DEPARTMENT OF HEALTH & HUMAN SERVICES
Office of the Secretary

Date: OCT 15 1995

Washington, D.C. 20201

To: OPDIV Financial Management Officers
Executive Committee for Logistics

From: Deputy Assistant Secretary, Finance
Deputy Assistant Secretary for Grants and Acquisition Management

Subject: Accounting Standard-Property, Plant & Equipment (PP&E)

This memorandum is to confirm the decision to raise the present capitalization threshold for equipment and information technology software used in general operations of the Department from $5,000 to $25,000. This change was made possible by FASAB's accounting standard number 6, "Accounting for Property, Plant and Equipment,"

In publishing this standard the Advisory Board stated its belief that capitalization thresholds should be established by Federal entities rather than centrally because of the diversity in size of Federal entities and their use of PP&E. Once thresholds are established they are to be consistently followed and disclosed in annual financial reports.

This accounting standard carries an implementation date of FY 1998, but earlier implementation is encouraged and individual provisions of the standard may be implemented before other provisions. under this guidance the revised capitalization threshold for purchased, donated and transferred equipment and software will be effective October 1, 1996.

Equipment and software with a unit cost of $5,000 to $25,000 will be removed from financial records before the close of FY 1997. The value of property removed from general ledger accounts will be disclosed in the annual financial report. These items will be reclassified in the unit property records as non-capitalized property. It will be the joint responsibility of accounting and property staff to ensure these actions have been taken by September 30, 1997 and that the control general ledger and unit subsidiary property records are in balance. The requirement continues for a monthly reconciliation.

Raising the threshold will reduce the time spent on reconciling tasks, but we emphasize there should be no lessening of physical control over property, Inventorying of property valued $5,000 or more and sensitive items, as set forth in LMM 103-27,58 is required and should be observed by the staff engaged to audit the OPDIV financial statements, These inventories should be divided between items capitalized and non-capitalized. Attached is additional guidance for implementing this change in accounting policy. The Departmental Accounting Manual, Chapter 1-10 will be updated accordingly. We appreciate very much the help of your representatives on the Financial Policies Group in developing this change in property accounting.

For questions on implementation guidance please contact Sue Mundstuk on (202) 690-6228 or Waldo Nelson on (202) 690-7569.

Terrence J. Tychan
Attachment
cc: Chief Financial Officers, Financial Policies Group

Capitalization Threshold
Equipment & Information Technology Software
Implementation Guidance

PP&E Definition

Tangible assets that meet the following criteria:

- **they have an estimated useful live of 2 years or more,**
- **they are not intended for sale in the ordinary course of operations, and**
- **they have been acquired or constructed with the intention of being used, or being available for use by the entity,**

They also include:

- **assets acquired through capital leases, and**
- **property owned by the entity in the hands of others,**

General Ledger Accounts

1751	**Equipment in Use (Other IT)**
1756	**IT Equipment in Use**
1830	**Information Technology Software**

Object Classes & Definitions

Capitalized Equipment	**31.10 - 31.80 and 31.AA series**
Non-Capitalized Equipment	**31.90 series**

Capitalization Threshold

Beginning October 1, 1996 each unit of acquired equipment and software valued at $25,000 and above will be capitalized; all below $25,000 will be expensed, OPDIV Information Technology staff will develop detailed guidance on the composition of a computer unit. If, subsequently, a purchased computer component (to be added to the initial unit) raises the value of the unit to $25,000 or above the component purchase will be recorded as capitalized property, and a simultaneous entry will be made to reclassify the initial purchase. See TC 344 (modified) attached.

Additional Capitalized Criteria for IT Software

Purchased, off-the-shelf software: capitalize when value is $25,000 and above; expense all below this threshold,

Purchased, contractor developed software: capitalize when value is $25,000 and above; expense all below this threshold,

Internally developed software: capitalize when value is $25,000 and above and is to be recovered through charges to users, The capitalized amount must be depreciated over a period not to exceed 5 years. Costs may include initial training material, documentation manuals after technological feasibility has been established, salaries and benefits of all persons involved in the development including outside consultants fees and supplies.

See TC 344 (modified), attached, to record the capitalization of the ior development expenses. Internally developed software costs not to be recovered through charges to users will be expensed as costs are incurred.

Note: Software purchased or developed for a specific project, usually a scientific project, should be depreciated over the period of the project,

Removing Cost of Property Below $25,000 From General Ledger Accounts

Rather than establish new TCs to record this one time adjustment, we recommend that you use established transactions: TC 261 to remove the values from the asset account and TC 26A to adjust the accumulated depreciation account, and for appropriated funds to also remove the book value from the equity account. Although TC 26A charges "loss on disposition account, 721111 (a current period transaction) for the net value being removed, OPDIVs that have substantial values to be removed should report this adjustment on line 20, prior period adjustments, on the Statement of operations & Changes in Net Position. The note that refers to this line will disclose that the one-time adjustment results from a change in the capitalization threshold. This reclassification can be documented as a financial statement JV and kept with the statement working papers, Transaction Code 344 (modified).

To Capitalize Agency Developed IT Software & Previously Expensed IT Equipment

Debit	**1756**	**IT Equipment in Use**
	1830	**IT Software**
Credit	**6103**	**Expense - Cost Capitalized**

-and-

(Appropriated funds only)

Debit	**7409***	**Prior Period Adjustments-other**
Credit	**3211**	**Investments in Capital Assets**

*** New account**

Transaction Code Table is being updated accordingly.