Summary of Changes

Handbook F-23, *Accounting Policy Reference*

Handbook F-23, *Accounting Policy Reference*, has been updated with *Postal Bulletin* articles through February 2013, as follows:

The chapter, subchapter, part, appendix, or section . . .	titled . . .	was . . .	in *Postal Bulletin* issue number . . .	with an issue date of . . .
Chapter 2, General Policies				
2-8.1	Closing Checklists	revised to update closing checklist procedures.	22356	2-7-13
2-10.0.3	Ethical Standards	revised to update the requirements for ethical standards for Postal Service employees.	22356	2-7-13
2-12.1	Purpose	revised to update mission statement.	22356	2-7-13
2-12.2	Responsibilities	revised to update testing procedures.	22356	2-7-13
Chapter 3, Assets				
3-2	Receivable and Allowances for Losses	revised to update procedures for receivables and allowances for losses.	22356	2-7-13
3.5	Inventories	revised to update the definition of inventory and inventory procedures.	22356	2-7-13
3-7.2.1.3	Depreciation	revised to update depreciation procedures.	22356	2-7-13
3-7.2.4.2	Amortization	revised to update amortization table.	22356	2-7-13
3-7.3	Fully Depreciated Assets	revised to update value of fully depreciated assets.	22356	2-7-13
3-7.5	Disposal	revised to update the process of property disposal.	22356	2-7-13
3-7.6	Physical Inventory	revised to update physical inventory process.	22356	2-7-13
Chapter 6, Revenue				
6	Revenue	revised to update revenue recording procedures.	22356	2-7-13

The chapter, subchapter, part, appendix, or section . . .	titled . . .	was . . .	in *Postal Bulletin* issue number . . .	with an issue date of . . .
Chapter 7, Expense				
7-3	Offset of Emergency Preparedness Expense	revised to update accounting procedure on leased property.	22356	2-7-13
Chapter 8, Commitments				
8-1	Commitments	revised to further define expense commitments.	22356	2-7-13

UNITED STATES
POSTAL SERVICE®

Accounting Policy Reference

Handbook F-23

February 2013
Transmittal Letter

1. **Purpose.** This new edition of Handbook F-23, *Accounting Policy Reference*, contains the accounting policies of the United States Postal Service.

2. **Explanation.** An important enabling strategy in the Postal Service's *Transformation Plan* is to enhance financial management. This handbook will serve as a reference to ensure consistent application of accounting policy.

3. **Online Distribution.** Handbook F-23 is available on the Postal Service PolicyNet Web site.

    1. Go to *http://blue.usps.gov*.
    2. Under "Essential Links" in the left-hand column, click *PolicyNet*.
    3. Click on *HBKs*.

4. **Comments and Questions.** Address any comments and questions on the content of this handbook to:

    ACCOUNTING
    US POSTAL SERVICE
    475 L'ENFANT PLAZA SW RM 8831
    WASHINGTON DC 20260-5241

5. **Effective Date.** This handbook is effective February 2013.

Vincent Devito
Vice President
Controller

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1 Introduction

Handbook F-23, *Accounting Policy Reference,* sets forth the principal accounting policies of the United States Postal Service®. The handbook serves as a reference to guide the overall accounting practices of the Postal Service™.

The Postal Service seeks to maintain a system of internal controls to ensure that assets are safeguarded against material loss from unauthorized use or disposition and that the Postal Service financial records are reliable for preparing financial statements. Through adherence to the accounting policies contained within this manual, the Postal Service seeks to maintain a group of accounting policies that, collectively, enhance its overall system of internal control and financial reporting.

The policies within this handbook document the overall accounting framework established by management and reviewed by the Audit and Finance Committee of the Postal Service Board of Governors.

Additions or revisions to Handbook F-23 may be issued periodically. Notice of such additions or revisions will be communicated through the *Postal Bulletin*.

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2 General Policies

2-1 Basis of Accounting and Use of Estimates

2-1.1 Generally Accepted Accounting Principles

The Postal Service™ prepares its financial statements in accordance with generally accepted accounting principles (GAAP), as established by the Financial Accounting Standards Board and other authoritative bodies. Further, when provided a choice of accounting methods within generally accepted accounting principles, the Postal Service will be conservative in its accounting policy choices to ensure that it records the least favorable result — i.e., the lowest revenue or net asset value or the highest expense or liability value.

2-1.2 Accrual Basis

Consistent with GAAP, the Postal Service maintains its accounting records and prepares its financial statements on the accrual basis of accounting. The *accrual basis of accounting* dictates that the Postal Service record revenues when earned and expenses when incurred, regardless of when the related assets and liabilities are collected or paid.

2-1.3 Recording and Reporting Estimates

Use of the accrual basis of accounting requires the Postal Service to make estimates and assumptions that affect the amounts that are recorded in the general ledger and, as a result, in the financial statements and notes thereto. The Postal Service recognizes that the actual results may differ from estimates.

