DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:
CERM-F (37)

26 SEP 2001

MEMORANDUM FOR ALL USACE COMMANDS (RESOURCE MANAGEMENT DIRECTORS/OFFICERS)

SUBJECT: Accounting for Leasehold Improvements

1. Reference:

a. CERM-F memorandum dated 29 September 1997, subject: Revised Capitalization Guidance for Civil Works Personal Property.

b. DoD Financial Management Regulation Volume 4, Chapter 6

2. For the last several months, we have worked jointly with HQ Real Estate to review how the Corps accounts for improvements made to leased facilities (to include General Services Administration (GSA) occupancy agreements.) Based upon this review, we have concluded that these costs aren't properly capitalized consistently. The purpose of this memorandum is to clarify HQ policy and ensure that Field Operating Activities are in compliance with the policy governing this area. We are including this clarification in our revision of ER 37-2-10.

3. Current Policy defines leasehold improvements as improvements, additions or betterments made to buildings, facilities, or portions of either, which are occupied but not owned by USACE activity (this includes GSA occupancy agreements.) Leasehold improvements will be capitalized if they meet the capitalization criteria for Civil Works property (useful life of two or more years and cost $25,000 or more.) The costs of leasehold improvements shall be amortized over 5 years or the expected duration of the lease, whichever is less. In addition, for leasehold improvements funded by the Plant Replacement and Improvement Program (PRIP), no plant increment will be charged during the amortization period. **Thus all capital improvements meeting the above criteria made to real property, occupied but not owned by USACE, must be capitalized as a leasehold improvement and should in no case be expensed.**

4. Typical types of improvements and additions and betterments subject to capitalization as leasehold improvements include, but aren't limited to, initial installation or upgrade of automatic sprinklers; fire alarm and/or security systems; initial installation or upgrade of central air conditioning or heating systems; initial installation or upgrade of telephone systems; initial installation, upgrade and expansion of communication lines for local area networks; installation of upgraded electrical wiring; conversion of storage space to office space; installation of emergency operations centers, construction of permanent walls in open areas; application of brick to wood frame structure and construction of a building,

structure or facility on leased land. Replacements in kind (same type or capacity) of carpeting, windows, floors, telephone, heating and air conditioning systems, and installation and/or removal of temporary walls and other like items are not subject to capitalization as leasehold improvements and should be expensed.

5. Policy Clarification. USACE headquarters and many Division and District offices are held under various leases and GSA occupancy agreements. Currently these types of agreements aren't recorded in REMIS, thus don't have property_id_codes. Leases and other occupancy agreements need property_id_codes so the improvement can be properly capitalized and recorded in CEFMS. Even though we have no ownership in the real property we must properly account for capital improvements we make. Real Estate has put out REMIS procedures to record leasehold improvements. Procedures for accounting for leasehold improvements in CEFMS is the same as other property, plant and equipment except the property category code will be 'LH.'

6. This policy is effective 1 October 2001. If you have any questions please call Mike Walsh CERM-F at (202) 761-5440.

FOR THE COMMANDER:

STEPHEN COAKLEY
Director of Resource Management