

Volume No. 1— Policies and Procedures	TOPIC NO	30605 - Cardinal
Section No. 30600—Asset Depreciation	TOPIC	Useful Life
	DATE	July 2015

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Overview

Introduction

The purpose of this topic is to provide guidance in establishing the useful life of acquired assets. Using the proper useful life is important for depreciation calculations, which are based upon an asset's useful life. Depreciation is important to federally funded agencies recovering indirect costs of which depreciation is a component. Proprietary-funded agencies must also have calculated depreciation for inclusion in their financial statements. Proper depreciation rates also assist agencies in determining an asset's net book value, which helps in establishing resale values and in evaluating the need for asset replacement.

Land and intangible assets determined to have an indefinite useful life are not depreciated. See CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets*.

Policy

General

All assets classified as capital, which require depreciation in accordance with generally accepted accounting principles and/or federal indirect cost recovery, must use reasonably accurate useful lives. The useful lives prescribed in this topic, and those associated with the Fixed Asset Accounting and Control System (FAACS) nomenclature codes (see CAPP – Cardinal Topic 30315, *Nomenclature Codes*), are generally in conformity with those established by the Internal Revenue Service (IRS) and are considered to provide guidance. GASB 34 requires accumulated depreciation and depreciation expense to be presented in the Comprehensive Annual Financial Report (CAFR), accordingly, all agencies are required to assign reasonable useful lives to capital assets recorded in FAACS.

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Procedures

Realistic Useful Lives

In the private sector, tax considerations play an important role in determining useful lives. These lives have been established with the overall consideration of allowing companies to recover their asset investments through tax deductions over a reasonable period. In the public sector, such tax considerations are not applicable. To fairly reflect costs of services, agencies and institutions must depreciate capital assets over their realistically estimated useful lives.

Agencies should develop and periodically update a methodology for assigning asset useful lives. Useful lives contained in the nomenclature code table are based on IRS estimates. Governmental organizations often use capital assets longer than private sector for profit businesses. Agencies should consider actual use patterns for different types of assets and take into account the actual length of time the agency has used different assets over time in the past. This focus should be incorporated into agency useful life estimate methodology.

In developing a methodology for assigning useful lives to assets, agencies should consider the mission of the agency and identify the kinds of assets needed and used to accomplish the agency’s mission. Many of the assets used by the agency probably have use patterns that are within the available nomenclature code structure.

The agency should identify assets that have use patterns that differ from the norm so these can be included in agency procedures. One technique the agency can use is to identify fully depreciated assets that are still in use. Many of these may be buildings. Use patterns of major state buildings should be reviewed periodically.

For equipment assets, the agency should focus on the kinds of assets that are most likely to have useful lives that differ from IRS guidelines and/or those that are available in the existing nomenclature code structure. Again, a determination of the types of (equipment) assets that are fully depreciated is a good starting point. Particular attention should be paid to unusual and/or material or high dollar value assets, such as an airplane. Once these assets have been identified, compare actual use patterns to the useful lives assigned.

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Procedures, Continued

Actual agency experience in regards to different types of assets should be included in the procedures. For example, an agency may use motor vehicles longer than would be considered the norm. Even though some information technology equipment may have a short useful life due to obsolescence, the agency may continue to use it longer because it continues to do the job and the agency lacks appropriations to replace it. The FAACS master file download will be a good tool for analyzing equipment use patterns.

Agencies should perform a periodic review and update of asset useful lives to ensure that the useful life closely mirrors the actual life of the asset.

Agencies should review the use patterns of material assets. If it appears that the useful life initially assigned to the asset is not appropriate, a new useful life should be estimated. A change transaction to the asset should be posted. The nomenclature code and useful life fields should be changed. This must occur before the asset has been fully depreciated.

Buildings are the major category of assets that will last longer than their original estimated useful lives. This is because a major building will usually be usable for its intended purpose as long as it is properly maintained.

The methodology for assigning or revisiting useful life for buildings would involve first a review of building records and determination of the status of those on the FAACS master file. Then, on an asset by asset basis, consider the remaining useful life, the likelihood that the asset will be usable for a longer period, and, if so extending the useful life. If a major renovation will be necessary to extend the useful life of the facility, then the record established for the renovation can become the primary record for the building that is being depreciated. Most agencies have a limited number of building records so this methodology is feasible.

If a major renovation is the result of an asset impairment or an agency believes it has experienced an asset impairment please see CAPP – Cardinal Topic No. 30210, *Acquisition Valuation* for guidance.

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In the case of major renovations that have been set up as separate records, these may still be in the process of being depreciated while the original building has been fully depreciated. Once a building or other asset has been fully depreciated, changing its useful life will not change the timing of the depreciation process or the balance of accumulated depreciation for the asset record. If an asset has not been fully depreciated, changing its useful life (which requires a nomenclature code change) will impact the timing of the remaining depreciation. The useful life assigned to records set up as major improvements to buildings should be reviewed if these records have not been fully depreciated. The agency should consider extending the useful life if this appears to be reasonable. The Department of Accounts (DOA) will establish new nomenclature codes as needed.

A useful life that is within 20% of that specified by the relevant nomenclature code may be entered in an asset's master file record.