Financial management's best estimate of the known trends, the anticipated trends, and the trends relevant to future operations are reported in Management Discussion and Analysis in the annual report and the quarterly financial reports.

The Audit and Finance Committee of the Postal Service Board of Governors (BOG) reviews significant estimates that could have a material effect on the financial statements.

2-2 New Accounting Pronouncements

In accordance with GAAP, the notes to the financial statements must include a discussion of new accounting pronouncements that could possibly have a significant effect on the Postal Service's future financial position or results of operations.

To meet the financial statement requirement and to ensure timely compliance with the disclosure requirements, financial managers are responsible for the following:

a. Monitoring accounting and financial reporting developments that could possibly have an effect on the future accounting and financial reporting requirements of the Postal Service.

b. Evaluating new accounting and financial reporting developments.

c. Briefing the Audit and Finance Committee of the BOG on any developments that might have an affect on future financial statements.

d. Documenting new accounting pronouncements and financial reporting developments expected to affect the financial statements of the Postal Service, This documentation quantifies, to the extent possible, the effects that the accounting or financial reporting development may have on the Postal Service financial statements when adopted.

Senior management and the Audit and Finance Committee also review and monitor new accounting pronouncements and financial reporting developments.

2-3 Confidentiality and Conflicts of Interest

All Postal Service employees must comply with Title 5 of the Code of Regulations (CFR) Part 2635 (5 CFR 2635), Standards of Ethical Conduct for Employees of the Executive Branch, as well as the supplemental standards for Postal Service employees set forth in 5 CFR 7001, issued by the Office of Government Ethics.

Nonpublic information related to the business of the Postal Service is considered confidential and is not to be shared outside the Postal Service organization. *Nonpublic information* is information that the employee gains as a result of Postal Service employment and that is known or should reasonably be known to be information that has not been made or will not be made available to the general public.

Employees must not engage in any disclosure of nonpublic information that is not authorized to be made available to the general public. In addition, an employee must not engage in a financial transaction using nonpublic Postal Service information, nor allow the improper use of nonpublic information to further his or her private interest or that of another, whether through advice or recommendation.

Supplemental ethics regulations are included in *Integrity and Accountability Guidelines for PCES Employees.* The code of ethics requires that officers conduct the business of the Postal Service on behalf of the organization in an honest and ethical manner and promote honest and ethical conduct throughout the organization.

2-4 Related-Party Transactions

Related-party transactions are transactions between an enterprise and another party that cannot be presumed to be carried out on *an arm's length basis* because of the relationship between the parties. Transactions between related parties commonly occur in the normal course of business in most commercial enterprises and typically involve transactions with affiliates, principal owners, management, and family members of principle owners and management. GAAP requires that significant related party transactions be disclosed in the notes to the financial statements. The Postal Service maintains documentation that identifies such transactions for financial reporting consideration.

Possible related party transactions would involve transactions between the Postal Service and management or immediate family members of management.

a. *Management* includes persons who are responsible for achieving the objectives of the Postal Service and who have the authority to establish policies and make decisions by which those objectives are to be pursued.

b. *Immediate family* includes family members whom a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Transactions would be considered related-party transactions in cases where one party controls or can significantly influence the management or operating policies of the other to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Per the *Integrity and Accountability Guidelines for PCES Employees,* members of management are prohibited from conducting the business of the Postal Service through parties that could be considered "related" to management. The Postal Service enters into significant transactions with other government agencies and the above policies fully extend to those relationships.

2-5 Material Year-End Events

2-5.1 Background

The Postal Service records all assets, liabilities, revenue, and expenses in the proper period in accordance with generally accepted accounting principles.

The Postal Service recognizes that over any extended period, there is a chance that events and transactions may occur that are not identified through its normal financial reporting processes. As a result, a policy that governs the reporting of such findings in relation to the year-end close process is necessary.

2-5.2 Policy

To document that the Postal Service has identified and considered all material issues in the preparation of its year-end financial statements, each officer of the Postal Service is required to acknowledge, in writing, that all material issues that have not been recognized through normal financial reporting processes have been brought forward.

2-6 Financial Reporting Hierarchies

2-6.1 Charts of Accounts

The Postal Service maintains one distinct chart of accounts. The chart is divided into two types as defined below: the Legacy Chart of Accounts/ Account Number Control Master (ANCM) and the Oracle General Ledger (OGL) Natural Accounts.

2-6.1.1 Definitions

The *Legacy Chart of Accounts* is an 8-digit account numbering system, consisting of a 5-digit primary account code and a 3-digit subaccount code, which is documented in the online Account Number Control Master (ANCM). The 8-digit accounts are used primarily in subledger systems that feed into the general ledger and flow into the Accounting Data Mart (ADM).

The *Oracle General Ledger (OGL) Natural Accounts* is a 5-digit natural account numbering system, which consolidates the subaccounts to the 5-digit level. The 8-digit Legacy Chart of Accounts is mapped to the OGL Natural Accounts as part of the general ledger data accumulation process.

