

<b>Volume No. 1—Policies and Procedures</b>	<b>TOPIC NO</b>	<b>31105—Cardinal</b>
<b>Section No. 31100—Federal Asset Accounting</b>	<b>TOPIC</b>	<b>Federal Requirements</b>
	<b>DATE</b>	<b>July 2021</b>

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## Overview

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**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.

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## Policy

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**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 2 CFR, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Code of Federal Regulations (CFR), and individual grant terms and conditions.

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## Procedures

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### 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.

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### Classification

The Uniform Guidance 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 ACFR, thereby recognizing true ownership status. (See CAPP Topic No. 30305, *Capitalized or Controlled Assets* for further detail.)

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### Federal Depreciation

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 statement templates 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 and Cardinal. For additional information on depreciation, see CAPP Topic No. 30610, *Depreciation Methods and Calculations*.

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## Procedures, Continued

### Federal Depreciation, continued

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.

	<u>Acquisition Cost</u>
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:

	<u>Acquisition Cost</u>	<u>Federal Share</u>				<u>Total Federal Cost</u>
		Source 01	Source 02			
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:

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

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## Procedures, Continued

**Federal Depreciation,**  
continued

### **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:

	<b>Useful Life (Years)</b>
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:

	<b><u>Net Cost</u></b>		<b><u>Useful Life (Years)</u></b>		<b><u>Annual Depreciation</u></b>
Office Desk	\$ 800	/	20	=	\$ 40
Personal Computer	\$ 900	/	5	=	\$ 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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## Procedures, Continued

**Federal Depreciation,**  
continued

### Step 7 - Use Allowance Rates no Longer Allowed

The Uniform Guidance requires that 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 Topic No. 30315, *Nomenclature Codes* for further detail). The federal cost category codes established in FAACS are as follows:

<b>Federal Cost Category Code</b>	<b>Description</b>
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

As noted above, per the Uniform Guidance, agencies and institutions must use only depreciation to recover asset costs.

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## Procedures, Continued

### 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 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 per the Uniform Guidance or the specific terms of the grant agreement.

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## Procedures, Continued

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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 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.

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## Internal Control

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### 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.
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## Records Retention

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### General

Records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia. The retention period generally starts at the close of the fiscal period.

For pending, ongoing or unresolved litigation, audits or claims, retain documentation until completion, resolution or negotiation of settlements and retain according to standard schedules. Provide for the periodic destruction of records not subject to permanent deposit in accordance with policies and procedures established by the Records Management Section, Virginia State Library and Archives.

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## DOA Contact

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### Contact

Financial Reporting Project Lead

 (804) 225-2257

FAX (804) 225-2430

 [faacs@doa.virginia.gov](mailto:faacs@doa.virginia.gov)

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## Subject Cross References

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### References

CAPP Topic No. 30315, *Nomenclature Codes*

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

CAPP Topic No. 30505, *Physical Inventory*

CAPP Topic No. 30510, *Asset Maintenance*

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

CAPP Topic No. 70325, *Data Entry*

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