

APPENDIX A.

FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS INCURRED IN THE ACQUISITION OF FIXED ASSETS

TYPE OF COST	CAPITALIZE OR EXPENSE
1 Additions To Existing Assets (Extends Capacity/Service Life, e.g., Improvements).	Capitalize
2 Administrative Costs (Direct) of Developing and Fielding a System (Either FAA or Contractor Incurred) After Technological Feasibility Has Been Proven.	Capitalize
3 Advance Payments.	(See Note 1)
4 Architecture & Engineering Costs (Rendering, Soil Testing, Drawings).	Capitalize
5 Building Costs (FAA Owned) - Original Costs and Major Improvements (e.g., Purchase Price, Survey, Drawings, Installation, Preparation Work), Includes Attached Fixtures-Lighting/Air Conditioning.	Capitalize
6 Calibration of Equipment:	
a) Incurred Prior to Project Completion.	Capitalize
b) Incurred After Project Completion.	Expense
7 Configuration Management After Technological Feasibility Has Been Proven.	Capitalize
8 Contractor Logistics Support, Contractor Depot Logistics Support After Project Completion.	Expense
9 Damage Claims Incurred Prior to Project Completion.	Capitalize
10 Decommissioning Costs (Clean-Up, Site Restoration, Environmental Due Diligence Act).	(See Note 2)
11 Deployment Readiness Review (In Service Decision).	Capitalize
12 Design (System & Eng.) Costs - Hardware/Software, Failure Mode Criticality Analysis, Maintainability/Reliability Program & Demonstration Costs:	
a) Before Feasibility Has Been Determined.	Expense
b) After Feasibility Has Been Determined.	Capitalize
13 Design Reviews (e.g., Formal Qualification Reviews, Preliminary And Critical Design Reviews):	
a) Before Feasibility Has Been Determined.	Expense
b) After Feasibility Has Been Determined.	Capitalize
14 Documentation (System) Costs - Incurred Prior to Project Completion (e.g., User Guides, Manuals).	Capitalize
15 Easements (Land Rights).	Capitalize
16 Engineering Costs (See Also Design Costs).	Capitalize
17 Environmental Impact (New Construction).	Capitalize

TYPE OF COST	CAPITALIZE OR EXPENSE
18 Environmental Remediation Costs - (FAA Owned Property):	
a) Underground Storage Tanks and Asbestos Removal.	(See Note 3)
b) Soil Removal And Restoration:	
- As Part of New Facility Construction.	(See Note 4)
- As Part of Cleanup Following Decommissioning.	(See Note 2)
19 Equipment Costs (FAA Owned) Initial Cost and Major Improvements - e.g., Radars, ILS Receivers.	Capitalize
20 Failure Mode Criticality Analysis - See Design Costs.	
21 First Articles And Prototypes.	(See Note 5)
22 Furniture (Initial Purchase for Project as Part of System/Administrative Workstations).	Capitalize
23 Handling and Storage Costs.	Capitalize
24 Incentive Fees to Contractors (to Reward Performance Goals).	Capitalize
25 Labor Costs During Construction:	(See Note 6)
a) Technical Support Services Contract (TSSC).	Capitalize
b) Logistics Support Services Contract (LSSC).	Expense
c) Region F&E Personnel (e.g., Activity 5 Funds).	Capitalize
d) HQ Program Mgmt Office and IPTs.	(See Note 6)
e) HQ Contractor Support to Program Offices (System Eng. and Tech. Assistance - SETA).	Capitalize
26 Land Acquisition Costs - e.g., Survey, Title Services, Appraisals, Fees, Razing Existing Structures Acquired From Others, Environmental Due Diligence (EDDA) (For Purchased or Leased Site), Purchase Price.	Capitalize
27 Legal Fees - Incurred to Bring Project to Its Intended Use (e.g., Title/Recordation Costs).	Capitalize
28 Lease Payments For Land and PP&E:	
a) Capital Lease.	Capitalize
	(See Note 7)
b) Operating Lease	Expense
29 Leasehold Improvements (e.g., Major Renovations, Relocate Walls, Rewire Buildings).	Capitalize
30 Legal Fees - External (Incurred to Bring Project to Its Intended Use).	Capitalize
31 Materiel Costs:	
a) Contractor Acquired Property (CAP).	Capitalize
b) Other Contractor Provided Project Materiel.	Capitalize
32 Maintenance and Repair Costs (See Also Contractor Logistics Support).	Expense
33 Modifications to Systems or Equipment (e.g., Upgrades, Equipment "Leapfrog" Mods).	Capitalize
34 National Airspace Integrated Logistics Support (NAILS):	
a) Costs Incurred During the Construction/Acquisition Phase.	Capitalize
b) Costs Incurred During the Operating Phase.	Expense
35 Operating Materiels & Supplies.	(See Note 8)
36 Other Structures - FAA Owned (Original Cost and Major Improvement) e.g., Airfield Systems, Airport Runways, Aprons, Taxi Lighting.	Capitalize