2-6.1.2 Responsibilities

As the *gatekeeper,* Accounting is responsible for the following:

a. Maintaining both charts of accounts, including creating and deleting accounts.

b. Reviewing the facts supporting a chart of account request and determining if the request has a sufficient business case to merit changing the chart of accounts.

c. Implementing approved changes to the chart of accounts by the predetermined effective date.

2-6.2 Other Related Matters

2-6.2.1 Six-Digit Finance Numbers

Within a specific approval process, management assigns a 6-digit finance number for tracking and financial reporting processes. For example, the following can be assigned a 6-digit finance number:

a. Headquarters group or area.

b. Post Office.

c. Project.

d. Station or branch.

2-6.2.2 Four-Digit Extensions to Finance Numbers

While not technically part of the chart of accounts, 4-digit extensions to finance numbers are available for management purposes.

2-6.2.3 Hierarchies

Accounting must concur with the financial reporting hierarchy that senior management establishes.

2-7 Financial System Access

2-7.1 Security

Financial system access must work within Information Technology's (IT's) framework for security. IT grants access only with a properly authorized request. The intent of these policies is that only individuals who have the knowledge, training, and appropriate authority required to carry out their duties and responsibilities have access to financial systems.

2-7.2 Access to Data

Periodically, senior management may restrict access to data for brief periods of time, such as Accounting's monthly review of the data or during the year-end audit.

2-8 Financial Reporting

The Postal Service prepares interim financial statements on a monthly basis consistent with its calendar month closing process. In addition, the Postal Service issues quarterly financial reports in Securities and Exchange Commission external reporting format, which includes Management Discussion and Analysis. Management reports are available in the Accounting Data Mart on an ongoing basis.

Applications of a material nature capable of reporting on a daily basis do so. Applications unable to report daily report on a scheduled basis. Applications reporting on a scheduled basis accrue for unreported amounts when management deems it material.

The Postal Service has implemented a series of accounting policies that promote a timely and efficient closing process. Quarterly reporting considerations differ from monthly reporting. Certain systems may remain open longer after the end of the quarter to ensure that transactions occurring within that quarter are processed. Specific year-end closing policies including action items and other changes regarding year-end accounting are published annually in the *Postal Bulletin.*

2-8.1 Closing Checklists

To ensure that all accounting systems have reported before books are closed, Corporate Accounting monitors the closing checklists that the Accounting Service Centers (ASCs) maintain.

2-8.2 Top Level Financial Statements Review

Accounting reviews and discusses with senior management the financial results before closing a calendar month.

2-8.3 Liquidation of Accruals

The Postal Service liquidates accruals as follows:

a. All accruals are reversed against their associated actual transactions as the actual transactions are processed.

b. Accruals for a fiscal year close that are not liquidated by the following November close are reversed as a credit to a servicewide finance number.

c. Any related subsequent current year payments will then be charged as a current year expense to the budget holder.

2-9 Internal Control Accountability

The Postal Service is responsible for establishing and maintaining a system of management and accounting controls that provides reasonable assurance that transactions are executed and recorded in accordance with management's general or specific authorization and that Postal Service assets are safeguarded from loss. The checks and balances established in the various Postal Service manuals and handbooks constitute many of these internal controls, even though they may not be specifically identified as such. Thus, compliance with these policies and procedures constitutes an important aspect of the Postal Service management control system. All employees must comply and all management personnel must monitor and ensure compliance with these policies.

2-9.1 Internal Controls

Effective internal controls cannot provide absolute assurance that errors or losses will not occur. Controls do provide, however, reasonable assurance that the Postal Service will not incur significant errors or losses.

Effective controls may either prevent an error or loss from occurring, or may facilitate timely detection and correction of an error or loss that has occurred. Where possible, this takes the form of maintaining separation of duties (e.g., timekeeping and establishing employees on payrolls) to ensure that incompatible job responsibilities are divided among two or more individuals.

The Postal Service, and particularly its executives and officers, must ensure that adequate controls are in place and followed. Ensuring that employees adhere to standard Postal Service policies and procedures can best do this. Even an effective system of controls may not prevent or detect a fraud or embezzlement, especially where collusion is involved. However, cost-effective checks and balances should be in place to reduce or minimize the risk of a material fraud or embezzlement.

A *material weakness* exists where controls do not reduce to a relatively low level the risk of errors, losses, or embezzlements from occurring or being timely detected and corrected. If a situation exists where the risk of error, loss, or embezzlement is greater than the cost of implementing a control, then a material weakness may exist in the internal controls. These cost-benefit evaluations should not be considered in terms of a one-time event. Rather, these evaluations should consider the potential cumulative risk of multiple instances, as well as the potential nonfinancial costs to the Postal Service.