Useful life ranges to calculate depreciation are provided on the following pages for broad categories of capital assets. The Nomenclature Code Table (see CAPP – Cardinal Topic 60302, *Nomenclature Codes*) provides much greater detail on specific assets and their related useful life. When entering an asset in FAACS (see CAPP – Cardinal Topic 70325, *Data Entry*) a nomenclature code is required. The useful life field will default to the value in the table.

Agency methodology for estimating and assigning reasonable useful lives should include requesting new nomenclature codes from DOA if appropriate codes are not contained in the nomenclature code table.

If an appropriate nomenclature code does not exist, or the agency determines that an asset requires a different useful life than the one assigned in the table, they should request that DOA create a new nomenclature code. This may be accomplished by:

- sending a memo or Email to the Assistant Director, Capital Assets and Federal Reporting, at DOA; or
- submitting a *Nomenclature Table Specification Form* (FAACS Form 83) to DOA.

See CAPP – Cardinal Topic No. 30315, *Nomenclature Codes*, for a copy of the FAACS Form 83. The forms are reviewed by the Assistant Director, Capital Assets and Federal Reporting, to verify reasonableness and assignment, if appropriate, of a new nomenclature code.

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Procedures, Continued

The purpose of the following broad useful life ranges is to provide general guidance as to the asset's life and not to be a detail source of information.

Commonwealth of Virginia Estimated Life		
Asset	Useful Life Range	
	Minimum	Maximum
Buildings:		
Residential	20 years	30 years
Warehouse, Storage, Facilities, Machine Shops, Garage, etc.	20 years	40 years
Office Buildings	To be Determined Individually	
State Police Barracks	30 years	50 years
Schools and Libraries	To be Determined Individually	
"Temporary" Structures	15 years	N/A
Hospitals	<i>To be Determined Individually</i>	
Prisons, Recreation Buildings, and Other Special Purpose Buildings	To be Determined Individually	
Equipment:		
Automobiles	3 years	8 years
Buses	10 years	N/A
Light General Purpose Trucks and Vans: Unloaded with less than 13,000 pounds	5 years	8 years
Heavy General Purpose Trucks	8 years	10 years
Firefighting Trucks and Equipment	10 years	20 years
Tractor Units for Use Over-the-Road	8 years	10 years
Trailers and Trailer Mounted Containers	8 years	10 years
Office Furniture, Fixtures and Equipment: includes furniture and fixtures which are not structural components of a building	5 years	15 years

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Procedures, Continued

Commonwealth of Virginia Estimated Life (continued)		
Asset	Useful Life Range	
	Minimum	Maximum
Examples:		
Furnishings (e.g., carpet, draperies, etc.)	5 years	10 years
Office Equipment and Furniture (e.g., desks, chairs, bookcases, typewriters, calculators, accounting machines, etc.)	10 years	15 years
Computers, Peripheral Equipment and Data Handling Equipment (includes copiers, word processing equipment, etc.)	5 years	10 years
Planes and Helicopters	3 years	8 years
Hospital Equipment	To be Determined Based on Nature of Equipment	
Improvements Other Than Buildings:		
Recreation: Assets used in the provision of entertainment services, not the building which house the assets	5 years	10 years
Park Benches, Swings, Slides, etc.	5 years	N/A
Assets for the Storage of Petroleum Products	10 years	20 years
Assets Used in the Manufacture of Fabricated Metal Products	5 years	15 years
Assets Used in the Manufacture and Repair of Furniture	5 years	15 years
Assets Used in Printing Activities	5 years	15 years
Nurseries, Greenhouse and Related Equipment	10 years	N/A

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Procedures, Continued

If abnormal wear reduces the estimated useful life of an asset (or remaining estimated useful life of an asset already in service), the useful life should be shortened appropriately. The revised useful life for the underdepreciated asset would be recorded in FAACS through agency submission to DOA of the Nomenclature Table Specification Form. Once approved, a new nomenclature code with the revised estimate of the asset's remaining useful life will be created. The asset must be removed from the original nomenclature code and placed in the new one using appropriate FAACS on-line screens. See CAPP Topic No. 70325, *Data Entry*.

Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- A realistic useful life is assigned to all depreciable assets.
 - Depreciation is being appropriately calculated for all capitalized assets.
 - Major assets are periodically examined for major occurrences, which may increase or decrease the existing useful life.
 - Assets are properly revalued (see CAPP – Cardinal No. 30405, *Additions, Renovations, and Repairs*) and updated on a timely basis so that proper costs exist for depreciation calculation.
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Records Retention

General Fiscal records related to managing capital assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

DOA Contact

Contact Assistant Director, Financial Reporting
 (804) 225-2257
 FAX (804) 225-2430
 finrept@doa.virginia.gov

Subject Cross References

References CAPP – Cardinal Topic No. 30315, *Nomenclature Codes*

CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets*

CAPP – Cardinal Topic No. 30405, *Additions, Renovations, and Repairs*

CAPP – Cardinal Topic No. 60302, *Nomenclature Codes*

CAPP – Cardinal Topic No. 60303, *Error Messages*

CAPP Topic No. 70325, *Data Entry*