TYPE OF COST	CAPITALIZE OR EXPENSE
37 Packaging, Postage and Packing (Contractor's Costs):.	
a) Costs Incurred Prior to Project Completion.	Capitalize
b) Costs Incurred After Project Completion.	Expense
38 Penalties (e.g., Fees Charged for Late Payments, etc.).	Expense
39 Prepayments.	(See Note 1)
40 Production Readiness Review.	Capitalize
41 Progress Payments.	(See Note 1)
42 Project Management Costs - Baseline and Contractor Administration.	Capitalize
43 Prototypes.	(See Note 5)
44 Real Estate Costs (Incurred to Place the Project Into Operation, See Also Land Acquisition Costs).	Capitalize
45 Renovation Costs - See Buildings, Equipment and Other Structures and Leasehold Improvements.	Capitalize
46 Rental Costs:	
a) Equipment/Storage Space (Prior to Project Completion).	Capitalize
b) Equipment/Storage Space (After Project Completion).	Expense
47 Repair Costs - Emergency Repairs, Routine Repairs, Such as Replacing Shingles or Repairing HVAC.	Expense
48 Research and Development Costs (See Also Note 2).	Expense
49 Service Costs (Incurred After Project Completion).	Expense
50 Shipping Costs For New Systems (Including Handling and Storage):	
a) To Point of Intended Use.	Capitalize
b) After Point of Intended Use.	Expense
51 Site Construction Costs (See Also Land Acquisition Costs).	Capitalize
52 Site Selection Costs (e.g., Legal, Survey, Design, Studies).	
a) If Site Was Selected for Lease or Purchase.	Capitalize
b) If Site Was Not Selected for Lease or Purchase.	Expense
53 Software Costs (Internally and Externally Produced, Embedded).	(See Note 9)
54 Spares:	
a) Component of System, Hot Wired.	Capitalize
b) Other Spares (e.g., Depot Spares, Peculiar Spares, Site Spares).	Capitalize (See Note 8)
55 Special Tools and Test Equipment Hardware.	Capitalize
56 System/Subsystem Integrity Check Demonstration.	Capitalize
57 System Tests (e.g., Fail Safe Demonstration, Interface Test, Operational Test and Evaluation):	
a) Incurred Prior to Project Completion.	Capitalize
b) Incurred After Project Completion.	Expense
58 Technical Manuals.	Capitalize
59 Technology Refreshment of COTS Components (Includes Product Improvements or Upgrades).	(See Note 10)
60 Technical Support Services:	
a) Incurred Prior to Project Completion.	Capitalize
b) Incurred After Project Completion.	Expense