2-9.2 Representation Letters

2-9.2.1 Purpose

Annually, the Postal Service obtains *representation letters* from its executives to provide a framework for evaluation of the controls in each officer's area of responsibility. These letters also provide a forum in which officers report problems or concerns to the chief financial officer. Obtaining representation letters enables the Postal Service to identify situations that need to be corrected and to implement cost-effective corrections so that the weaknesses identified are minimized. While there may always be potential for situations in which controls are not in place or cease being effective, the best way to ensure that controls are improved is a commitment to monitor and report observed weaknesses so that any weaknesses observed are corrected.

2-9.2.2 Contents

The management representation letter indicates that the individual senior officer recognizes the following:

a. He or she is responsible for maintaining an internal control structure.

b. The objectives of which are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

c. Transactions are executed as authorized and recorded properly to permit preparation of financial statements.

Also, the representation indicates that, to the best of the officer's knowledge and belief, there are no material weaknesses in the internal control structure, including any for which he or she believes the cost of corrective actions exceeds the benefits. The representation letter additionally confirms that the officer is not aware of any significant changes in the internal control structure since the last year-end date.

2-10 Audit and Finance Committee

2-10.0.1 Charter

The Audit and Finance Committee operates under a charter established by the BOG to assist the BOG in fulfilling its statutory responsibility. The committee's charter and procedures are continually refined to ensure they reflect best practices established by authoritative regulatory bodies.

2-10.0.2 Responsibilities

The Audit and Finance Committee assists the full Board of Governors (BOG) in fulfilling its fiduciary responsibility by providing oversight of the integrity of Postal Service financial statements. Within this overall framework, the committee's assistance to the BOG includes the following:

a. Oversight of the financial reporting process, the systems of internal accounting and financial control, the inspector general's function, and the annual independent audit of the Postal Service's financial statements.

b. Oversight of postal rate case development, cash management, and the overall financial performance of the Postal Service.

c. Periodic reviews of the Postal Service's interim financial statements with management as well as the year-end financial statements.

d. Periodic reviews, with management, of accounting principles and underlying policies, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

e. Overall review of the soundness of the internal accounting practices. In accordance with that responsibility, management is called upon to maintain accounting policies that are consistent with the guidance adopted by the Audit and Finance Committee based on advice from the BOG's independent certified public accountants.

2-10.0.3 Ethical Standards

The Audit and Finance Committee determined that it is in the best interest of the Postal Service to adopt certain guidelines contained within Public Law 107–204, which also is known as the Sarbanes-Oxley Act of 2002 (the act). Specifically, the Postal Service voluntarily adheres to selected rules contained within Section 404 of the act, which requires management's assessment of the Postal Service's internal control structure and procedures for financial reporting.

As a part of the executive branch of the federal government, all Postal Service employees must comply with federal ethical standards. Additionally, the Postal Service is covered by supplemental standards of ethical conduct in 5 C.F.R. Part 7001. As such, the Postal Service is in compliance with section 406 of the act.

2-11 Independent Certified Public Accountants

Title 39 of the United States Code requires that the Postal Service BOG contract the services of a firm of independent certified public accountants to conduct an annual audit of the Postal Service financial statements and the cost revenue analysis attestation. The independent certified public accountants report directly to the Audit and Finance Committee of the BOG.

The annual audit is to be conducted in accordance with auditing standards generally accepted in the United States and the standards contained in Government Auditing Standards, issued by the comptroller general of the United States. In addition, and in accordance with Government Auditing Standards, the independent certified public accountants will issue a report on their consideration of the Postal Service's internal control over financial reporting and on their tests of the Postal Service's compliance with certain provisions of laws, regulations, contracts, and grants.

2-12 Financial Testing and Compliance Group

2-12.1 Purpose

The mission of the Postal Service Financial Control and Support Group is to test key field financial controls in support of compliance with accounting policies and in support of the Postal Service's external auditors' audit opinion.

2-12.2 Responsibilities

The testers in the Financial Control and Support Group are responsible for performing operational effectiveness testing on key internal controls in the field and for performing the following:

a. Identifying key internal controls within business processes.

b. Developing and implementing testing plans that:
   - Coordinate with process owners throughout the testing process.
   - Document test results and findings.
   - Communicate results and findings to the remediation team and recommend corrective actions.

c. Executing testing after remediation.

d. Communicating results to stakeholders.

e. Documenting and maintaining test results for internal and external review.

Testing locations include, but are not limited to, the following:

a. Post Offices.

b. Business mail entry units and detached mail units.

c. Stamp distribution offices and stamp distribution centers.

d. Kansas City fulfillment center.

e. Distribution network offices.

f. Automated Postal Centers.

g. Plants.

h. Contract management centers.

i. Organizationwide activities (e.g., procurement activities).

