

# **Department of Veterans Affairs**

# **Financial Policy**

**Volume V** 

**Assets** 

Chapter 9

General Property, Plant, and Equipment

Questions concerning this policy chapter should be directed to:

VHA VHA Financial Policy (Outlook)
VBA VAVBAWAS/CO/FINREP (Outlook)
NCA NCA Financial Policy Group (Outlook)

CFM VACO003CWEB (Outlook)

All Others OFP Accounting Policy (Outlook)

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#### 0901 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies regarding general property, plant, and equipment (PP&E). This chapter will cover capitalization, work in process, depreciation, disposition of PP&E, proceeds from PP&E, deferred maintenance, impairment, land, and other topics related to PP&E.

Key points covered in this chapter:

- VA will record all PP&E at cost;
- VA will capitalize PP&E that meets capitalization criteria;
- VA will record depreciation expense on PP&E in accumulated depreciation;
- VA will evaluate deferred maintenance and repairs expense annually;
- VA will evaluate impairment and report impairment in its financial statements; and
- VA will report land in the Agency Financial Report in accordance with current guidance.

## 0902 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed full review	OFP (047G)	Reorganized chapter layout	April 2023
090501 General Policies	Quarterly PP&E data cleansing efforts	OFP (047G)	PP&E NFR's 22-4a 22-4b	April 2023
090503 Capitalization	Personal property timing/recognition criteria updated to closely align with SFFAS 6	OFP (047G)	Ensure consistent VA- wide timing for personal property recognition	April 2023
090511 Land	Land & Permanent Land Rights reporting as part of Required Supplementary Information while in SFFAS 59 implementation window	OFP (047G)	Ensure consistent accounting treatment and reporting for federal land	April 2023
Appendix E	iFAMS Procedures to Transfer PP&E within VA	OFP (047G)	VA entity migration to iFAMS platform	April 2023

## Department of Veterans Affairs General Property, Plant, and Equipment

Section	Revision	Office	Reason for Change	Effective Date
Appendix H: Capitalization Memo for Real Property	Updated to the current VHA Capitalization Memo for Real Property	VHA	Reflect current capitalization memo	July 2022
090202 E	Added clarification on capitalization of Construction WIP	VHA	Update request	April 2020
090206	Added that depreciation will be automatically calculated in iFAMS.	OFP (047G)	Update request	June 2020
Appendix H: Capitalization Memo for Real Property	Updated to the current VHA Capitalization Memo for Real Property	VHA	Reflect current capitalization memo	April 2020
Various	Changed timeline to record assets to within 90 days of being placed in service.	OFP (047G)	Update request	April 2020
Various	Updated VA Financial Policy references to current volume / chapter numbers and titles	OFP (047G)	Update request	December 2019
0906 Definitions	Revised definitions for major construction, major medical facility construction, and minor construction to be consistent with 38 U.S.C. § 8104, Congressional approval of certain medical facility acquisitions	OFP (047G)	Consistency among aligned policy definitions	December 2019
Appendix G: NCA Capitalization Form	The NCA Capitalization Form Excel spreadsheet and screenshots were updated to reflect the current form.	OFP (047G)	Reflect current capitalization memo	December 2019
090201.02	Added clarity to site preparation costs.	OFP (047G)	Update request	May 2017
090201.03	Added information pertaining to the requirement that stations must use Equipment Lease Management Service (ELMS).	OFP (047G)	Update request	May 2017

Section	Revision	Office	Reason for Change	Effective Date
090210B	Added information stating VA will rely on guidance established in SFFAS 50 to identify opening balances for general property, plant, and equipment.	OFP (047G)	Update request	May 2017
090502 B, 090503 A, 090503 C	Added logistics and contracting collaboration with engineering and finance activity staff in accordance with Notice of Finding and Recommendation (NFR) Veterans Health Administration (VHA) 16-1 Property, Plant, and Equipment.	APS (047G A)	Response to PP&E NFR	February 2017

#### 0903 Definitions

**Accumulated Depreciation** – The total amount of depreciation recorded since the purchase of an asset.

**Amortization** – Expensing the acquisition cost minus the residual value of intangible assets systematically over their estimated useful economic lives to reflect their consumption, expiration, obsolescence, or other decline in value as a result of use or the passage of time.

**Assets** – Tangible or intangible items owned by the Federal government which have probable economic benefits obtained or controlled by a Federal government entity.

**Buildings** – Permanent or temporary structures enclosed within exterior walls and a roof, including all attached apparatus, equipment, and fixtures that cannot be removed without cutting into ceiling, floors, or walls.

**Capitalize** – To record an expenditure or contribution which may benefit a future period as an asset rather than to treat the expenditure as an expense of the period in which it occurs.

**Clean-up Costs** – Costs associated with removing, containing, and/or disposing of hazardous waste from property, or material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.

**Component** – A smaller, individual part of a larger asset, system, or entity. While a component may be self-contained, it may or may not be able to stand on its own. For example, an extension arm purchased for a Magnetic Resonance Imaging (MRI) unit may be a self-contained unit, but it does not stand on its own in usefulness. It has no use unless it is part of the larger system.

**Deferred Maintenance and Repairs** – Maintenance and repairs not performed when they should have been and were delayed for a future period. The consequences of not performing regular maintenance and repairs may include increased safety hazards, poor service to the public, higher costs in the future and inefficient operations.

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

**Depreciation Expense** – The portion of an asset's depreciation cost is transferred to an expense account in each fiscal period during the asset's useful life.

**Disposition** – When assets of an entity are removed either by sale, trade, or discard.

**Expense** – Outflows or other using up of assets and/or incurrence of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to VA's programs and missions, in which the benefits do not extend beyond the present operating period.

**Facility Condition Assessment (FCA)** – Include correction estimates for VA-owned land and buildings. Land and buildings, including major systems, found to be in poor condition, critical condition, or at the end of its useful life cycle is identified in the FCA reporting process. Correction costs do not include those major systems which are rated in fair or better condition.

**Fair Market Value (FMV)** – An estimated value, based on a comparison with identical or similar past, actual, or expected assets/goods or services, of what a willing buyer would pay a willing seller for assets/goods or services.

**Fair Value** – A value or price as determined by a bona fide bargain between well-informed buyers and sellers, usually over a period; for which a PP&E item can be bought or sold in an arm's length transaction between unrelated parties; a sale between a willing buyer and a willing seller, other than in a forced or liquidation sale; or an estimate or appraisal in the absence of sales or quotations.

**General Property, Plant, and Equipment** – Tangible assets which have an estimated useful life of two or more years, are not intended for sale in the ordinary course of operations and are intended to be used or available for use by the entity. PP&E includes land and land rights owned by the Federal Government acquired for or in connection with items of PP&E.

**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.

**Heritage Assets** – Property, plant, and equipment unique for one or more of the following reasons: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics.

**Historical Cost** – Initially, the amount of cash (or its equivalent) paid to acquire an asset; after acquisition, the historical amount may be adjusted for amortization.

**Improvement** – An enhancement, renovation, expansion, or reconstruction of an existing asset to improve operating performance which may or may not increase the useful life of the associated asset. Also used as a synonym for betterment. An improvement is distinguished from maintenance and repair, which merely keep an asset in an efficient operating state without expected added future benefits.

**Internal Use Software** – Software that may be commercial off-the-shelf software, internally developed software with/without a contractor's assistance, or contractor-developed software. Software includes the application and operating systems, programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. See Volume V, Chapter 13 – Accounting for Internal Use Software.

**Land** – Real estate exclusive of any buildings or other assets situated on the property. The owner may be awarded the right to use all natural resources on and under the land, which may include water rights, fishing rights, mining rights, and so forth.

Land Developments – A permanent change to the land or other related cost associated to the land. Land developments are costs such as clearing, leveling, land surveys, titles, etc. that are included in the total cost for land. Land development costs that are attributed to constructing a building or other structure are generally applied to the cost of that asset. Land development costs are not recorded as a separate asset.

**Land Improvements** – A limited-life alteration, modification, or improvement that enhances the land, but loses value over time. Examples include but are not limited to fencing, paving, gravel for roadbeds, culverts, sidewalks, heated pavement, retaining walls, landscaping, lawn sprinkler systems, and underground utilities (e.g., sewer systems, water lines).

