CHAPTER 1

GENERAL

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1-1. **PURPOSE.** This guide provides FAA personnel with guidance for the capitalization and the proper accounting for property, plant, and equipment (PP&E), in accordance with the latest Federal Financial Accounting Standards.

1-2. **DISTRIBUTION.** This guide is distributed to the division level within: ABA, ABU, AFM, APF, AIS, AIO, ARC, AND, ASD, ASU, AFZ, ANI, AOP, AOS, and ATB, as well as selected region and center offices. For additional copies of the guide, contact AFM-320.

1-3. **BACKGROUND.**

a. The Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, requires Federal agencies to develop annual financial statements and to have these statements audited. The CFO Act intends to improve financial accountability and reporting for the Federal agencies. Beginning with FY 2003, the Office of Management and Budget (OMB) required the submission of quarterly interim financial statements. Monthly statements will be required beginning with the second quarter, FY 2004.

b. The FASAB issues accounting standards.

1. Statement of Federal Financial Accounting Standards (SFFAS) No. 6 was issued in June 1996 to provide accounting standards for Federally owned PP&E. This statement calls for general PP&E to be recognized as an asset on the Federal entity's Statement of Financial Position, and to be charged to expense through depreciation over the expected life of the asset.

2. SFFAS No. 10 was issued in June 1998 to provide accounting standards for internal-use software. This standard requires the capitalization of the cost of internal use software whether it is

Commercial Off the Shelf, (COTS), contractor-developed, or internally developed.

3. SFFAS No. 11 was issued in October 1998 to amend the definition of standards for Federal mission property, classified space exploration equipment as general PP&E, and created a new classification of national defense PP&E.

1-4. **SCOPE**. This PP&E capitalization guidance applies FAA-wide, for assets at Headquarters, Centers, and Regions.

1-5. **IMPLEMENTATION OF THE DELPHI ACCOUNTING SYSTEM.** The former Departmental Accounting and Financial Information System (DAFIS) did not have any subsidiary property files or accounts that were part of the financial system. Detail records were maintained in independent personal and real property systems that were not part of the financial database. With the implementation of the DOT-wide DELPHI Financial System, the DELPHI Fixed Asset (FA) module becomes part of an integrated financial system that receives information from the Projects module and Payables module and likewise sends transactions to the General Ledger (GL) module. The former DAFIS capitalization process was an after-the-fact process of posting high-level summary totals to the general ledger. This was normally completed after the detail logistics real and personal property systems were updated. DELPHI is a system that will post to the GL and FA modules and will contain detail records that support the audit universe for the Financial Statement Audit. It will also support the compilation of the required detail PP&E Footnote to the Financial Statement.

1-6. **DEFINITIONS**.

a. Capitalization. For purposes of financial accountability, capitalization is the classification of costs as long-term investments (i.e., assets) rather than an expense of current operations. The asset's unit cost must be at least $25,000 and its estimated useful life at least 2 years for it to be classified as a capital asset. The point in time when an asset is placed in service triggers the transfer of the asset cost from the Construction in Progress (CIP) account to the asset record in the FA module (and either Real Estate Management System (REMS) or the Personal Property In-Use Management System (PPIMS)), and is referred to as "capitalization."

b. Principles of Capitalization. Expenditures related to the acquisition, modification, or improvement of property will be capitalized when those expenditures result in a significant increase in usefulness, service life, productivity, or capacity of a facility or property. It would distort FAA operating costs to charge long-term assets to a single fiscal year. "Expenses" are all other costs or expenditures incurred which do not result in any of the above. Operating expenses become part of the Statement of Net Cost and result in the reporting of FAA cost by Line of Business.

c. Capital Costs. All costs necessary to acquire a capital asset, or to add to the value of an existing capital asset, are classified as capital costs, such as the purchase price and all additional costs incurred to bring the asset to a form and location suitable for its intended use.

d. Depreciation. This is the allocation of the cost of an asset over the period of time of its use.

e. Straight Line Depreciation. Straight line depreciation assumes the asset will lose an equal amount of value each year of its estimated useful life. The total recorded cost of the asset is divided by the number of years estimated for its useful life, and the resulting number is the depreciation expense for each established year of life. This is the only acceptable means of calculating depreciation within the FAA.

Example 1: *An office building bought by FAA cost $800,000. The estimated useful life assigned for accounting purposes is 40 years, and there will be no salvage value. Straight-line depreciation is calculated as follows:*

$800,000 / 40 years = $20,000 depreciation expense per year.

Example 2: *The FAA bought an airplane at the cost of $8,000,000. The estimated useful life assigned for accounting purposes is 10 years, and there will be no salvage value. Straight-line depreciation is calculated as follows:*

$8,000,000 / 10 years = $800,000 depreciation expense per year.

f. Expense. In general, costs that do not meet the requirements for capitalization are expensed and charged to the accounting period in which the costs were incurred. An example of a GL account for a charge to operating expenses would be # 61006600, "Operating Expenses/Program Costs Non-Government, Production."

g. Capital Assets. Capital assets are referred to as PP&E in the Federal Accounting Standards. FAA capital assets are further defined as real and personal property, as shown below:

1. Real Property. Land, buildings, and other structures are considered real property. Details on real property are contained in Chapter 3.

2. Personal Property. Any tangible property not meeting the definition of real property is considered personal property. In addition, it is not consumed in use, does not lose its identity when put into use, and does not ordinarily become a non-severable component of other property. Details on personal property are contained in Chapter 4.

h. Operating Material and Supplies (OM&S) - FAA Inventories. OM&S includes operating materials required for maintenance of air traffic control and air navigation facilities, hangar inventories, and administrative supplies and equipment. It is retained in inventory until issued or consumed by projects or other users. At that point it is either charged to expense or CIP. These items are accounted for in the inventory line item of the FAA Balance Sheet, are separate from PP&E, and are outside the scope of this desk guide.

1-7. **APPENDICES.**

a. Appendix A, "Financial Accounting Treatment of Typical FAA Costs Incurred in the Acquisition of Fixed Assets," is included to aid in the classification of costs as eligible or ineligible for capitalization.

b. Appendix B, "General Ledger Accounts for Property, Plant, and Equipment," provides a listing of DELPHI general ledger accounts related to plant, property and equipment accounts.

c. Appendix C, "Object Classes Related to Capitalization," provides a listing of DELPHI object class codes.

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