3 Assets

3-1 Cash and Cash Equivalents

Postal Service™ policies regarding cash and cash equivalents include the following:

a. Only cash on deposit in the U.S. Treasury is available for Postal Service operations.

b. Securities that mature within 90 days of purchase are classified on the balance sheet as cash equivalents.

c. Postal Service facilities may retain small amounts of cash to support daily operations, including lock box receipts, in amounts specified by the Postal Service Treasury as documented in Handbook F-1, *Post Office Accounting Procedures.* Cash and cash equivalents are deposited as required by these cash retention policies. The frequency of deposits is generally at least daily, but may be less frequent based on the size of a Post Office.

d. Selected facilities may have an imprest fund in an amount sufficient to cover 2 months of activity.

e. Checks outstanding are recognized as a reduction of cash and cash equivalents for financial reporting purposes.

f. Annually, checks outstanding for more than 2 years are recognized as miscellaneous revenue but may be reissued when requested by the payee. As a quasi-federal agency, the Postal Service is exempt from state escheatment requirements.

3-2 Receivables and Allowance for Losses

The Postal Service operates primarily on a cash basis. In some instances, however, the Postal Service is required to allow mailing before accepting payment (e.g., from foreign countries and the U.S. government).

Settlement of receivables and payables arising from international mail flows is, with certain exceptions, subject to Universal Postal Union conventions. These transactions are denominated in special drawing rights, but may be settled in any currency.

U.S. government entities mail without payment and are billed through the Official Mail Accounting System.

Receivables also arise as the Postal Service provides postal products to various businesses acting as our agent to distribute stamps for sale. Other miscellaneous receivables arise from nonsufficient fund (NSF) checks or claims for loss.

Interest charges assessed on certain accounts receivable balances are based on decision analysis report interest rate factors utilized by Capital and Program Evaluation. The Postal Service implements changes in interest rates at the beginning of the fiscal year.

The Postal Service maintains an allowance for losses from bad debts. Accounting conducts a corporate level periodic review of the aging of accounts receivable. Based on this review, the recorded allowance is adjusted as necessary. The provisions of the Debt Collection Improvement Act (DCIA) are followed for delinquent debts. The DCIA provides the option of referring delinquent debt to a collection agency or the U.S. Treasury Offset Program (also referred to as cross servicing).

If Accounting concurs with local management's assessment of the uncollectibility of a receivable, the receivable amount may be written-off in accordance with the provisions of Handbook F-16, *Accounts Receivable.*

3-3 Investments

The Postal Service invests in U.S. Treasury securities and holds certificates of deposit in minority-owned banks. Corporate Treasury monitors these investments.

The Postal Service follows generally accepted accounting principles regarding valuation of investments.

3-4 Advances and Prepayments

The Postal Service classifies advances and prepayments as current assets on the balance sheet. Advances and prepayments consist principally of advances to employees in accordance with various labor agreements. Examples include salary and annual leave advances.

Postal Service policy is that payments are made after the service or goods are received; however, common business practices in certain situations dictate advance payments. An example of such a payment would be a software maintenance agreement.

Refer to Management Instruction FM-610-2010-2, *Advance Payments,* for information on specific approval levels required related to advance payments.

3-5 Inventories

Inventories, which are composed principally of supplies and repair parts for mail processing equipment, are classified as current assets on the balance sheet. Retail products are classified as inventory until distributed to retail outlets. The majority of inventory is held at the Topeka Material Distribution Center under the supervision of Operating Asset Management Fulfillment.

For financial statement purposes, inventory includes only those items considered to be usable in future periods. An obsolescence reserve is maintained to provide for any unusable inventory that may exist. Inventories are valued at the lower of average cost or current market price.

Physical inventories must be taken routinely. Unusable or obsolete items are written off when discovered, net of any estimated salvage value. Perpetual inventory records must be maintained per guidelines in Handbook AS-701, *Material Management,* Chapter 4. Inventory counts for items with balance on hand over $100K will be completed annually and reconciled to the perpetual records. The list of items with balance on hand that exceed the $100K threshold will be updated quarterly. Annually, a statistically significant sample must be selected, counted, and reconciled to the perpetual records.

Operating Asset Management Fulfillment and Finance monitor the reserve for obsolescence throughout the year and reevaluate it annually as part of the year-end close process. An inventory forecasting model developed by Operating Asset Management Fulfillment assists in estimating excess inventory quantities. This estimate together with specific identification reviews for obsolete inventory quantities provides a basis for the annual evaluation process to determine the adequacy of the obsolescence reserve. Accounting monitors the year-end reserve for the obsolescence evaluation process and approves its conclusions.

The Postal Service does not record stamp stock inventory in its financial statements. Stamp stock inventory is an accountable item for the field including the stamp distribution offices.

3-6 Revenue Forgone Appropriations

Revenue is forgone when Congress mandates that the Postal Service provide free mail service for certain mailers. Congress appropriates funding as it deems appropriate to reimburse the Postal Service for the revenue that is forgone in providing these services (see Chapter 6, Revenue).

Regarding annual revenue forgone amounts, the Postal Service records as deferred revenue the amounts appropriated by Congress and records as receivables any such amounts not yet received. The deferred revenue is amortized over the year.

3-7 Property and Equipment

3-7.1 General Policy

The Postal Service has five major categories of property and equipment that it discloses in its financial statements:

a. Buildings.

b. Equipment.

c. Land.

d. Leasehold improvements.

e. Construction in progress.