**Maintenance and Repairs** – Activities directed toward maintaining an asset in a useable, acceptable, and original condition. Activities include preventive maintenance;

normal repairs; replacement of parts, systems, or components; and other activities needed to preserve the asset to continue providing acceptable services and achieving its expected life. Maintenance and repairs, as distinguished from capital improvements, excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

**Major Construction Projects** – A construction, alteration, extension or improvement of any VA facility, including planning, architectural and engineering services, construction management services, maintenance or guarantee period services costs associated with equipment guarantees provided under the project, services of claims analysts, offsite utility and storm drainage system construction costs and site acquisition, where the estimated cost of the project is greater than the threshold established by law. See Volume II, Chapter 2i – Major Construction Working Reserves for further information.

**Major Medical Facility Construction Projects** – A project for the construction, alteration, or acquisition of a medical facility involving a total expenditure greater than the threshold established by law, but such term does not include an exchange acquisition. See Volume II, Chapter 2I – Major Construction Working Reserves for further information.

**Minor Construction Projects** – A construction, alteration, extension or improvement of any VA facility, including planning and assessments of needs which may lead to capital investments, architectural and engineering services, maintenance or guarantee period services costs associated with equipment guarantees provided under the project, services of claims analysts, offsite utility and storm drainage system construction costs and site acquisition or for any of the purposes where the estimated cost of the project is less than the threshold established by law. See Volume II, Chapter 2I – Major Construction Working Reserves for further information. A series of minor construction projects that exceed the statutory threshold may not be used in lieu of a single major construction project, since incremental-type construction violates the intent of Congressional appropriations.

**Net Realizable Value** – The estimated amount recovered from selling or any other method of disposing of an item less estimated costs of completion, holding and disposal.

**Non-expendable** – An item which retains its identity throughout its useful life and whose dollar value is high enough to warrant accountability (e.g., copy machines, medical equipment, and IT equipment); or is of a sensitive nature, which requires accountability regardless of cost, e.g., USB flash drives. Non-expendable property generally has a useful life of 2 or more years.

**Non-recurring Maintenance (NRM) Projects** – Projects designed to correct, replace, upgrade, and modernize existing infrastructure and utility systems. Projects may include, but are not limited to, patient privacy corrections, life safety corrections, facility condition deficiency corrections, utility system upgrades, mental health improvements,

window replacements, replacements of aging heating, ventilation and air conditioning systems and components, boiler system upgrades, and water conservation measures.

Other Structures (or Other Real Property) – A structure or asset not classified as another real property category. The asset may be a structure or system serving multiple assets and is not building service equipment. These assets are distinguished from buildings either by the purpose or the build; they are not meant for personnel employment or abode. Examples include parking garages, open-sided storage sheds, water towers, committal shelters, generators, and surveillance systems.

**Personal Property** – Property, other than real property, which is owned by VA, is moveable and not affixed or associated to land. Personal property includes VA- owned expendable (Budget Object Code 26, Supplies and Materials) and other non-expendable controlled property (Budget Object Code 31, Equipment).

**Placed in Service for Real Property** –The date the real property is ready and available for its intended use. Even if the asset is not being used, it is in service when it is ready and available for its intended use. Placed in service date may not coincide with the completion of financial actions (e.g., payments). For acquired real property, the placed in-service date is the date VA assumes liability and the warranties begin on the asset. For land, the date of delivery or deed execution represents the acceptance or placed in service date.

**Real Property** – All land, buildings, facilities or other structures, firmly attached, and integrated equipment owned by VA. Integrated equipment includes those items permanently installed or attached and that have become a part of the building or structure for the purpose of making the building habitable or usable.

**Recognize** – To determine the amount, timing, classification and other conditions precedent to the acceptance and entry of a transaction. Hence, to give expression on the books of account; said of transactions.

**Required Supplemental Information (RSI)** – Financial information subject to limited audit procedures presented as supplemental information in VA's consolidated financial statements.

**Salvage Value** – The expected net recovery when the asset is sold or removed from service.

**Subsequent Project** – A project completed after the associated asset is purchased and recorded. Examples may be additions or improvements, maintenance and repairs, restoration, renovation, etc. Each project must be evaluated to determine whether the project is expensed or capitalized.

**Useful Life (Accounting Basis)** – The normal operating life of an asset in terms of usefulness to the owner.

Work in Process (WIP) (or Work in Progress (WIP)) – Temporary holding account used to track costs during the design and construction/development of PP&E and represents an asset as part of the financial statements. Includes costs of direct labor, direct material, and overhead incurred in the construction of real property for which the agency will be accountable. The costs remain in the WIP general ledger account until the PP&E is accepted by VA and placed in service. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. WIP is an extension of real and personal accountable property; its costs accumulation is governed by the policy for PP&E.

## 0904 Roles and Responsibilities

Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Local Finance Offices, Chief Accountants, and Other Key Officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

Office of Asset Enterprise Management (OAEM) provides oversight in the capital asset arena and ensures a consistent and cohesive Department approach to capital asset management. OAEM serves as the principal policy office and business advisor regarding the acquisition, management, and disposal of all VA capital assets. OAEM works collaboratively with all areas of the Department to ensure capital investments are based on sound business practices and principles and, most importantly, meet our Veterans' health care, benefits, and burial needs.

Office of Construction and Facilities Management (CFM) provides design, major construction, design and construction standards and historic preservation services. CFM executes all VA major construction; is responsible for financial execution of major construction projects and transfer of disbursement authority for minors; and reports to the Principal Executive Director, Office of Acquisition, Logistics, and Construction. CFM maintains a major construction working reserve account for each Administration, from which funds may be used to finance, in part, the construction, alteration, extension or improvement of any facility under the jurisdiction of VA or for any of the purposes set forth in various sections of title 38 of the United States Code.

**Engineering staff or program managers** are responsible overall for ensuring that VA real property is maintained in a proper and safe manner to provide services for the benefit of Veterans and VA employees. For purposes of this chapter, engineering staff or program managers will provide Fiscal staff with the critical information necessary to complete the capitalization memo to include:

- Engineering point of contact (POC) for the project
- Provide/review purchase order numbers associated with the project
- Costs associated with the project that are not capital in nature (i.e., asbestos, feasibility, study costs, etc.)

- Useful life of the project. If the useful life deviates from the useful life in Appendix B, an explanation for the deviation will be provided on the capitalization memo.
- Breakdown of costs for projects that impact more than one asset
- Determination if the project is NRM
- Determination of what makes the project an improvement (if applicable)
- The percentage of the asset placed in service
- · Actual date the asset was placed in service
- Signature
- Date

Engineering staff will also prepare and provide the deferred maintenance and repairs estimate with adjustments applicable to capitalized assets in accordance with the PP&E policy. The estimate will be provided to the finance activity, in either hard or soft copy, along with supporting documentation.

**Local Finance staff** are responsible for the capitalization of PP&E, including obtaining appropriate documentation to support each capitalization. When necessary, Fiscal staff will escalate requests for capitalization documentation to managers and executives to ensure timely and accurate capitalization.

**Local Logistics staff** are responsible for tracking equipment inventories and the input of capital equipment into Logistics inventories and assisting in the reconciliation of inventory subsystems.

#### 0905 Policies

#### 090501 General Policies

- A. VA will adhere to the requirements of Federal Accounting Standards Advisory (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 6, Accounting for Property, Plant, and Equipment when accounting for and reporting general property, plant, and equipment (PP&E). SFFAS 6 addresses recognition, measurement, disclosure, deferred maintenance, clean-up, and other PP&E transactions.
- B. VA may transfer real property under the jurisdiction or control of the Secretary in accordance with 38 U.S.C. § 8118.
- C. VA may procure and dispose of property in accordance with 38 U.S.C. § 8122.
- D. VA will adhere to the requirements of SFFAS 59, Accounting and Reporting of Government Land.

- E. General PP&E will be reported in accordance with Office of Management and Budget (OMB) Circular A-136.
- F. Fiscal, acquisitions, logistics, and engineering staff will work with program managers and each other to ensure that PP&E is recorded properly.
- G. VA will conduct quarterly data cleansing efforts to identify and resolve potential PP&E data inconsistencies, (e.g., capitalization errors, WIP, project status). Data cleansing efforts will include all parties (e.g., fiscal, acquisitions, logistics, engineering, program managers) necessary to analyze and resolve potential capitalization issues.
- H. VA will submit report to GSA annually containing descriptive information on the nature, extent, and use of their real property assets according to guidance outlined in the Federal Real Property Council Guidance for Real Property Inventory Reporting, also known as FRPP data dictionary.

