

Reclamation Manual

Directives and Standards



United States Department of the Interior

BUREAU OF RECLAMATION
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September 28, 2004
MEMORANDUM

To: Department of Interior
Attention: Director, Office of Acquisition and Property Management and
Director, Office of Financial Management

From: William E. Rinne
Chief Financial Officer

Subject: Bureau of Reclamation Capitalization Threshold

Per Department of the Interior Real Property Management Policy requirements (Chapter VII, Section B, page 9), Reclamation is providing notification that we have retained our historical real property capitalization threshold. Reclamation constructs, operates, and maintains an extensive water and power infra-structure that is subject to repayment from the project beneficiaries and has utilized a zero capitalization threshold for all real property, other than software and software development, since our inception in 1902. The majority of Reclamation's project features have an estimated useful life in excess of 50 years. Because of the complexity of our project features, depreciation is based upon a composite life made up of the various components incorporated in the feature.

In cooperation with Western Area Power Administration, Reclamation developed and utilizes an itemized real property standard for determining capitalization criteria, establishing useful lives, and replacing components. This publication, *Replacements, Units, Service Lives, and Factors* presents the relationship of the Federal Energy Regulatory Commission (FERC) cost classification system used by Western and the Federal Financial System (FFS) used by Reclamation. This standard, which is consistent with generally accepted accounting principles and is in accordance with Federal Accounting Standards Advisory Board (FASAB) guidance, utilizes a zero capitalization threshold. The definition of a Unit of property in this publication is:

- (a) an item that will be replaced as a complete unit more than one time within the period of analysis and
 - (b) an item that is significant in terms of annual maintenance expense but it not ordinarily replaced as a part of the normal recurring maintenance program.
- The period of analysis is generally considered to be 100 years.

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The definition of a unit of property is consistent with the definition of a unit of property is consistent with the Federal Accounting Standards Advisory Board's (FASAB) definition of a tangible asset, which is:

- (1) have an estimated useful life of two or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

To ensure a consistent application of our capitalization and depreciation process, Reclamation utilizes the zero threshold for all real property assets whether they are water or power related. With the exception of some minor non-reimbursable program benefits, Reclamation is required by law to recover all costs incurred to provide goods and services (water and power) to our beneficiaries. A zero threshold allows us to capture all real property asset costs and to expense them over the life of the asset rather than expensing some of these costs in the current year and the balance over the life of the asset. We believe the use of the zero threshold allows for a more accurate match between revenues and expenses since all costs incurred to construct, expand, or replace our real property assets are factored in to the water and power rates over the life of the asset rather than in the year incurred. The water and power rates are calculated periodically based upon contract or legal requirements and cannot be adjusted at will. Because of the complexity of our mission and extensive scrutiny from our customers, we feel that the continuation of one consistent process is important and provides a better foundation to support our accounting processes. Even a prospective change in our capitalization threshold could adversely impact our water and power customers. We believe the continuation of Reclamation's current capitalization procedures and zero threshold standard is in line with the Department's efforts to ensure better accountability and a more accurate valuation of total assets.

If you have any questions, please contact Ed Abreo, Manager, Financial Policy Division, at (303) 445-3433 or via e-mail at cabreo@do.usbr.gov.

cc: W-6000 (Rinne), D-7000 (Harrison), D-7600 (Abreo, Nicholson, Tjarks), D-7700 (Escalante), D-7900 (Molinar), PN-1000 (McDonald), MP-100 (Rodgers), LC-1000 (Johnson), UC-100 (Gold), GP -1000 (Bach)