These categories of assets are presented individually in the balance sheet together with a total allowance for depreciation and amortization. The Postal Service maintains detail property and equipment records in the Property and Equipment Accounting System (PEAS).

In accordance with GAAP, the Postal Service records assets as follows:

This asset	Is
Property and equipment assets	Recorded at what it costs to acquire the assets, including the interest paid on any borrowings used for the construction of major capital additions.
Depreciation of buildings and equipment	Recorded over the estimated useful life, which ranges from 3 to 40 years (with limited exceptions for property of historical value, etc.) using the *straight-line method.*
Leasehold improvements	Amortized over the period of the lease or the useful life of the improvement, whichever time is shorter.
Repair and maintenance costs	Expensed as incurred.

3-7.2 Specific Policies

3-7.2.1 Buildings

3-7.2.1.1 Acquisitions

Building costs include the original acquisition and improvement costs of a building or structure, including permanent fixtures.

The Postal Service capitalizes the costs of all acquisitions of buildings, regardless of cost. The Postal Service records building costs in a buildings account after the earliest of the following occurs:

a. The building is beneficially occupied for Postal Service purposes.

b. The technical work is completed and the Postal Service accepts the total facility for occupancy or use.

c. Facilities approves the administrative and fiscal closeout of a capital project.

3-7.2.1.2 Improvement, Modernization, and Major System Replacement Projects

Management determines the threshold at which building improvements or modernization projects are capitalized.

3-7.2.1.3 Depreciation

The Postal Service depreciates most buildings over a service life of 40 years. Trailer units and modular buildings have a service life of 10 years. Depreciation is calculated on a straight line basis over the useful life of a building, starting the month following capitalization. At the point in which a building is marked for disposal, any remaining depreciable amount is put on hold. Building improvements authorized costs are depreciated over the remaining service life of the improved building except for major capital projects. Improvements made to a fully depreciated facility are depreciated over the next 12 months following the month of capitalization. The improvement cost is capitalized by adding to the carrying value of the building.

3-7.2.2 Equipment

3-7.2.2.1 Acquisition

Management determines the threshold at which equipment is capitalized. Capitalization occurs in the month of receipt at the purchase price, less discounts, plus applied freight. The cost of auxiliary equipment with a total cost at or exceeding 50 percent of the current equipment capitalization threshold that are permanently attached to equipment at time of purchase or purchased and attached later, are added to the equipment cost and depreciated over the remaining service life.

The cost of all Postal Service–owned motor vehicles is capitalized regardless of amount. The cost recorded is the acquisition cost, or net asset value, less discounts, plus freight charges. The Postal Service depreciates all capitalized vehicles over the vehicle estimated service life after deducting an established salvage value for that make and model of vehicle. The cost of auxiliary equipment (e.g., lift gates, power tailgates) that is permanently attached to a Postal Service–owned vehicle at the time of purchase, or purchased and attached later, is added to the vehicle cost. The cost of all such equipment is capitalized, regardless of amount.

The Postal Service may capitalize together or separately bulk purchases of like items based on a Accounting review.

The Postal Service charges to expense equipment purchased for purposes of research and development at the time of acquisition.

3-7.2.2.2 Depreciation

The Postal Service depreciates equipment using the straight-line method over the equipment's estimated service life.

3-7.2.3 Land

3-7.2.3.1 Acquisitions

The Postal Service capitalizes all acquisitions of land, regardless of cost. The cost of land includes the following:

a. Specific site survey and selection.

b. Purchase price.

c. Attorney fees.

d. Brokers commissions.

e. Appraisals.

f. Search and title guarantee.

g. Notary and recording fees.

h. Costs associated with right-of-entry agreements and payments for damages and relocation.

i. Demolition of existing structures.

j. Site fill and grading cost.

k. Costs incidental to the disposition of assets approved as an integral part of the project.

l. Corps of engineers or other master contractor support.

m. Cost of Postal Service land exchanged for land acquired.

n. Other related and identifiable support costs.

Land is not depreciated. However, all land improvements such as site grading, landscaping, fences, walks, and paving are capitalized as part of building costs and depreciated accordingly.

3-7.2.4 Leasehold Improvements

3-7.2.4.1 Acquisitions

The Postal Service capitalizes leasehold improvements if the cost is $5,000 or more.

3-7.2.4.2 Amortization

Amortization of leasehold improvements starts in the month following the month of capitalization. Amortization schedules for specific leasehold improvements are as follows:

Types of Leases	Years Amortized
Leases with automatic renewal agreements	7
Fixed-term leases without renewal options	Over remaining term of the lease
Fixed-term leases with renewal options	Over remaining term of the lease
General Services Administration and federally owned buildings	15
If the remaining life of the lease is greater than 40 years	40
If the remaining life of the lease is less than 2 years	Remaining term of the lease plus one renewal option period

To prepare financial statement disclosures required by generally accepted accounting principles, the Postal Service annually prepares a report that calculates the future minimum lease commitments for all non-cancelable leases. The Postal Service bases the discount rate used to prepare this calculation upon the current cost of debt financing. This discount rate is determined annually and must be approved by the office of the Controller.