## 090502 Recognition of PP&E

- A. VA will record all general PP&E at cost in accordance with SFFAS 6, Paragraph 26.
- B. In accordance with SFFAS 6, VA will include the following elements when recording the cost of acquiring PP&E:
  - 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;
  - 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.
- C. Some costs, although related to the project, that should be excluded from PP&E include but are not limited to:
  - NAC surcharge (or other surcharges or fees within VA) associated with the acquisition and/or construction of PP&E;

- Feasibility studies;
- Training costs, such as materials or travel for class, which are not associated with IUS. Post-implementation training costs or costs identified or reasonably estimated in the PP&E contract price will be expensed; training costs that cannot be easily extrapolated from a contract may be capitalized with the PP&E;
- Costs related to continuing operations will not be a cost of the asset, for example, the cost of renting a Computerized Tomography (CAT) Scan trailer during construction or the cost of operating supplies; and
- Cost for asbestos, mold, or other hazardous material clean-up.
- D. In accordance with SFFAS 6, VA will record general PP&E transferred from other Federal entities at the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization. If VA cannot reasonably determine these amounts, it will record the asset at fair value at the time transferred.
- E. In accordance with SFFAS 6, VA will value PP&E acquired through exchange at the fair value of the PP&E given up in the exchange. 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 the PP&E acquired. 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.

## 090503 Capitalization

- A. VA will capitalize PP&E when it:
  - Has an estimated useful life of two years or more;
  - Has been acquired or constructed with the intention of being used or being available for use by VA;
  - Has met the VA minimum acquisition cost or Fair Market Value (FMV) threshold of \$1,000,000, as applicable; and
  - Is not intended for sale in the ordinary course of VA operations. Examples of capitalization versus expense are contained in Appendix C.
- B. VA will capitalize personal property assets within 90 days, from the earlier of either the date when the title passes to VA or when the asset is delivered to VA. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery. The specific contract terms may dictate when VA will take title.
- C. For acquired real property (e.g., buildings), VA will capitalize the asset as soon as possible but no later than 90 days after the property was placed in service.
- D. For constructed real property, VA will record construction costs as work in process (WIP) until the property is placed in service. When placed into service, the WIP

balance will be transferred to PP&E and the asset will be capitalized within 90 days after the property is placed in service. The date the asset is placed in service is considered to be the date of acquisition.

- When construction WIP projects meet the capitalization threshold, but are installed in phases, VA will capitalize each phase when placed in service, regardless of the cost of the phase.
- The net amount of all phases encompassing the total project shall be considered when assessing whether the capitalization threshold will be met.
- E. VA will capitalize additions and improvements (subsequent to the acquisition or construction) if the cost or FMV is \$1,000,000 or more and if it meets one of the following criteria:
  - Has extended the useful life of an associated asset (as opposed to maintaining its normal operating life);
  - · Has enlarged or improved the capacity or function of an associated asset; or
  - The quantity of services or units produced from the associated asset is increased.

#### 090504 Construction Work In Process

- A. VA will fund ongoing construction projects from available construction appropriations.
- B. VA will fund construction project costs incurred during the design and development phases from applicable VA construction appropriations.
- C. VA will record in appropriate WIP accounts the following construction project costs:
  - Materials, supplies, and services applicable to the project;
  - Design costs related to the project:
  - Items of installed capital equipment;
  - Transportation costs applicable to materials, supplies, and any installed capital-type equipment, and any government-owned equipment;
  - The additional overhead or support costs that would not have been incurred were it not for the project;
  - Travel and per diem related to applicable labor; and
  - The costs applicable to the operation and maintenance of government-owned equipment.
- D. VA will maintain separate appropriated fund accounts for major and minor construction, and non-recurring maintenance projects and supporting documentation for the construction WIP on each project.
- E. VA will carry forward available fund balances from year to year in its construction multi-year and no-year funds as appropriate.

- F. VA will track and manage carryover balances remaining after construction projects are completed to ensure unexpended fund balances are available for other construction project needs.
- G. VA will not acquire or improve a real property facility (major construction projects) through a series of minor construction projects in lieu of a single major appropriation project, since incremental-type construction violates the intent of Congressional appropriations.
- H. VA will notify and submit information on the status of construction projects to Congress as required. VA will submit its entire major construction project plans for medical facilities to Congress for approval, as required by 38 U.S.C. § 8104(a) (2), prior to receiving appropriated funds.
- I. VA will record constructed real property as construction WIP until it is placed in service. The asset will be transferred to either capitalized or non-capitalized PP&E, as appropriate, within 90 days of being placed in service. The date the asset is placed in service is also the date of acquisition.
  - 1. VA will record a construction project completed in multiple phases as "construction WIP" until the project phase is placed in service.
  - 2. Each project may be comprised of multiple assets. Each asset will be recorded as a separate asset when it meets capitalization criteria.
  - Personal property and equipment not capitalized and installed as part of a construction project should be recorded in the appropriate personal property records.
- J. For PP&E that is acquired or constructed by a central VA organization, VA will transfer the assets to the responsible organization when the asset is placed in service. Refer to Appendices D FMS Procedures to Transfer PP&E Within VA, and E iFAMS Procedures to Transfer PP&E Within VA.
- K. VA will capitalize its share of PP&E acquired in joint ownership projects with another entity when VA's portion of ownership meets the capitalization criteria.

#### 090505 Depreciation/Amortization Expense

A. In accordance with SFFAS 6, VA will record depreciation expense on PP&E, except land and land rights of unlimited duration, in a contra asset account, accumulated depreciation.

- B. In accordance with SFFAS 6, depreciation expense will be recorded monthly using the straight-line method of depreciation with salvage value set at zero.
- C. The local finance office will work in conjunction with engineering staff or program managers to assign the useful life for real property, and with the Operations Analysis Division at the National Acquisitions Center for personal property.
  - The estimated useful life of certain real property is provided in Appendix B: VA Real Property Estimated Useful Life Guide.
  - Useful life may also be derived from a recognized source used by an administration or staff office.
- D. The local finance office will validate the depreciation calculation and ensure depreciation has been recorded monthly for all capital assets.
- E. VA will consider factors such as physical wear and tear and obsolescence when determining estimated useful life and depreciation.
- F. VA will record depreciation over the estimated useful life of the asset. The initial depreciation amount will represent all depreciation accrued from the date when the asset was accepted or placed into service. An asset that is fully depreciated and continues to be used by VA will be reported on the balance sheet at cost along with accumulated depreciation. No further depreciation expense will be recorded after the asset is fully depreciated.
- G. VA will reflect any changes in the estimated useful life or salvage/residual value prospectively. No adjustments will be made to previously recorded depreciation or amortization.
- H. VA will depreciate the cost of an addition or improvement that meets the capitalization criteria. The depreciation expense recorded is determined based upon the useful life of the associated asset as outlined below.
  - 1. If the addition or improvement useful life is comparable to the useful life of the associated asset, the addition or improvement is depreciated over the remaining useful life of the associated asset.
  - 2. When an addition or improvement to a fully depreciated asset is made that meets the capitalization criteria, the useful life of the addition or improvement must be determined. The useful life will be used to depreciate the cost of the addition and improvement for that period.
  - 3. If the addition or improvement extends the useful life of the associated asset and the asset is not fully depreciated, the depreciation of the asset, to include the addition or improvement costs, is computed using the revised remaining useful life of the associated asset.

- 4. If the addition or improvement meets the capitalization criteria but does not extend the useful life of the associated asset, and the asset is not fully depreciated, the depreciation of the asset, to include the addition or improvement cost, is computed over the remaining useful life of the associated asset.
- VA will record amortization expense in a contra asset account accumulated amortization, on PP&E assets. The local finance office will validate the recording and calculation of amortization monthly.
- J. VA will amortize leasehold improvements meeting the capitalization criteria:
  - Over the remaining useful life of the associated lease or the remaining estimated economic life of the improvements, whichever is less; and
  - For not more than 40 years, even if the useful life of the asset is greater than 40 years.
- K. Additional Lease information may be found in Volume V, Chapter 11 Accounting for Real Property Leases and Volume V, Chapter 12 – Accounting for Enhanced Use Leases.

