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Overview

Introduction

The purpose of this topic is to provide guidance to agencies and institutions in complying with the accounting and reporting requirements for capital assets used directly or indirectly in federal programs. Only agencies and institutions responsible for administering federal grant programs are impacted by this topic.

Policy

General

The Comptroller requires that accounting and reporting for capital assets follow Generally Accepted Accounting Principles (GAAP). In addition, it is the responsibility of every State agency/institution dealing with federal funds to record, account for and report on all assets that are acquired and used directly or indirectly in federal programs.

The major authoritative sources for federal rules and regulations include the Common Rule issued by a number of major federal agencies and numerous Office of Management and Budget (OMB) Circulars that are organization and topic specific. Further detail can be found in the Code of Federal Regulations (CFR). Following is a list of the major OMB Circulars:

Circular Number	Office of Management and Budget (OMB) Circulars)
A-21	(Relocated to 2 CFR, Part 220) Cost Principles for Educational Institutions (includes hospitals)
A-87	(Relocated to 2 CFR, Part 225) Cost Principles for State, Local and Indian Tribal Governments
A-102	Grants and Cooperative Agreements with State and Local Governments
A-110	(Relocated to 2 CFR, Part 215) Uniform Administrative Requirements for Grants and other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
A-122	(Relocated to 2 CFR, Part 230) Non-Profit Organizations
A-133	Audits of States, Local Governments, and Non-Profit Organizations

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Procedures

Grant Requirements Related to Capital Assets

The cost principles and administrative requirements for capital assets used directly or indirectly in federal programs specify certain procedures that must be followed in order to maintain adequate property records and controls.

Classification

The Office of Management and Budget (OMB) recently codified OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122, and A-133 into a single document. The new document, now titled 2 CFR, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is located in Title 2 of the Code of Federal Regulations at http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf.

This new document provides requirements for real property and equipment and states that "...title to real property and equipment acquired under Federal award will vest upon acquisition in the non-Federal entity" As a result, all federal assets meeting the capitalization criteria should be capitalized and reported in the CAFR, thereby recognizing true ownership status. (See CAPP – Cardinal Topic No. 30305, *Capitalized or Controlled Assets* for further detail.)

Federal Depreciation and Use Allowance

Federal regulations require that depreciation be computed using a generally-accepted method and be consistently applied for a particular class of assets. All depreciation is calculated by the Fixed Asset Accounting and Control System (FAACS) on a straight-line basis for Statewide reporting purposes and for agency financial statements submitted to DOA. Federally funded agencies and institutions may use a different acceptable method of depreciation if considered advantageous by management in the recovery of indirect costs. Any method different than straight-line will be accounted for on the agencies' system and be fully reconciled to the depreciation reported on the official records of FAACS, the Commonwealth Accounting and Reporting System (CARS), and Cardinal. For additional information on depreciation, see CAPP – Cardinal Topic No. 30610, *Depreciation Methods and Calculations*.

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The following example displays the major steps FAACS performs in calculating depreciation:

Step 1 - Calculate Depreciable Base

The depreciable base is the acquisition cost minus the salvage value. For this example the salvage value is zero; therefore, the depreciable base is the acquisition cost.

	Acquisition Cost
Office Desk	$ 800
Personal Computer	$1,000
Microscope	$2,000

Step 2 - Calculate Depreciable Base

For indirect cost recovery calculations, federal cost is derived by totaling amount(s) for all federal funding source(s) to calculate the total federal cost. For State purposes, federally owned property (as determined by the ownership codes) is excluded from the depreciable base. For the examples, the result would be:

	Acquisition Cost	Federal Share Source 01		Source 02		Total Federal Cost
Office Desk	$ 800	0	+	0	=	$ 0
Personal Computer	$1,000	50	+	50	=	$100
Microscope	$2,000	400	+	0	=	$400

Step 3 - Calculate Net Cost

Net cost is derived by subtracting the federal cost from the acquisition cost. For the previous examples, the result would be:

	Acquisition Cost		Federal Cost		Net Cost
Office Desk	$ 800	-	0	=	$ 800
Personal Computer	$1,000	-	100	=	$ 900
Microscope	$2,000	-	400	=	$ 1,600

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Step 4 - Determine Useful Life

Each nomenclature code in a FAACS record is detailed in the Nomenclature Code Table. The table contains the code, its associated description, and a three-digit useful life value for the asset class defined by that code. These useful life values are used to calculate the depreciation expense. For the example, the values from the sample table are:

