



ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

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JAN 24 2007

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (ACQUISITION,  
LOGISTICS & TECHNOLOGY)  
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,  
DEVELOPMENT & ACQUISITION)  
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(ACQUISITION)  
ASSISTANT TO THE SECRETARY OF DEFENSE  
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ACQUISITION EXECUTIVE, UNITED STATES SPECIAL  
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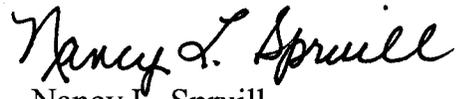
SUBJECT: Military Equipment Definition

Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant and Equipment*, reclassifies military equipment (ME) as General Property, Plant and Equipment (GPP&E) and requires that it be capitalized on the Department's financial statements. The accounting Standard does not distinguish ME from other GPP&E. As a result, there is no financial requirement to segregate ME on the financial statements. Despite this, the Department has decided to report ME separately.

In the absence of a specific requirement, the Department has the flexibility, and the responsibility, to define ME in a way that will support the acquisition management process. The attached definition considers current acquisition guidance and supports the acquisition objective of consistent program valuation. In light of this, I have determined that the attached definition for military equipment should be used for acquisition reporting purposes. In addition, to ensure consistent acquisition and financial reporting, I am requesting that the Deputy Chief Financial Officer incorporate this definition and the related guidance into the Financial Management Regulation.



Questions concerning this memorandum should be directed to Mr. Ric Sylvester, Deputy Director, OUSD(AT&L),ARA (Property and Equipment Policy), at 703-604-6350 x121.



Nancy L. Spruill  
Director, Acquisition Resources  
& Analysis

Attachment:

As stated

Cc:

Assistant Secretary of the Army (Financial Management and Comptroller)

Assistant Secretary of the Navy (Financial Management and Comptroller)

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Director, Force Structure, Requirements, Resources and Strategic Assessments,

J-8, United States Special Operations Command

## **Background**

Statement of Federal Financial Accounting Standards (SFFAS) No. 23, “*Eliminating the Category National Defense Property, Plant, and Equipment*,” makes the statement that “all items previously considered [National Defense Property, Plant, and Equipment] are classified as general PP&E” and are to be accounted for in accordance with SFFAS No. 6, “Accounting for Property, Plant, and Equipment.” Neither SFFAS No. 23 nor SFFAS No. 6 make a distinction between types of property, plant, and equipment (PP&E). However, the Under Secretary of Defense (Comptroller) memorandum of August 8, 2003, subject: “Mid-Range Financial Improvement Plans” separates what was National Defense PP&E from general PP&E. This separation supports the way the Department manages the policy for its PP&E, i.e., internal use software is managed by Networks and Information Integration, spare parts are managed by Logistics & Materiel Readiness, real property is managed by Installations & Environment, and equipment is managed by Acquisition Resources and Analysis/Property & Equipment Policy Office. Further, the Defense acquisition management system categorizes acquisition programs by weapons and information technology. So, defining military equipment separately from general equipment is not important from a financial perspective, but is important from a management perspective. For management, consistency in the definition of military equipment across the Department allows for better decision making and reporting to Office of Management and Budget (OMB) and Congress. This memorandum refers to accounting policy only and is not intended to change funding requirements.

A search of available acquisition-related literature provided the following.

- 10 USC 2228, *Military Equipment and infrastructure: prevention and mitigation of corrosion*, includes the following language:

“The term ‘military equipment’ includes all weapons systems, weapon platforms, vehicles, and munitions of the Department of Defense, and the components of such items.”

- The Defense Acquisition University Glossary of Acquisition Terms, specifies that:

“Weapon systems are items that can be used directly by the Armed Forces to carry our combat missions.”

Both definitions need to be refined to account for different financial treatments of assets. For example, using the definitions above, military equipment would include both a weapon and its munitions. However, our financial standards require that a weapon system should be treated differently than the munitions its fires. With this in mind, we have crafted the attached definition of military equipment.

## **Definition - Military Equipment**

"Military Equipment – Weapon systems that can be used directly by the Armed Forces to carry out battlefield missions. Military equipment has an expected useful life of two or more years; is not intended for sale in the ordinary course of business; does not ordinarily lose its identity or become a component part of another article; and is available for the use of the reporting entity for its intended purpose. Examples include: combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles. Examples excluded are training aircraft and simulators."

## **Implementing Guidance**

1 - Intangible assets, such as software, are not considered military equipment unless embedded in a piece of military equipment (ME). In that event the cost of the intangible assets shall be included in the cost of the related ME.

2 - Military equipment assets are generally functionally complete and should be valued based on the cost of the top level assembly, including the cost of the embedded items. Based on this, uninstalled aircraft engines should be reported as OM&S, while costs for engines incorporated into the aircraft should be valued as part of the aircraft. Aircraft pods are unique. Pods have a useful life in excess of two years and are not consumed in normal operation in that they do not become an integral part of an aircraft as do engines, radar sets, canopies, and landing gear assemblies. In addition, pods are moved between and among aircraft based on mission requirements. Finally, pods are managed based on functional requirements rather than on a replacement demand driven basis. Based on these factors a decision was made that pods would be classified as ME.

3 - Vehicles such as HMMWVs are available for battlefield missions, whether they are used for this purpose or not. As such HMMWVs and related vehicles should be reported as military equipment. Other vehicles, such as commercial trucks that are required for administrative support type of efforts should be reported as General PP&E since they are normally not used for battlefield missions.

4 – When it can be segregated, support equipment, such as special tooling, special test equipment, trainers, and simulators, will be classified as General Property, Plant and Equipment (not ME). If the cost for these assets cannot be separately identified in the accounting systems, they will be included as an element of the ME program costs.

5 - Items meeting the definition of military equipment, but with a value less than the capitalization threshold, will be expensed.