#### 090506 Other PP&E Expense

- A. VA will expense maintenance and repairs used to keep assets in acceptable working condition.
- B. VA will capitalize a maintenance or repair project that goes beyond the scope of maintenance and meets the improvement criteria discussed in the capitalization section.
- C. VA will expense the cost to replace or restore severely damaged or destroyed assets, to include property considered damaged by natural disasters, such as hurricanes, earthquakes, and floods, and does not meet capitalization criteria.
- D. VA will expense the cost of restoration or partial replacement of an existing asset that brings the asset to its original state of usefulness and does not meet capitalization criteria
- E. VA will capitalize the cost incurred to restore severely damaged property or to replace destroyed assets when the restoration or replacement meets the capitalization criteria.

#### 090507 Disposition of PP&E

A. In accordance with SFFAS 6, VA will determine if the PP&E removal from service is permanent or temporary.

- B. When an asset is permanently removed, VA will remove an asset's acquisition cost and associated accumulated depreciation/amortization from the organization or station's PP&E account and record the asset at its net realizable value.
- C. VA will transfer permanently removed PP&E to the United States General Ledger (USSGL) Account 199500, General PP&E Permanently Removed but Not Yet Disposed.
- D. No additional depreciation will be taken once an asset is removed from PP&E accounts.
- E. Any difference between the book value and the expected net realizable value will be recognized as a gain or loss.
- F. Any unallocated/unamortized portion of the total clean-up cost estimated associated with the disposal, closure, and/or shutdown of the PP&E should be recognized in full.
- G. When an asset, depreciated as part of a group, is permanently removed from service and no other assets within the group are permanently removed, no gain or loss is recognized. The asset is removed from PP&E at the original cost, and the associated accumulated depreciation is debited less any salvage value for the asset.
- H. If during disposal the asset or system is disassembled, and sub-components are salvaged to be used for other purposes VA will record these sub-components or spare parts as new assets if capitalization criteria is met.
- I. When disposed, the PP&E asset will be written off from the financial records. Any difference in the asset's expected net realizable value previously recorded and the actual realized disposition will be recognized as a gain or loss.
- J. VA will record final disposition data as of the date of transfer, sale, trade-in, abandonment, or demolition.
- K. Temporary removal from service is evidenced by activities such as continuing low level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. When the removal from service is determined to be temporary, there is no change in PP&E reported value, and depreciation continues. Any clean-up cost expense associated with a temporary removal will continue to accumulate.

#### 090508 Proceeds of Sale of PP&E

- A. As a general rule, VA will not deposit any funds into its appropriations without statutory authority in accordance with 31 U.S.C. § 3302. Violation of this rule constitutes an illegal augmentation of the appropriation.
- B. Per 38 U.S.C. § 8118, VA may deposit proceeds from the transfer of real property into VA Capital Asset Fund. Amounts in the Capital Asset Fund may be expended for the following purposes:
  - Costs associated with the transfer of real property, including costs of demolition, environmental remediation, maintenance and repair, improvements to facilitate the transfer, and administrative expenses;
  - Costs associated with future transfers of property;
  - Costs associated with enhancing medical care services to Veterans by improving, renovating, replacing, updating, or establishing patient care facilities through construction projects to be carried out for an amount less than the amount specified for a major medical project; and
  - Costs associated with the transfer, lease, or adaptive use of a structure or other property under the jurisdiction of VA that is listed on the National Register of Historic Places.
- C. VA may exchange or sell similar items of personal property and may apply the exchange allowance or proceeds of sale in whole or in partial payment for property acquired per 40 U.S.C. § 503.
- D. VA may retain proceeds from sale of scrap or excess personal property and other property as authorized in 41 C.F.R. 102-38.295.
- E. VA may deposit proceeds from the sale of personal property used to purchase similar replacement equipment in Clearing (Suspense) Account 36F3845, Proceeds of Sales Personal Property. The proceeds will be available to VA for the fiscal year of the sale and one fiscal year thereafter and may only be used to purchase like replacement equipment in accordance with the requirements of the Federal Management Regulation, 41 C.F.R. 102-39.80.

#### **090509 Deferred Maintenance and Repairs**

- A. VA will record the estimated cumulative total of deferred maintenance and repair projects for capitalized PP&E at the beginning of the fiscal year.
- B. The Administration finance office and engineering staff or program managers will work together to ensure the estimate is calculated and recorded properly.
  - The facility condition assessment (FCA), or an equivalent condition assessment survey will be used to develop the estimate;
  - The estimate will be reviewed quarterly and adjusted as necessary;

- The review and decision will be documented and maintained, even if no adjustment is necessary; and
- The costs will be recorded in the appropriate Assets and Miscellaneous Accounts Fund (AMAF) in FMS or respective Capital Asset Fund (C-Fund) in iFAMS by major class of assets.
- C. VA will ensure deferred maintenance and repairs on medical equipment and critical facility equipment systems do not compromise their efficiency or effectiveness.
- D. VA will ensure the estimate of deferred maintenance is calculated and recorded properly.
- E. VA will use the facility condition assessment (FCA) as the starting point for the deferred maintenance and repairs estimate. Another condition assessment survey method may be used if it satisfies generally accepted accounting standards for determining financial data reported for deferred maintenance and repairs. Refer to Appendix F, Deferred Maintenance and Repairs Estimates and FCA Process, for additional information on preparing and recording the deferred maintenance estimates.

## 090510 Impairment

- A. In accordance with SFFAS 44, VA will consider PP&E impaired when there is a significant and permanent decline in the service utility of PP&E or expected service utility for construction WIP. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.
- B. During the review of deferred maintenance and repairs VA will identify any potentially impaired assets.
- C. VA will report impairment in its financial statements in accordance with SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use and OMB Circular A-136.

#### 090511 Land

- A. Land will be accounted for in accordance with SFFAS 59, which will be phased in over a five-year period.
- B. In the implementation window of fiscal years 2022-2025, VA will follow required disclosures in the Required Supplementary section of the Agency Financial Report.
- C. In accordance with SFFAS 59, beginning in fiscal year 2026 and beyond, VA will remove general PP&E land from the balance sheet and shall recognize on the

- statement of net cost for the period in which the cost is incurred. VA may continue to disclose historical or acquisition cost in notes to the financial statements.
- D. In accordance with SFFAS 59, beginning in fiscal year 2026 general PP&E land, permanent land rights, and stewardship PP&E will be expensed and not capitalized.

## 090512 Reporting

- A. VA will report PP&E in the Consolidated Finance Statements in accordance with OMB Circular A-136, Financial Reporting Requirements, including note disclosures.VA will maintain subsidiary records in accordance with VA's Records Control Schedule. The subsidiary records will be reconciled monthly to the corresponding standard general ledger control account. Entries for both the general ledger and the subsidiary ledger will be made from the same source document and will be recorded in the same accounting month.
  - 1. VA will provide the following minimum information:
    - The major classes of PP&E appropriate for VA reporting, to include, but not limited to:
      - Land and improvements
      - Buildings (not including operating leases for building and clinics)
      - Equipment, including information technology (IT) hardware;
      - Other structures:
      - · Construction WIP; and
      - Internal use software, including capitalized and in development.
    - For each major class of PP&E
      - Costs, to include associated accumulated depreciation (as represented in the associated contra asset account for the period), and book value;
      - Use and general basis of any estimates used;
      - Estimated useful life;
      - Method(s) of depreciation;
      - Capitalization threshold(s), including any changes in threshold(s) during the period; and
      - Restrictions on the use or convertibility of PP&E.
- B. If a situation arises preventing VA financial systems from reporting the necessary opening balances as required by GAAP for financial statement reporting, VA will rely on guidance established in SFFAS 50, to identify opening balances for general PP&E.
- C. VA will report deferred maintenance and repairs estimates in the Consolidated Financial Statements as Required Supplementary Information (RSI), for each major class of PP&E, in accordance with SFFAS 6, SFFAS 43,

- 1. VA will report some qualitative information
  - A summary of VA's Maintenance and Repair (M&R) policies and a brief description of how they are applied; i.e., a method of measuring;
  - Policies for ranking and prioritizing M&R activities;
  - Factors that VA considers in determining acceptable condition standards;
  - Whether Deferred (D) M&R relates solely to capitalized general PP&E and non-capitalized heritage assets and stewardship land for which management does not measure and/or report DM&R and the rational for exclusion; and
  - If applicable, explanation of any significant changes to the policies and factors subject to the reporting requirements established in the bullets above and DM&R amounts from the prior year.
- 2. VA will report some quantitative information, including estimates of the beginning and ending balances of DM&R for each major category of PP&E for which maintenance and repairs have been deferred.
- D. VA will provide annual budget estimates for planned real property acquisitions in its budget submission and ensure any estimates for acquisitions under contract are consistent with obligations reported in Object Class 32.