3-7.2.5 Construction in Progress

The Postal Service capitalizes the costs of all construction projects and segregates those costs in separate general ledger accounts to facilitate accounting and financial reporting requirements.

3-7.3 Fully Depreciated Assets

Fully depreciated assets that remain in service including leasehold improvements are carried at their salvage value except for capital leased assets, which revert to the lessor at the end of the lease.

3-7.4 Maintenance and Expense

The Postal Service expenses routine repair and maintenance costs, as well as repair, improvement, and modernization projects that do not meet the capitalization requirements. The following types of repair, improvement, modernization, or replacement projects, regardless of amount, are considered expenses:

a. Building structure repairs.
b. Electrical system repairs.
c. Plumbing system repairs.
d. Floors, doors, walls, stairs, and ceilings.
e. Interior and exterior painting.
f. Parking and maneuvering area repair.
g. Planning studies.
h. Plant system repairs.
i. Plastering and caulking.
j. Roof repairs.
k. Sidewalk and paving repairs.
l. Steam cleaning.
m. Weatherproofing.
n. Window glass replacement.

3-7.5 Disposal

Disposal is the process of properly relinquishing possession and ownership of property and equipment that is unrepairable, obsolete, unusable, or surplus to Postal Service needs through trade-in, sale, cannibalization, sale for recycling, transfer, donation, or placement in a landfill. Installation heads, material accountability officers (MAO), and other employees designated as responsible for material management must take all the necessary steps to ensure the proper disposal of property and equipment.

Extensive guidance is available in Handbook AS-701, *Material Management*, regarding the disposal process. Supplemental accounting guidance for disposals is available in Handbook F-26, *Personal Property Accounting.*

3-7.6 Physical Inventory

The Postal Service performs physical inventories of capital assets semiannually. Asset Management oversees the physical inventory process. Oracle Financials IT in Eagan randomly selects approximately one-eighth of the capital inventory to review for each Semi-Annual Capital Property Review. The methodology used ensures that every item except capitalized software is inventoried once during a given 4-year cycle. The MAO certifies the Semi-Annual Capital Property Certification Report after each semi-annual review.

3-8 Impairment of Long-Lived Assets

Quarterly, the Postal Service evaluates the events and circumstances that may indicate that it is probable that the value of long-lived assets recorded on the balance sheet are impaired as per the guidance within FASB ASC 360-10-35, Property, Plant and Equipment, Overall, Subsequent Measurement. The Postal Service reduces the value of impaired assets to fair value.

Every year the Postal Service evaluates whether information exists that would suggest that the Postal Service may be unable to recover, through future operations or sale, the carrying amount of any long-lived assets. This evaluation process seeks to identify impairments that could exceed $1 million related to the following:

a. Any facility having an impaired value but being held for use.

b. Any facility that has a disposal plan and the planned disposal is not due to discontinued operations.

c. Any capital equipment item identified as impaired but being held for use.

d. Any capital equipment item that has a disposal plan and the planned disposal is not due to discontinued operations.

The following events or changes in circumstances are considered during the evaluation process. This checklist helps in identifying that an impairment may exist in a facility or to an item of capital equipment:

a. Significant decrease in market value.
b. Significant change in the way used or significant physical change.
c. Significant adverse change in legal factors or business climate.
d. Accumulation of costs significantly in excess of the amount originally expected to acquire or construct.
e. Current period operating or cash flow loss combined with a history or projection of continued losses.

Accounting evaluates reported or otherwise identified impairments for possible write-down.

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4 Liabilities

The Postal Service™ classifies liabilities as either current or as long-term. *Current liabilities* include liabilities that are due and payable within approximately one year. *Long-term liabilities* are liabilities that are due and payable beyond approximately 1 year.

4-1 Current Liabilities

Current liabilities include costs of services rendered and not yet paid and amounts received for services to be rendered in the future. It also includes outstanding commercial checks issued but not cashed and money orders issued and not yet cashed. Examples of current liabilities include the following:

a. *Accrued payroll.* Payroll and related expense due employees for time worked from the last payroll date through the end of the month for which they have not yet been paid.

b. *Prepaid postage.* The estimated cash collected during a month for mail delivery services that will be performed subsequent to that month.

c. *Foreign payables.* Obligations related to foreign mail operations. Settlement of receivables and payables arising from international mail flows is, with certain exceptions, subject to Universal Postal Union conventions. These transactions are denominated in special drawing rights, but may be settled in any currency.

d. *U.S. government payables.* Inter-agency debt and obligations related to payroll withholdings and interest remittances due on debt obligations.

e. *Emergency preparedness.* Appropriations from Congress yet to be expended. Upon receipt of funds, a liability is established which is reduced as funds are expended.

f. *Other.* Includes prepaid box rentals, permit and metered mail, outstanding postal money orders, and the current portion of long-term debt.

