

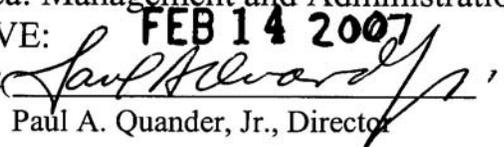


POLICY STATEMENT

Policy Statement 5202

Policy Area: Management and Administration

EFFECTIVE: FEB 14 2007

Approved: 
Paul A. Quander, Jr., Director

ACCOUNTING FOR LEASEHOLD IMPROVEMENTS

I. COVERAGE

This Policy Statement applies to all Court Services and Offender Supervision Agency (CSOSA) staff involved with accounting for leasehold improvements. This Policy Statement does not apply to the Pretrial Services Agency.

II. BACKGROUND

This policy establishes responsibilities and authorizes procedures pertaining to accounting standards for leasehold improvements. Proper accounting standards must be followed to ensure that CSOSA's financial statements are prepared in accordance with the Office of Management and Budget's (OMB) Bulletin Number 01-09, 'Form and Content of Agency Financial Statements,' and the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) Number 6, *Accounting for Property, Plant and Equipment*. Leasehold improvements meeting agency capitalization criteria are classified as a "general property, plant and equipment" asset for financial statement purposes. FASAB's definition of a leasehold improvement is an improvement that expands the capacity of a leased asset or otherwise upgrades it to serve needs different from, or significantly greater than, those originally intended. Capitalized leasehold improvements should be recorded as an asset and amortized/depreciated over the remaining term of the lease agreement.

III. POLICY

Agency components must have procedures in place to properly identify leasehold improvement requests. Leasehold improvements shall include those improvements made to leased assets, including leased space, that meet the following criteria:

1. The improvement will increase the quality, capacity or significantly increase the economic life of the original leased asset, and;
2. The cost of the improvement has or is expected to exceed \$100,000; and
3. The improvement is funded through a lump sum obligation either at the beginning of, or during, the lease term. Improvements funded through higher lease or rent payments over the life of the lease should not be recorded as leasehold improvements. They will be accounted for as normal operating lease payments.

- a. Additional disclosure relating to improvements funded through increased lease or rent payments may be disclosed in the footnotes that accompany the Agency's financial statements.

Items that do not meet each of the criteria above, such as normal operating repair and maintenance costs to maintain leased assets, are not leasehold improvements and shall be expensed when incurred. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than those originally intended. SFFAS No. 6, *Accounting for Property, Plant and Equipment* defines repair and maintenance as the act of keeping fixed assets in current, usable condition. This includes:

- preventive maintenance;
- normal repairs;
- replacement of parts and structural components;
- maintaining space through routine reconfigurations which do not alter the underlying mission of the space (including office space reconfigurations); and
- other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its original expected asset life.

Maintenance also typically includes maintaining the appearance of a facility through installation of carpet, painting, and similar expenses that do not reflect a changed mission.

IV. AUTHORITIES, SUPERSEDURES, REFERENCES, AND ATTACHMENTS

A. Authorities

Federal Accounting Standards Advisory Board

Statement of Federal Financial Accounting Standards Number 6; *Accounting for Property, Plant and Equipment*
Office of Management and Budget Bulletin Number 01-09; *Form and Content of Agency Financial Statements*

B. Policy Supersedures

None

C. Procedural and Other References

Operational Instructions

D. Attachments

Appendix A. Responsibilities

APPENDIX A
Responsibilities

The Offices of Facilities and Information Technology are primarily responsible for managing the operation, maintenance and improvement of CSOSA's leased assets.

The Office of Financial Management (OFM) shall issue Operations Instructions outlining the procedures that must be followed in order to determine if an improvement to a leased asset meets the criteria for a leasehold improvement.

OFM shall reflect the amount of the leasehold improvement that will be capitalized and the amount amortized/depreciated over the remaining term of the lease agreement, on the Agency's annual financial statements. Amortization/depreciation begins when the improvement has been completed and the asset is ready for use.