#### 0906 Authorities and References

41 C.F.R. § 102-38, Sale of Personal Property

41 C.F.R. § 102-39, Replacement of Personal Property Pursuant to the Exchange/Sale Authority

31 U.S.C. § 3302, Custodians of Money

31 U.S.C. § 3905, Payment Provisions Relating to Construction Contracts

38 U.S.C. § 8118, Authority for Transfer of Real Property; Department of Veterans Affairs Capital Asset Fund

38 U.S.C. § 8104, Congressional Approval of Certain Medical Facility Acquisitions

38 U.S.C. § 8122, Authority to Procure and Dispose of Property and to Negotiate for Common Services

40 U.S.C. § 503 Exchange or Sale of Similar Items

GSA - Federal Real Property Council Guidance Library

OMB Circular A-136, Financial Reporting Requirements – Revised

<u>Statement of Federal Financial Accounting Standards (SFFAS) 6, Accounting for Property, Plant, and Equipment</u>

<u>SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</u>

SFFAS 59, Accounting and Reporting of Government Land

SFFAS Technical Release 14: Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment

<u>Treasury Financial Manual Volume I, Chapter 4700, Agency Reporting Requirements</u> for the Financial Report of the United States Government

VA Financial Policy Volume II, Chapter 2I – Major Construction Working Reserve

VA Financial Policy Volume V, Chapter 11 – Accounting for Real Property Leases

VA Financial Policy Volume V, Chapter 12 – Accounting for Enhanced Use Leases

VA Financial Policy Volume V, Chapter 13 – Accounting for Internal Use Software

#### 0907 Rescissions

Volume V, Chapter 9 – General Property, Plant, and Equipment, July 2022

#### 0908 Policy Approval

This policy was approved by the VA Chief Financial Officers' Council on April 10, 2023.

## Appendix A: Guidance on Managing VA Assets

#### A. Federal Guidance:

<u>Guiding Principles for Federal Leadership in High Performance and Sustainable</u>
<u>Buildings</u>. This Federally mandated "green" guidance document applies to sustainability in existing VA buildings including renovations, maintenance and repairs, and leased space as well as new construction. The Federal guidance is being updated in 2013 under the same title.

#### B. VA Guidance:

1. Pertinent guidance from Office of Asset\_Enterprise Management (OAEM), <u>OAEM Policy Web Site</u>: http://www.va.gov/oaem/and Office of Acquisition, Logistics and Construction, <u>OALC Consulting Support Service, Facility Condition Assessment</u>: http://www.va.gov/oalc/
FY 2008 Asset Management Plan, (OAEM)

- 2. VA Directives and Handbooks: http://www.va.gov/vapubs/index.cfm
- VA Directive 7633, Managing Underutilized Real Property, Including Disposal
- VA Handbook 7633, Managing Underutilized Real Property, Including Disposal
- VA Handbook 7348, Utilization and Disposal of Personal Property
- VA Directive 7002/1, Logistics Management Procedures
- VA Handbook 7002/1/, Logistics Management Procedures
- VA Directive and Handbook 0011, Strategic Capital Investment Planning (SCIP) Program
- VA Directive 4085, Capital Asset Management
- VA Directive 0055, Energy and Water Management Program
- VA Directive 0057, Environmental Management Program

## Appendix B: VA Real Property Estimated Useful Life Guide

This appendix is provided as a guide when estimating useful life for [accounting] depreciation of Real Property, including land improvements, buildings, and fixed equipment. The useful life is provided as an average only. For each asset, the useful life will depend upon the type and/or construction used. Engineering staff or program managers will provide support for deviations to the finance activity for recording the transaction. Although many of the assets listed in the table are generally used for recording subsequent projects that meet the capitalization criteria (Section 090503), the useful life may also be used for recording the initial asset.

Estimated Useful Life for Calculating Depreciation (In Years)			
Item / Description	Useful Life		
Architectural			
Automatic door	10		
Bench, bin, cabinet, counter, shelving built-in	15		
Cabinet, biological safety	15		
Canopies	15		
Carpentry work	20		
Ceiling finishes	12		
Ceramic tile	20		
Cubicle track	20		
Designation signs	10		
Drapery track	10		
Drilled piers	40		
Floor finishes	10		
Folding partitions	10		
Hood, fume	15		
ICU-CC counters	15		
Interior finish	15		
Lockers, built-in	20		
Mailboxes built-in	20		
Millwork	20		
Nurses' counter	20		
Overhead door	10		
Painting, new construction	10		
Partitions, interior	20		
Pass-through boxes	20		
Patient's wardrobes and vanities	20		

Estimated Useful Life for Calculating Depreciation (In Years)			
Item / Description	Useful Life		
Sink and drain board	20		
Storefront construction	20		
Toilet partitions	20		
Electrical			
Clock System, central	15		
Conveying system	15		
Doctors in/out register	20		
Door closing devices	10		
Electric lighting and power, Conduit, and wiring	25		
Elevator			
Dumbwaiter	20		
Freight	20		
Passenger, high-speed, automatic	20		
Emergency light system	15		
Escalator	20		
Feed wiring	20		
Fire alarm system	15		
Fixtures	10		
Generator set	20		
Intercom system	15		
Magnetic door holders	10		
Nurse call system	15		
Paging system	15		
Passenger, other	20		
Switch gear	30		
Telephone system	10		
Television antenna system	10		
Transformer			
Oil Filled	30		
Dry	15		
Yard lighting	15		
Heating and Air Conditioning			
Boiler smokestack, metal	30		
Clean air equipment	20		

Estimated Useful Life for Calculating Depreciation (In Years)				
Item / Description	Useful Life			
Cooling tower				
Metal/wood	20			
Large over 20 tons	20			
Medium 5-19 tons	15			
Small, under 5 tons	10			
Duct work	20			
Fan, air handling & vent	20			
Furnace, domestic type	15			
Heat & air conditioning system, all equipment & units				
Boiler	30			
Compressor, air	20			
Condense tank	20			
Condenser	20			
Controls	20			
Cooler/humidifier	20			
Heating, ventilating & air conditioning system	20			
Incinerator, indoor	10			
Oil storage tank	30			
Piping	25			
Precipitator	15			
Pump	25			
Radiator, cast iron	30			
Radiator, finned tube	20			
Solar heat equipment	20			
Plumbing				
Fire protection in hoods	10			
Laboratory plumbing, piping	40			
Oxygen, gas, air, piping	30			
Oxygen storage tanks	20			
Plumbing-fixture	20			
Plumbing-piping	40			
Plumbing-pump	40			
Pneumatic tube system	15			
Sewerage, composite	40			
Sprinkler & fire:				

Estimated Useful Life for Calculating Depreciation (In Years)				
Item / Description	Useful Life			
Fire pump	25			
Protection system	40			
Smoke & heat detectors	15			
Sprinkler system	40			
Tank and tower	40			
Sterilize, built-in	20			
Sump pump & sewage				
Piping	40			
Ejector	10			
Vacuum cleaning system	15			
Water heater, commercial	15			
Water storage tank	40			
Water wells	40			
Site work				
Bumpers	5			
Culverts	18			
Fencing				
Brick or stone	25			
Chain link	15			
Wire	10			
Wood	8			
Irrigation system (characterized as a drip system and				
only used in certain regions)	10			
Lawn sprinkler system	15			
Parking lot gate	5			
Parking garage or structure	20			
Sidewalks or pathways				
Gravel	5			
Asphalt	12			
Concrete	15			
Heated pavement	15			
Roadways and parking				
Gravel	5			
Asphalt	12			
Concrete	15			

Estimated Useful Life for Calculating Depreciation (In Years)				
Item / Description	Useful Life			
Retaining wall	25			
Shrubs, lawns, trees	10			
Sign	12			
Snow melting system	10			
Turf, artificial	5			
Underground utilities, including sewer and water lines	25			
Structural				
Bridges	40			
Columbaria	10			
Committal Shelter	20			
Computer flooring	15			
Flagpoles	20			
Loading docks	15			
Building Masonry				
Reinforced concrete frame	40			
Steel frame, fireproofed	40			
Steel frame not fireproofed	30			
Reinforced concrete, commercial design	40			
Roof covering	15			
Sewage treatment plant	20			
Structure				
Masonry	30			
Wood	20			
Water treatment plant	30			

Note: Unlike other assets, the useful life of a columbaria for depreciation purposes is based upon the period the columbaria is actively used for interments and not the operating life for usefulness. On average, a columbaria is filled within 10 years and is no longer available for additional interments.