4-2 Long-Term Liabilities

Long-term liabilities can include notes payable. The Postal Service Treasury negotiates the terms of outstanding notes payable which are recorded at face value. Examples of long-term liabilities include the following:

a. *Debt.* Obligations due beyond 1 year. The current value of debt is what it would cost to pay off the debt if the current yield on equivalent U.S. Treasury debt was used.

b. *Workers' compensation.* Amounts representing future expected workers' compensation claims. This liability approximates the estimated present value of the total amounts expected to be paid in the future for Postal Service workers injured as of the balance sheet date.

c. *Annual leave.* Employees earn annual leave each pay period based on years of service. The annual leave liability increases as leave is earned and decreases as leave is used throughout the year. At the end of the fiscal year, the value of earned but unused annual leave is recalculated based on each employees current wage rate. The annual leave liability is adjusted to reflect that current year-end valuation.

To minimize the effect of the year-end annual leave recalculation adjustment on the financial statements, the Postal Service records ratably an estimated adjustment over the year. At the beginning of each fiscal year, this estimate of the annual leave year-end wage-rate adjustment is calculated based on assumptions of wage rate increases. The Postal Service posts a *true-up adjustment* at the end of the year, which is based on the valuation process described above, to adjust for differences between the estimated amount and the actual amount as calculated.

4-3 Contingent Liabilities

The Postal Service periodically adjusts its contingencies for claims that it expects to pay and for which the amount of the unfavorable outcome can be reasonably estimated.

Before releasing the annual report, the Postal Service and the Audit and Finance Committee review a summary of pending litigation that supports contingent liabilities and related disclosures.

5 Equity

The Postal Service™ commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. The equity that the U.S. government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation.

The initial transfer of assets, including property, equipment, and cash totaled $1.7 billion. Subsequent cash contributions and capital contributions of the U.S. government between 1973 and 1982 totaled approximately $1.3 billion.

Equity (deficit) since reorganization represents the accumulated net income or loss since July 1, 1971.

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6 Revenue

The Postal Service™ records revenue from the sale of mail delivery services at the time the postage is sold except for foreign mail delivered in the US which is billed to the foreign posts after the fact. Accruals are recorded for revenue forgone consistent with expected congressional appropriations reimbursements (see 3-6, Revenue Forgone Appropriations). An estimate of amounts representing unearned revenue is deferred until earned.

Deferred revenue represents sold but unused postage stamps, sold but unused postage residing on postage meters, including PC Postage® meters, mail in process, and box rent. These amounts are recorded as short-term liabilities.

The Postal Service records revenue from sources other than postage when earned or when the related service is rendered. This revenue includes revenue from such sources as postal money orders, passports, and retail merchandise. The Postal Service records revenue from consignment stamp sales as the funds produced when those sales are collected.

The Postal Service incurs foreign currency risk related to the settlements with foreign postal administrations for international mail. Changes in relative currency values result in a gain or loss from revaluation reported in the results of operations.

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7 Expense

The Postal Service™ records expenses as incurred. Examples of major expenses include the following:

a. Compensation.

b. Transportation.

7-1 Compensation Expense

The Postal Service records compensation expense in the financial statements as employees earn it. Accordingly, the Postal Service records a payroll accrual monthly, representing the payroll and related expense due employees for time worked from the last payroll date through the end of the month for which they have not yet been paid.

7-2 Transportation Expense

The Postal Service records transportation expense related to movement of mail in the financial statements as incurred. Mail is transported by highway, rail, and air principally through use of commercial carriers. The Postal Service records contracted transportation costs ratably through the fiscal year. The Postal Service records emergency or extra service costs as incurred. Certain transportation expenses, primarily involving local delivery vehicles including fuel costs, are classified as other operating expenses and recorded monthly or as incurred.

7-3 Offset of Emergency Preparedness Expense

Congress may appropriate funding to the Postal Service for emergency preparedness expenditures. The Postal Service offsets appropriations received for emergency preparedness capital equipment against the depreciation expense over the life of the equipment.

Fully depreciated LHIs remain on the books until the USPS exits the leased property at which time they are removed from the accounting records.

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8 Commitments

The Postal Service™ tracks capital costs and some expenses as they relate to a budget before the actual capital or expense charges appear in the financial statements. Along with providing useful information for internal reporting, commitment tracking is also a federal reporting requirement for the president's unified budget. The Postal Service is required (per Title 39, United States Code) to disclose amounts of commitments in the notes to the financial statements contained in the annual report.

8-1 Expense Commitments

Expense commitments represent orders placed, a contract awarded, or a similar transaction that will result in a liability to pay when products or services are provided pursuant to the terms of the order or contract.

8-2 Capital Commitments

Capital commitments represent orders placed or a contract awarded for acquisitions of property and equipment. The Postal Service discloses commitments for approved capital projects in the footnotes of the financial statements.

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