	Useful Life (Years)
Office Desk	020
Personal Computer	005
Microscope	010

Step 5 - Calculate Depreciation

Depreciation is calculated periodically for each State-owned capital asset in the equipment, buildings, and improvements other than buildings categories. Monthly depreciation can be calculated by determining the number of months of useful life and dividing that amount into the asset's net cost. For the example, the annual depreciation is as follows:

	Net Cost		Useful Life (Years)		Annual Depreciation
Office Desk	$ 800	/	20	=	$ 40
Personal Computer	$ 900	/	15	=	$ 180
Microscope	$1,600	/	10	=	$ 160

Step 6 - Determine if the item is fully depreciated

An asset is fully depreciated when its accumulated depreciation expense (stored on each inventory master record) reaches the item's net cost (acquisition cost minus salvage value).

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Step 7 - Use Allowance Rates no Longer Allowed

The new guidance titled 2 CFR, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is located in Title 2 of the Code of Federal Regulations at http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf no longer allows a "Use Allowance" for fully depreciated assets. All costs must be recovered through depreciation.

Federal Cost Categories Codes

Since the recovery method (depreciation) is determined by asset class, the first two digits of the nomenclature code have been reserved for this purpose and designated as the federal cost category code. (See CAPP – Cardinal Topic No. 30315, *Nomenclature Codes* for further detail). The federal cost category codes established in FAACS are as follows:

Federal Cost Category Code	Description
01	Land
02	Buildings
03	Improvements Other Than Buildings
04	Office Equipment
05	Research Equipment
06	Transportation Equipment
07	Automated Data Processing Equipment
08	Agency Support Equipment
09	Building Components
10	Special Fixed Equipment
11	Farm Machinery

Per the new Uniform Administrative Requirements, agencies and institutions must now use only depreciation to recovery asset costs.

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Indirect Cost Considerations

Agencies and institutions are responsible for researching the federal rules and regulations to determine whether depreciation charges apply to the asset in question. Depreciation charges may apply to the following assets:

- Buildings
- Infrastructure (formerly Improvements Other Than Buildings)
- Equipment

Maintenance

Agencies and institutions should ensure that a sound cost beneficial maintenance program exists which ensures assets are in good condition. The costs incurred for necessary maintenance, repair or upkeep of capital assets are not capitalized unless such costs add to the permanent value or prolong the economic useful life of the asset. The federal government also requires that assets included in the indirect cost calculation be used, usable, and needed.

Maintenance procedures are discussed in CAPP – Cardinal Topic No. 30510, *Asset Maintenance*.

Dispositions and Surplus

When assets are acquired with federal funds no longer used in the grant program (i.e., grant has expired; asset lost, stolen, or damaged; or the asset has become idle), the grantor must be notified.

The federal government has established specific procedures for handling the disposition of property acquired with federal funds. Capital assets with a unit acquisition cost of less than **$5,000** may be disposed of by the grantee without notification or return of proceeds to the grantor. Capital assets with acquisition cost of **$5,000** or more may be retained by the agency, provided that compensation is made to the original federal agency or its successor based on the current fair market value of the item.

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Additional Federal Considerations

Grantor agencies should also ensure that assets purchased with federal funds are safeguarded against theft, damage, or loss. To accomplish these objectives physical inventories of capital assets should be conducted. Any discrepancies between assets observed during inventory and those shown in the accounting records should be investigated to determine the difference. The inventory should be used to verify the existence, current condition and utilization, and continued need for the asset. Recommended inventory procedures are detailed in CAPP – Cardinal Topic No. 30505, *Physical Inventory*.

Individual grantor agencies may impose additional requirements on capital assets purchased with federal funds. It is the responsibility of each agency and institution to ensure compliance with federal regulations.

Internal Control

General

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

- Assets purchased with federal grant funds conform to State and federal rules and regulations.
- Cost principles and administrative requirements pertaining to federally-funded assets are followed.
- Depreciation, if claimed, is computed using a generally accepted method and be consistently applied for a particular class of assets. Controls are in place to exclude the depreciation on capitalized capital assets purchased with federal grant funds, and on surplus property from the indirect cost pool.
- The grantor is notified when capitalized assets that are acquired with grant funds are no longer used in the grant program.

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

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Subject Cross References

References

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

CAPP – Cardinal Topic No. 30305, *Capitalized or Controlled Assets*

CAPP – Cardinal Topic No. 30505, *Physical Inventory*

CAPP – Cardinal Topic No. 30510, *Asset Maintenance*

CAPP – Cardinal Topic No. 30610, *Depreciation Methods and Calculations*

CAPP Topic No. 70325, *Data Entry*