### **Appendix C: Examples of Capitalization Versus Expense**

A: Items Generally Capitalized: Assumed to meet the capitalization criteria (such as cost and useful life).

- 1. Addition of a new wing on a medical center.
- 2. Renovation of a patient wing to an x-ray, MRI, etc. wing.
- 3. A severely damaged or destroyed building reconstructed following a natural disaster.
- 4. An installation or replacement of building service equipment with larger or enhanced capacity, such as:
  - An air quality system;
  - An HVAC system; or
  - A security system to include fire, carbon, and security, or covers areas not previously covered.
- 5. A replacement of medical equipment that is an improvement with greater capability than the old equipment.
- 6. An installation or replacement of land improvements with larger or enhanced capacity, such as:
  - A sewer system;
  - An irrigation system; or
  - A replacement of a gravel parking lot with an asphalt cover.
- 7. An installation or replacement of landscaping, major in nature:
  - Retaining walls or fencing;
  - Series of sidewalks; or
  - Courtyards.
- 8. A major renovation or addition to a heritage asset used predominantly for Government service, a.k.a., a multi-use heritage asset. (Refer to Volume V Chapter 14, Heritage Assets & Stewardship Land.)
- B. Items Generally Expensed: Assumed not to meet the capitalization criteria.
  - 1. An installation or replacement of landscaping, minor in nature:
    - Regrade;
    - · Reseed; or
    - Resolution of drainage problems.

- 2. Repavement of a parking lot with similar cover.
- 3. Repair of a roof or replacement of shingles in poor condition.
- 4. Maintenance and repair of building exterior: To be considered maintenance and repairs, the exterior is only being brought to the original state of usefulness.
  - Replace coping stones;
  - Resolution of leak issue;
  - Tuck point brick veneer; or
  - Scrape and paint.
- 5. Maintenance and repair of building Interior. To be considered maintenance and repairs, the interior is only being brought to the original state of usefulness.
  - Replace selected ceiling tiles, stair treads;
  - Painting; or
  - Repairing drywall.
- 6. Replacement of an emergency electrical system with a new system but one that is only up to code, not a significant upgrade.
- 7. Hazardous waste clean-up, e.g., asbestos, lead paint.
- 8. Restoration or improvements to a heritage asset, but not considered a multi-use heritage asset. (Refer to Volume V Chapter 14, Heritage Assets & Stewardship Land.)
- C. Capitalization prior to October 1, 2013, threshold of \$100,000.
  - Capitalize a newly constructed building costing over \$500,000, begun September 20, 2012, and completed, August 1, 2013.
  - Capitalize a new X-Ray machine purchased for \$187,000 on July 1, 2013, and accepted for use, September 5, 2013.
- D. Capitalization on or after October 1, 2013, threshold of \$1,000,000.
  - Capitalize a renovation, costing \$1,300,000, to expand capacity of a building, already recorded as a capitalized fixed asset, completed November 15, 2013.
  - Capitalize a subsequent phase of a project put into service, on January 5, 2014, costing \$99,000, when the initial phase of the project was placed in service September 18, 2013, and capitalized for \$101,000.
  - Expense from Work-in-Process a construction project, costing \$500,000, to renovate a cemetery building (already recorded as a capitalized fixed asset), started May 1, 2013, and completed October 20, 2013.
  - Expense an X-Ray machine purchased for \$245,000 on September 20, 2013 and accepted for use on November 25, 2013.

## Appendix D: FMS Procedures to Transfer PP&E Within VA

- A. **Transfers within VA for Real Property Assets.** For real property that is purchased or constructed by one station for another, the asset will not be transferred until it is placed in service. This may occur in phases as is the case for some WIP projects. The procedures below may be used for real property and energy project related real property.
  - 1. The responsible engineering staff or program managers will provide the purchasing station with a capitalization memorandum or email for the completed real property identifying pertinent information for recording the asset. At a minimum, the information will include the type of project (building, improvement to land, other real property, etc.), the amount to be capitalized, date placed in service, and the useful life.

#### 1. The purchasing station (transfer out):

- Finance will review the capitalization information received from engineering or the program manager and the WIP report for the capitalization amount.
- ii. Finance will process the proper SV transaction(s), using the table below as a guide, with one line for each document ID on the WIP report for the appropriate fund, e.g., 0158B1, and the DOC ID listed. The SV transaction(s) will remove the real property asset from GL 1720 (WIP) for the purchasing station.

PURCHASING STATION - TRANSFER OUT					
вос	BOC Description	sv	Ind	Debits	Credits
3215	Improvements to Land – Capitalized	20	I	1712	1720
3220	Buildings – Capitalized	30	I	1730	1720
3240	Other Structures or Real Property – Capitalized	28	-	1740	1720
3260	Energy Projects – Capitalized (Buildings)	30	I	1730	1720
3260	Energy Projects – Capitalized (Other Structures)	28	I	1740	1720
3260	Energy Projects – Capitalized (Leasehold Improvements)	29	I	1820	1720

After the asset is moved from GL 1720 WIP to the proper GL, the GN-068 program (automated process that transfers amounts recorded in the appropriated fixed asset general ledger accounts to the corresponding GL account in the AMAF Fund) will generate an automated SV transaction (RJ transaction type) that will transfer the full

amount to the corresponding AMAF fund for certain identified funds. Not all funds are identified in the GN-068 automated programming and do not transfer. For example, when certain construction funds (e.g., 0110, 0111) are used, the corresponding GN-068 RJ transaction will not automatically post. Users would need to post RJ D4 or RJ D5 for Buildings, RJ D6 or RJ D7 for Other Structures, or other RJ transaction as appropriate.

iii. Using the table below as a guide, Finance will process the proper SV D# or E# transaction and process and SV M6 transaction to transfer the real property asset out of their station's asset equity account (AMAF or other fund).

PURCHASING STATION - TRANSFER OUT					
вос	BOC Description	sv	Ind	Debits*	Credits
3210	Land – Capitalized	D3	D	5721	1711
3215	Improvements to Land – Capitalized	E2	D	5721	1712
3220	Buildings – Capitalized	D4	D	5721	1730
3240	Other Structures or Real Property – Capitalized	D6	D	5721	1740
3260	Energy Projects – Capitalized (Buildings)	D4	D	5721	1730
3260	Energy Projects – Capitalized (Other Structures)	D6	D	5721	1740
3260	Energy Projects – Capitalized (Leasehold Improvements)	E9	D	5721	1820
####	As appropriate	M6		5730	5721

<sup>\*</sup> Financing source transfer GL accounts

#### b. The **receiving station**:

i. Finance will process the proper standard voucher (SV) transaction(s), using the table below as a guide, to transfer the real property asset into their asset equity account (AMAF or other fund).

RECEIV	ING STATION - TRANSFER IN				
вос	BOC Description	SV	Ind	Debits	Credits*
3210	Land – Capitalized	M1	I	1711	5720
3215	Improvements to Land – Capitalized	MW	I	1712	5720
3220	Buildings – Capitalized	M2	I	1730	5720
3240	Other Real Property – Capitalized	М3	I	1740	5720
3260	Energy Projects – Capitalized (Buildings)	M2	I	1730	5720
3260	Energy Projects – Capitalized (Other Structures)	М3	ı	1740	5720

RECEIV	RECEIVING STATION - TRANSFER IN								
вос	BOC Description	sv	Ind	Debits	Credits*				
3260	Energy Projects – Capitalized (Leasehold Improvements)	MX	I	1820	5720				

<sup>\*</sup> Financing source transfer GL accounts

- ii. Finance will process an FA (Fixed Assets Acquisition) or FB (Fixed Assets Betterment) document in the AMAF or other fund, as appropriate, for the full amount of the capitalized project.
- B. **Transfers within VA for Capitalized Personal Property.** All transfers of personal property will be conducted in accordance with VA Directive/Handbook 7348, *Utilization and Disposal of Personal Property*. The procedures below address the financial aspects of the transfer for capitalized personal property.
  - Finance activities will work in conjunction with the local logistics staff to ensure that transfers are properly recorded and supported with appropriate documentation.
  - Timing Differences. Allowable timing differences resulting in an imbalance between the GL and the FAP records will occur in instances where the receiving reports are processed during the end of an accounting period and the transfers by the purchasing facility to the receiving facilities could not be accomplished in the same accounting period.
  - All timing differences stemming from the inter-facility transfer of equipment must be reconciled and cleared in the accounting period following the processing date of the receiver document.
  - Consolidated Purchases by a Station and Transferred. For equipment purchased by one station on behalf of other stations, the purchasing station will transfer the equipment to the receiving stations in the same accounting period the receiver document is processed.

