



Program Statement

OPI: FPI
NUMBER: 8563.09
DATE: 7/23/2002
SUBJECT: Building and
Improvements (Fixed
Assets)

1. **PURPOSE AND SCOPE.** To issue revised procedures for accounting and control of buildings and improvements related to construction activities located at Federal Prison Industries (FPI) field locations and Central Office.

2. **SUMMARY OF CHANGES.** This directive incorporates changes required due to the implementation of the integrated management information system, **Millennium**.

3. **PROGRAM OBJECTIVES.** The expected results of this program are:

a. Buildings and Improvements (B&I) will be classified and valued on the financial statements of the Corporation in accordance with generally accepted accounting principles.

b. Transactions are recorded accurately and timely in **Millennium**.

c. Construction costs will be accurately recorded in accordance with generally accepted accounting principles and FPI financial reporting requirements.

4. **DIRECTIVES AFFECTED**

a. **Directives Rescinded**

PS 8563.04 Buildings and Improvements (Fixed Assets)
(7/8/98)

OM 004-02 (8563) Buildings and Improvements - Fixed
Assets - FPI (3/5/02)

PS 8563.05	Depreciation of Fixed Assets - FPI (12/23/98)
PS 8041.03	Construction and Activation Manual - FPI (12/11/97)

Major B&I funds approved in the FPI Operating Plan are carried into future years for the life of the project. Once major B&I has been approved in the Operating Plan, the amount approved may be expended until the project has been completed.

- ◆ Additional Plan approvals or Requests for Special Authorization (RSA) are not required for major B&I each fiscal year.

Other B&I construction approved during the annual planning cycle must be listed in the Operating Plan. Those items approved outside the planning cycle require an RSA. Funds for other B&I projects are approved for a specific fiscal year and must be obligated (i.e. contract/purchase order) in that year, but expenditures for the project are allowed to be made through March 31 of the following fiscal year before a new request is required.

8. ACCOUNTING FOR B&I CONSTRUCTION

a. B&I costs that do not meet capitalization criteria are to be expensed as incurred to account 614300, Building Repairs. B&I construction costs that meet the capitalization criteria will be captured in the Construction account (172000) until the project is complete.

b. Each item on the Operating Plan and each RSA will be assigned an Internal Order in FMB for all approved B&I projects.

c. Purchase orders and delivery orders for items used on the construction project must be coded to the appropriate Internal Order.

d. Warehouse personnel must record receipt of construction materials and supplies in the **Millennium** system. At the end of the month the **Millennium** system will charge all related costs to the construction account when the Internal Orders are settled.

e. Civilian and inmate payroll charges associated with construction projects must be coded to the appropriate expense account.

These charges are to be entered into the **Millennium** system. Supporting documentation identifying and charging wages to the construction account must be maintained in the text as appropriate.

f. Overhead costs are to be charged to Construction projects based upon inmate labor charged to the project. The overhead rate is to be applied to all FPI projects at all locations at a rate of 500% of inmate labor hours charged to the project.

g. When B&I construction is completed, the accountant is to transfer the total cost of the construction project from assets under construction (172000) to the B&I Account 173000 by transferring the asset under construction to a new B&I asset.

9. ACCOUNTING FOR DONATED B&I. Donated B&I is to be valued at the Fair Market Value (FMV) as determined by a Board of Survey when acquired or, if applicable, after renovations/improvements have been made. B&I on loan to FPI are not considered donated property.

- ◆ The accountant is to enter the donated B&I into the Master Asset Record at the valued amount. The class code field is 5000.
- ◆ Renovations costing \$10,000 or more are to be capitalized separately from the donated B&I's FMV. The donated B&I's FMV is determined by subtracting the renovation costs from the building's FMV after renovation. The two values are entered into the Master Asset Record as two separate assets referencing the other. Each asset record must be depreciated based on the asset's capitalized value and useful life.

Example: B&I with a renovated FMV of \$40,000, renovation costs of \$15,000, and a 10 year useful life would have two asset entries in the Master Asset Record. One asset entry would be for renovation costs in the amount of \$15,000 to be depreciated over 10 years. The other entry would be for the FMV of donated B&I in the amount of \$25,000 (\$40,000 - \$15,000), also to be depreciated over 10 years.

- ◆ Depreciation expenses must be recaptured on Donated B&I by debiting account 322000 - Donated Property - Current Year, and crediting account 713000 - Recapture of Donated Property for the Donated FMV of B&I. Depreciation of renovation costs are not recaptured since they are actual B&I expenditures depreciated over the asset's life.

- ◆ At fiscal year end, amounts in account 322000, Donated Property - Current Year, must be transferred centrally to account 322500, Donated Property - Prior Years by crediting account 322000 and debiting account 322500. Depreciation expenses then must be recaptured locally on this B&I by debiting account 322500 instead of 322000.
- ◆ If FPI subsequently donates Donated B&I to a non-FPI activity, the transaction must be recorded by debiting account 322000 Current Year or 322500 Prior year Donated Property and account 173900, Accumulated Depreciation, and crediting account 173000, B&I. Renovation costs for donated B&I is to be recorded in accordance with procedures for other B&I.
- ◆ Acquisition of donated property must be approved in accordance with Section 7 of this Program Statement.

10. **ACCOUNTING - ADDITIONS AND IMPROVEMENTS.** Additions to B&I must be capitalized when costs exceed \$5,000 and it either increases the asset's value or its service potential.

Example: The addition of an air conditioning system or rooms on an existing building improves the building's service potential; therefore, it must be capitalized and matched against future revenues.

Office renovations also qualify as capital improvements, if the costs exceed \$5,000. Expenses for normal maintenance such as repairs or renovations must be accrued in the period in which the costs are incurred.

Improvements that meet the capitalization criteria and increase the service potential or the asset's quality are to be capitalized using the existing asset record for the original asset.

/s/
Kathleen Hawk Sawyer
Director