31).

NOTE
38 If the entity enters into an exchange in which the fair value of the PP&E acquired is less than that of the PP&E surrendered, the PP&E acquired shall be recognized at its cost as described in paragraph 32 and subsequently reduced to its fair value. A loss shall be

recognized in an amount equal to the difference between the cost of the PP&E acquired and its fair value..

NOTE
39 SFFAS 3 requires that forfeited real and personal property be valued at market value less an allowance for any liens or claims from a third party.

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.

NOTE
41 Software and land rights, while associated with tangible assets, may be classified as intangible assets by some entities. In this event, they would be subject to amortization rather than depreciation. "Amortization" is applied to intangible assets in the same manner that depreciation is applied to general PP&E--tangible assets.

NOTE
42 Land rights that are for a specified period of time shall be depreciated or amortized over that time period.

NOTE
43 A contra asset account is an account which partially or wholly offsets an asset account. On financial statements they may be either merged or appear together.

NOTE
44 For example, amounts realized may include cash received for scrap materials or fair

value of items received in exchange for PP&E removed from service.

NOTE
45 Net remaining cost is the original cost of the asset less any accumulated depreciation/amortization to date.

NOTE
46 "Major classes" of general PP&E shall be determined by the entity. Examples of major classes include buildings and structures, furniture and fixtures, equipment, vehicles, and land.

NOTE
47 The name "Federal Mission PP&E" may cause readers to erroneously assume that this category should include any PP&E supporting a Federal mission. Federal mission PP&E is limited to those items specifically identified herein as well as any other items exhibiting at least one characteristic from each of the two groups listed.

NOTE
48 This may be evidenced by the ability (1) to retire the PP&E and later return it to service or (2) to continually upgrade the PP&E to maintain its usefulness.

NOTE
49 Weapons are instruments of combat used to destroy, injure, defeat or threaten an enemy. (adapted from Dictionary of Weapons and Military Terms)

NOTE
50 Joint Chiefs of Staff, Department of Defense Dictionary of Military and Associated Terms, Joint Publication 1-02, March 23, 1994.

NOTE
51 Disclosure shall be either on the face of the statement of net cost or in footnotes depending on the materiality of the amounts

and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity.

NOTE
52 Disclosure shall be either on the face of the statement of net cost or in footnotes depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity.

NOTE
53 A will or clause of a will disposing of property.

NOTE
54 Theoretically, the amount of donated heritage assets should be included in the statement of net cost. However, the cost of providing this information is not warranted since heritage assets are more difficult to value than items that would typically be included in general PP&E.

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

NOTE
56 Disclosure shall be either on the face of the statement of net cost or in footnotes depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity.

NOTE
57 A will or clause of a will disposing of property.

NOTE
58 Acceptable services and condition may vary both between entities and among sites within the same entity. Management shall determine what level of service and condition is acceptable.

NOTE
59 This requirement applies to all four categories of PP&E.

NOTE
60 If management determines that there are no material amounts of deferred maintenance, this line item need not appear.

NOTE
61 Other methods may be used which are similar or identical to condition assessment survey or life-cycle costing. These methods would also be acceptable sources of information on deferred maintenance.

NOTE
62 Management shall determine what methods and standards to apply. Once determined, it is desirable but not required that methods and standards be applied consistently from period to period.

NOTE
63 "Major classes" of general PP&E shall be determined by the entity. Examples of major class include, among others, buildings and structures, furniture and fixtures, equipment, vehicles, and land.

NOTE
64 Examples of condition information include, among others, (1) averages of standardized condition rating codes, (2) percentage of assets above, at or below acceptable condition, or (3) narrative information.

NOTE
65 Adjustments may be necessary because the cost

of maintenance foregone may not be cumulative. For example, if periodic painting is skipped twice it is not necessarily true that the cost would be double the scheduled amount.

NOTE
66 Accounting for environmental liabilities such as cleanup costs is currently undergoing change--due to both improved measurement techniques and increased attention from the accounting community. The Board will monitor these changes and revisit these standards as needed.

NOTE
67 Probable means that the future confirming event or events is more likely than not to occur.

NOTE
68 The unit of analysis for estimating liabilities can vary based on the reporting entity and the nature of the transaction or event. The liability recognized may be the estimation of an individual transaction or event; or a group of transactions and events. For example, an estimate of the cleanup costs could be made on a facility by facility basis, or an entity by entity basis.

NOTE
69 Cleanup may be deferred for other reasons, such as availability of resources. However, this type of deferral does not affect the recognition of the liability.

NOTE
70 Laws and regulations approved as of the balance sheet date, regardless of the effective date of those laws and regulations, shall be considered.

NOTE
71 Note that land acquired for or in connection with general PP&E would be included in that

category. All other land would be subject to stewardship reporting and is referred to throughout this document as stewardship land.

NOTE
72 The term "stewardship PP&E" is used to refer collectively to federal mission PP&E, heritage assets, and stewardship land.

NOTE
73 Objectives, paragraph 54.

NOTE
74 This may be evidenced by the ability (1) to retire the PP&E and later return it to service, or (2) to continually upgrade the PP&E to maintain its usefulness. In addition, PP&E that is held for "one-time" use, such as a warhead, has an indeterminate life.

NOTE
75 Internally-developed software may be a component of general PP&E or stewardship PP&E.

NOTE
76 In fact, the majority of private-sector entities do not capitalize the cost of internally-developed software. The Financial Accounting Standards Board has not developed guidance on this issue.

NOTE
77 FASAB Exposure Draft, Accounting for Property, Plant, and Equipment, February 28, 1995, page 19, paragraph 71, Item IC.

NOTE
78 U.S. Advisory Commission on Intergovernmental Relations, High Performance Public Works: A New Federal Infrastructure Investment Strategy for America, November 1993.

NOTE
79 These agencies are the Department of Energy, the Department of the Navy, and the National

Aeronautics and Space Administration.

NOTE
80 FASAB, Recommended Accounting Standard No. 5, Accounting for Liabilities, September 1995.

NOTE
81 This may be evidenced by the ability (1) to retire the PP&E and later return it to service or (2) to continually upgrade the PP&E to maintain its usefulness.

NOTE
82 If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

NOTE
83 If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

NOTE
84 This estimate includes any costs of any cleanup efforts required during the thirty year cleanup period. While these activities will not occur until the associated PP&E is closed, the costs are estimated at the current cost to conduct similar efforts.

NOTE
85 If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

NOTE
86 If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

NOTE
87 If recognition of the costs is based on the

passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

NOTE

88 If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

NOTE

89 If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

NOTE

90 If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

NOTE

91 If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

NOTE

92 If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.