The purchasing facility should not record the equipment in its FAP (either entered directly or through AEMS/MERS) except for the portion that will remain at the purchasing facility. For VHA, this will result in a red financial indicator. The resulting red financial indicator should be forwarded to the "Financial Indicator Waiver Committee" for a waiver. The VHA finance activity will document the waiver for audit purposes.

- a. Purchasing station **does not** receive reimbursement from the receiving station:
  - The purchasing station (transfer out):

- Logistics will enter an FA (acquisition) document for its portion of equipment purchased to establish the asset in the FAP and notify the finance activity that the remaining equipment is being transferred to the other stations.
- Logistics and the finance activity will notify the other stations that the personal property has arrived and is being transferred.
- The finance activity will process an SV transaction, as appropriate, for the equipment to be transferred-out to other stations. The following table provides examples of SV transactions.

PURCHASING STATION - TRANSFER OUT				
Description	SV	Ind	Debits*	Credits
Non-Expendable Equipment	UA	I	5730	1750
ADP Non-Expendable Equipment	UB	I	5730	1751
Equipment under Capital Lease	UD	I	5730	1811

<sup>\*</sup> Financing source transfer GL accounts

#### ii. The receiving station:

- Logistics will enter an FA (acquisition) document to establish the asset in the FAP and notify the finance activity of the transferred property.
- The finance activity will process an SV transaction, as appropriate, for the transferred-in asset. The following table provides examples of SV transactions.

RECEIVING STATION - TRANSFER IN				
Description	SV	Ind	Debits	Credits*
Non-Expendable Equipment	M4	I	1750	5720
ADP Non-Expendable Equipment	M5	I	1751	5720
Equipment under Capital Lease	M8	I	1811	5720

<sup>\*</sup> Financing source transfer GL accounts

#### b. Purchasing station **receives** reimbursement from the receiving station:

#### i. The purchasing station (transfer out):

- Logistics will enter an FA (acquisition) document for its portion of equipment purchased to establish the asset in the FAP and notify the finance activity that the remaining equipment is being transferred to the other stations.
- Logistics and the finance activity will notify the other stations that the personal property has arrived and is being transferred.
- The finance activity will process an EB transaction with two lines: Line 001, EB 01 with a "D" indicator for the purchasing station; and Line

002, EB 01 with an "I" indicator for the receiving station. The fund will be the appropriated fund, not the AMAF Fund. The EB transactions will automatically generate SV transactions through the GN-068 in the appropriate GL accounts and AMAF Fund.

ii. The **receiving station** logistics staff will enter an FA (acquisition) document to establish the asset in FAP. Refer to 1.a. (2) above.

## 2. Transfer of Existing Personal Property from Station to Station.

#### a. The transfer out station:

- Logistics and finance will verify that the personal property being transferred has been previously established in the FAP and reconciled to the GL.
- Finance will print the FAS2 FMS table for the equipment acquisition number. This will show the value of the equipment and the accumulated depreciation. To enter equipment with depreciation, refer to <a href="Step 2a-1">Step 2a-1</a> and continue to <a href="Step 2a-2">Step 2a-2</a>. For equipment without depreciation, refer to <a href="Step 2a-2">Step 2a-2</a>.

#### Step 2a-1

- Finance will enter an FC (modification) document in the FAP and change the depreciation method to MC (Manual Calculation). This will allow station to change the accumulated depreciation to zero in FMS, MDEP table.
- Finance will go to the MDEP table. Input Action: S, Fixed Asset type (example, E for Equipment) and Fixed Asset Acquisition Number and enter. It will show the depreciated amount.
  - Change Action: C and on EQUITY 1: 0.00 and TOTAL: 0.00. This changes the depreciation amount to zero. A message will appear that a journal voucher is needed. If an asset has depreciation from prior fiscal years, the transferring-out station will need a copy of FA04 for EOY and the most current FA04. This information must be provided to receiving station.
- If accumulated depreciation has been posted for the current fiscal year, finance will process one of the following SV transactions to remove the accumulated depreciation and depreciation expense posted to the GLs.

TRANSFER OUT STATION - Current FY Depreciation												
Description SV Ind Debits Credits												
Accum Depr - Non-Expendable Equipment	13	D	1759	6710								
Accum Depr - ADP Non-Expendable Equipment		D	1758	6710								
Accum Depr - Equipment under Capital Lease	7K	D	1818	6710								

TRANSFER OUT STATION - Current FY Depreciation										
Description SV Ind Debits Credits										
Accum Depr (Amor) - IT Software 7M D 1839 6710										

If accumulated depreciation has been posted in prior fiscal years, finance will
process one of the following SV transactions to remove the accumulated
depreciation and depreciation expense posted to the GLs.

TRANSFER OUT STATION - Prior FY Depreciation												
Description	sv	Ind	Debits	Credits*								
Accum Depr - Non-Expendable Equipment	UF	D	1759	5730								
Accum Depr - ADP Non-Expendable Equipment		D	1758	5730								
Accum Amor - IT Software	UH	D	1839	5730								
Accum Depr - Equipment under Capital Lease	UI	D	1818	5730								

<sup>\*</sup> Financing source transfer GL accounts

#### **Step 2a-2**

- Logistics will enter an FC (modification) document to change the asset value to zero when the asset is ready to be transferred.
- Logistics will enter an FD (disposal) document to generate zero balance GL entries to avoid recognition of a loss on disposal in SGL account 7212.
- Finance will process an SV transaction, as appropriate, for the transferring-out asset type in FMS.

TRANSFER OUT STATION	TRANSFER OUT STATION												
Description	SV	Ind	Debits*	Credits									
Non-Expendable Equipment	UA	I	5730	1750									
ADP Non-Expendable Equipment	UB	ı	5730	1751									
IT Software	UC	I	5730	1830									
Equipment under Capital Lease	UD	I	5730	1811									

<sup>\*</sup> Financing source transfer GL accounts

- b. The **receiving station (transfer in)** will take the following actions:
  - Logistics will enter an FA (acquisition) document to establish the asset in the FAP.
  - If the original FA has depreciated, it must be manually entered in FMS, MDEP table. This information comes from the transferring station. To

enter equipment with depreciation, refer to <u>Step 2b-1</u> and continue to <u>Step 2b-2</u>. For equipment without depreciation, refer to <u>Step 2b-2</u>.

## Step 2b-1

- Finance will enter a FC (modification) document to FAP and change the depreciation method to MC.
- Finance will go to FMS table MDEP. Input Action: S and Fixed Asset type, Fixed Asset Acquisition Number and enter. The MDEP will show the asset value and depreciation amount.
  - Change Action: C and input the depreciation amount on EQUITY 1: and TOTAL and press Enter. This action changes the depreciation amount. A message will appear that a journal voucher is needed.
- To post current fiscal year accumulated depreciation and depreciation expense to the GLs, finance will process an SV transaction, as appropriate, in FMS.

RECEIVING STATION - TRANSFER IN - Current FY Depreciation												
Description SV Ind Debits Cred												
Accum Depr - Non-Expendable Equipment	13	I	6710	1759								
Accum Depr - ADP Non-Expendable Equipment	7J	ı	6710	1758								
Accum Depr - Equipment under Capital Lease	7K	I	6710	1818								
Accum Depr (Amor) - IT Software	7M	I	6710	1839								

 To post prior fiscal year accumulated depreciation to the GL, process an SV transaction, as appropriate, in FMS.

RECEIVING STATION - TRANSFER IN - Prior FY Depreciation												
Description SV Ind Debits* Credits												
Accum Depr - Non-Expendable Equipment	MA	D	5720	1759								
Accum Depr - ADP Non-Expendable Equipment	MB	D	5720	1758								
Accum Depr (Amor) - IT Software	MC	D	5720	1839								
Accum Depr - Equipment under Capital Lease	MD	D	5720	1818								

<sup>\*</sup> Financing source transfer GL accounts

#### **Step 2b-2**

• Finance will process an SV transaction, as appropriate, for the transferred-in asset. The following table provides examples of SV transactions.