TYPE OF COST	CAPITALIZE OR EXPENSE
61 Telecommunications:	
a) Initial.	Capitalize
b) Service.	Expense
62 Test Equipment (Procured as Component of a System).	Capitalize
63 Test Readiness Review.	Capitalize
64 Training Courses & Devices - Development and/or Construction (System Specific).	Capitalize
65 Training Courses - Execution and Delivery of Training And Support Services.	Expense
66 Travel:	
a) In Support of a NAS Development Project.	Capitalize
b) Not in Support of a NAS Development Project.	Expense
67 TSSC Materiel.	Capitalize
68 Utilities:	
a) To Bring Project to Its Intended Use, e.g., Installation, Site Preparation, Etc. Utilities Are Normally Operating Expenses.	Capitalize
b) After Project Completion. (Even If Paid By F&E Funds).	Expense
69 Warranties – Extended.	(See Note 11)

Note 1. Advances are payments made to contractors before the completion of the related task or delivery of the item. Record these payments as prepaid assets. Progress payments are posted directly to the CIP account.

Note 2. Do not capitalize such cleanup costs. At the time an asset is placed in service (commissioned), estimate what cleanup costs will be incurred in connection with its subsequent decommissioning. Then allocate that estimated total cleanup cost proportionately over the service life of the asset, with a portion of it recognized as expense (and accrued for as a liability) during each service year. Such accrual does not impact the asset's gross value or depreciation, but instead accumulates it as an accumulated liability account.

Note 3. For hazardous materials projects that cleanup existing facilities and do not include equipment \$25,000 or greater, expense all costs as they are incurred. If new equipment is acquired to address environmental concerns (such as scrubbers or filtration devices), account for such equipment as a new capital asset if it meets accountability thresholds. Otherwise expense the equipment.

Note 4. Cleanup costs may be incurred in connection with bringing a property to a form and location suitable for its intended use; therefore they are eligible for capitalization, along with other site development costs.

Note 5. Expense any costs incurred on a first article or prototype before technological feasibility has been established. After technological feasibility is established, the subsequent costs of constructing and installing a first article are eligible for capitalization and depreciation. If the first article is placed in service at a site, depreciate it over its estimated service life at that site. If it is not intended to be placed in operational service, but is to be used solely for testing, capitalize and depreciate it over the estimated service life of the entire program (treatment parallel to common project costs). If the system is destroyed during testing, write off the asset at that time.

Note 6. Allocate labor costs (whether from FAA headquarters, regions, centers or contractors sources). However, with current system limitations, headquarters labor costs cannot be capitalized and should be expensed.

Note 7. Capital lease assets are capitalized upon a determination that it is a capital lease. A corresponding liability is created at lease inception. For example: debit – GL account # 18106000, “Assets under Capital Lease” and credit GL account # 29406200, “Capital Lease Liability.” Monthly lease payments reduce the liability account and record interest expense.

Note 8. In FY 2002, FAA changed its method of accounting for its exchange & repair spare parts and reclassified site spares from operating materials & supplies to PP&E. FAA recognized accumulated depreciation on its spare parts inventory. Site spare parts are capitalized at project close out.

Note 9. Software embedded in a system is part of the system’s total cost. Other software costs (both internally and externally incurred), procured independently of the hardware on which it is resident, may be a capitalizable cost. Examples of capitalizable costs are the costs to purchase or develop software, including design, coding, testing, installation, and any enhancements to existing software that result in significant additional capabilities of the software. Examples of software development costs that are not eligible for capitalization include evaluation of alternatives, data conversion costs, costs incurred after final acceptance, software maintenance or enhancements that merely correct a design flaw or extend the useful life of the software.

Note 10. If the original asset was recorded as line-item accountable, delete the old record and record the replacement component as a new detail property record and capitalize it if it meets the capitalization criteria. If the original asset was recorded as a system, determine whether the replacement component increases the capacity or

extends the service life of the asset. If it does, capitalize it as an improvement if it meets the capitalization criteria; if it does not, expense it.

Note 11. If FAA purchases an extended warranty, record it as an expense at the time the invoice is paid.