RECEIVING STATION - TRANSFER IN				
Description	SV	Ind	Debits	Credits*
Non-Expendable Equipment	M4	I	1750	5720
ADP Non-Expendable Equipment	M5	I	1751	5720
IT Software	M7	I	1830	5720
Equipment under Capital Lease	M8	I	1811	5720

<sup>\*</sup> Financing source transfer GL accounts

## Appendix E: iFAMS Procedures to Transfer PP&E Within VA

VA Guidance for Fixed Asset Transfers in iFAMS

Link to internal VA Standard Operating Procedures Acquire to Dispose (A2D)

## **Appendix F: Deferred Maintenance and Repairs Estimates and FCA Process**

- A. At the beginning of the fiscal year, the finance activity will record the estimated cumulative total of deferred maintenance and repair projects (for capitalized assets) based upon the final amount reported for September 30 of the prior year. The estimate will be adjusted at a minimum annually, no later than June 30<sup>th</sup>, or as necessary. The finance activity and engineering staffs or program managers will ensure that the September 30 balance reflects the proper amount as increased or decreased throughout the year.
- B. The finance activity or program managers will work together to ensure the information is properly estimated and recorded.
  - 1. The engineering staffs or program manager will prepare the deferred maintenance and repairs estimate with adjustments, as applicable to capitalized assets (based on the FCA report), in accordance with the PP&E policy. The estimate will be provided to the finance activity, in either hard or soft copy, and include supporting documentation. The documentation will be maintained by the finance activity and made available for any local audit.
    - a. The FCA is generally used as the starting point for the deferred maintenance and repairs estimate although other survey methods may be used, if they satisfy generally accepted government accounting standards for determining financial data reported for deferred maintenance and repairs. At a minimum, the FCA for an organization or station is conducted on a 3-year rotation.
    - b. Because maintenance and repairs, by definition, is expensed (not of a capital nature or capitalized), a dollar threshold does not apply when determining whether it is included. However, for practical purposes, deferred maintenance and repairs of an immaterial nature (as determined on a case-by-case basis) may be excluded if they were not originally identified on the FCA being used as the basis.
  - The engineer staffs or program managers should follow the process below when developing the estimate and adjustments for deferred maintenance and repairs.
     Determinations for whether a cost is capitalized or expensed will be based upon the policy provided in this chapter.
    - a. Apply a consistent methodology for determining deferred maintenance and repairs across similar assets. Document any changes in the methodology when they occur.
    - b. Review the FCA to ensure the maintenance and repair costs included are those that should have been incurred but are deferred to future periods due to resource or funding constraints. Do not include costs that would normally be performed in a future period.

- c. Add other maintenance and repair work, routine and non-routine, not reported in the FCA that has been deferred.
- d. Add the increased cost of construction if the FCA report is out-of-date and document the source of the cost escalation index as well as the methodology applied.
- e. Remove any items determined to be of a capital nature. Submit to the finance activity for a final decision any question on whether a cost should be considered as maintenance and repairs or an addition or improvement that may need to be capitalized.
- f. Remove any costs associated with work that has been completed or, if in progress, indicate that an invoice has been received and processed for payment.
- g. Remove costs associated with removal and clean-up of asbestos or other hazardous materials projects. These costs are included in the environmental liability account. Refer to Volume VI Chapter 8, Environmental and Disposal Liabilities, for policy and guidance.
- 3. The estimates, supporting documentation, and a signed memorandum are provided to the finance activity by major real property asset class in a written and supportable format, either in hard or soft copy.
- 4. The report and the supporting documentation to determine whether the costs included are expensed and should not be capitalized. Costs that are questionable should be discussed with the engineering staffs or program manager before a final decision. The finance activity will maintain the supporting documentation for any changes to the estimates and provide a courtesy copy to the engineering staffs or program manager.
- 5. The finance activity will record the appropriate expense using FMS VA specific 9000 series accounts (e.g., FMS 9201 land, 9202 buildings, and iFAMS 90030001 Land, 90030003 buildings).

DESCRIPTION OF THE FCA PROCESS. Questions on this section should be referred to the VACO CFM FCA Office.

A. VA tracks its infrastructure needs for its owned assets through FCAs, although other generally acceptable methods are available. The FCAs are compiled by a multi-disciplinary team of architects and engineers, working in conjunction with, and receiving input and assistance from, facility engineering staffs or program managers.

- B. The Office of Construction and Facilities Management (CFM) Consulting Support Service manages, conducts, and funds this VA-wide program, which is endorsed by VA management for assessing the real property condition of VA facilities.
- C. An independent interdisciplinary professional CFM-trained contractor architect/engineer team tours and evaluates every VA building on a 3-year cycle. Each building component is assessed and, along with a description, given an estimate of the remaining useful life and a grade from "A" to "F." The grade is based on VA guidelines for evaluating the condition of each building's systems. Refer to example, Figure 9F-1 FCA VAMC Building Site Template.

Figure 9F-1: FCA VAMC Building Site Template



Any building component graded "D" or "F" is given an estimated correction cost. Only components graded "D" or "F" are included in the recorded deferred maintenance and repairs entry. These correction costs are subtotaled for each building system and totaled for each building. Estimates are also provided for the cost of replacement for each building system and each building total. Many VA structures are also assessed.

## D. FCA Ratings.

- FCA rating of A = Like-new condition
- FCA rating of B = Over half of useful life remains
- FCA rating of C = Less than half of useful life remaining / average condition
- FCA rating of D = Poor condition, at the end of its useful life
- FCA rating of F = Critical condition, requires immediate attention

#### E. FCA Report Results.

The finance activity should receive a copy of its responsible stations or organizations' FCA reports. For copies of the FCA report, the finance activity should contact its local engineering staffs or program manager.

## **Appendix G: NCA Capitalization Form**

Capitaliz	zation Authorizatio	1:															
Cemeter						Project Man	ager:										
Project N	Name:					Date sent	to PM:										
Project I	Number:																
NEW ASSI	ETS	To be completed by	Project Manager				To be completed by	/ NCA Finance									
Station	DESCRIPTION OF ASSET	BUILDING NUMBER (for buildings and structures)	G S F (for Buildings)	вос	TOTAL COST	Completion Date	Assigned FA NUMBER	Assigned FA NAME	AO	BFY	FUND	Funding Project	ASSET CODE	FA Group	FA LOC	COST	ESTIMATED LIFE
									40								
									40								
									40								
Total New A	ssets				\$0.00												
BETTERM	ENTS to EXISTING ASS	To be completed by	Project Manager						To be	comp	leted by	NCA Finance					
	DESCRIPTION OF ASSET	BUILDING NUMBER (for buildings and structures)	G S F (for Buildings)	ВОС	TOTAL COST	Completion Date	FA NUMBER of Existing Asset from FA04 RSD Report	FA NAME from FA04 RSD Report	AO	BFY	FUND	Funding Project	ASSET CODE	FA Group	FA LOC	COST	ESTIMATED LIFE
									40								
									40								
									40								
	of Betterments		\$0.00						40					SUB-TOT			

	TO BE REMOVED: (Asse	To be completed by	Project Manager						To be	como	leted by	NCA Finance					
Station	DESCRIPTION OF ASSET	BUILDING NUMBER (for buildings and structures)	G S F (for Buildings)	вос	TOTAL COST	Completion Date	FA NUMBER of Existing Asset from FA04 RSD Report	FA NAME from FA04 RSD Report					ASSET	FA Group	FA LOC	COST	ESTIMATE LIFE
									40								
									40								
									40								
									40								
			\$0.00														
IA ZA DDZ	NIC WASTE JUICTO	DICAL ACCET DE	DAID. Class			MAC AND			11								
IAZAKUC	OUS WASTE and HISTO			p cost i	or nazardous	waste AND	any costs assoc	lated with work				NCA Finance					
Station	To be completed by Project Manager  DESCRIPTION OF ASSET				TOTAL COST DAT			DATE Expensed		_	FUND	Funding Project	ASSET CODE	FA Group	FA LOC	COST	ESTIMAT LIFE
												, ,					
			1														
			\$0.00														
otes And	Reconciliation with WIP to	be completed by N															
otes And WIP	Reconciliation with WIP to	be completed by N	CA Finance	Amount													
			CA Finance	Amount													
			CA Finance	Amount													
			CA Finance	Amount													
			CA Finance	Amount													
			CA Finance	Amount													
			CA Finance	Amount													

# Appendix H: VHA Capitalization Memo for Real Property

<u>Link to VHA Office of Finance – Capitalization Memo in Resources</u>