OREGON ACCOUNTING MANUAL

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES STATEWIDE POLICY	**NUMBER** 15.60.20	**SUPERSEDES** 15.60.20 dated 08/01/2010
	EFFECTIVE DATE MM/DD/YYYY	**PAGE NUMBER** Pages 1 of 7
Division **Chief Financial Office**	**REFERENCE/AUTHORITY** ORS 293.590 GASB Statement No. 34 GASB Statement No. 42 GASB Statement No. 87	
Policy Owner Statewide Accounting and Reporting Services		
SUBJECT Capital Assets – Depreciation and Amortization	**APPROVED SIGNATURE** ***George Naughton, Chief Financial Officer*** ***Signature on file***	

PURPOSE
This policy provides guidance on accounting and financial reporting for depreciation and amortization of capital assets, including leased assets.

APPLICABILITY
This policy applies to all state agencies included in the State's annual financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

FORMS/EXHIBITS/INSTRUCTIONS
None.

DEFINITIONS
Amortization: The systematic and rational allocation of the cost of an intangible capital asset (less salvage value) over its estimated useful life.

Depreciation: The systematic and rational allocation of the cost of a tangible capital asset (less salvage value) over its estimated useful life.

Estimated salvage value: The expected residual value of an asset at the end of its useful life; i.e., the estimated amount received at the time the asset is sold or removed from service.

Modified approach: An optional method of accounting for infrastructure assets (e.g., roads, bridges, and tunnels) that allows governments to forego the recognition of depreciation expense. To use this method, agencies must demonstrate they can properly maintain infrastructure assets on an ongoing basis.

Click here for **definitions**.

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EXCLUSIONS AND SPECIAL SITUATIONS

None.

POLICY

101. Agency management must ensure the proper accounting and reporting of depreciation and amortization.

102. Except for infrastructure and leased assets, depreciate/amortize capital assets with limited useful lives on a straight-line basis. Do not depreciate/amortize capital assets with indefinite useful lives.

103. Amortize leased assets in a systematic and rational manner over the shorter of the lease term or the useful life of the asset.

    a. If a lease contains a purchase option that the lessee has determined is reasonably certain of being exercised, the leased asset should be amortized over the useful life of the asset.

104. Use any generally accepted method of depreciation to depreciate infrastructure assets so long as the method is consistently applied from year to year, complies with applicable statutes, and meets the requirements of the federal government or other organizations related to rate determination and cost recovery. **Do not use the modified approach to account for infrastructure assets unless preapproved by the Chief Financial Office.**

105. Use the recommended useful life ranges presented in the accompanying procedures, unless your agency's experience and specific circumstances differ. Periodically, review the reasonableness of the useful lives assigned to your agency's capital assets. Make any adjustments on a prospective basis only.

106. Depreciation/amortization begins on the day a capital asset is placed-in-service. Generally, the placed-in-service date and the purchase date, or lease commencement date, are the same. In some cases, however, the placed-in-service date is the day installation or construction is complete and the asset is ready to be used for its intended purpose.

107. Do not record depreciation expense (if material) on a capital asset that is temporarily idle, if the idle condition has no affect on the asset's total service capacity. Otherwise, record depreciation each year, regardless of whether the asset is idle or in active use.

108. Calculate annual depreciation/amortization expense for each asset in the agency's subsidiary property ledgers. Reconcile this activity to increases posted to the accumulated depreciation general ledger (GL) control accounts.

109. Upon disposition of a capital asset, remove the related accumulated depreciation/amortization from the subsidiary property ledgers. Reconcile this activity to decreases posted to the accumulated depreciation GL control accounts. Perform these reconciliations at least quarterly.

PROCEDURES

Estimated Useful Life

110. Useful Life Ranges: Estimating the useful life of a capital asset requires professional judgment. Factors to consider include (a) the asset's present physical condition, (b) the maintenance

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required to keep the asset in good working order, (c) the asset's capacity to meet the agency's service demands in the future, (d) other obsolescence factors, (e) the agency's historical experience with similar assets, and (f) the lease term, if applicable.

Asset Classification	Useful Life Ranges
Works of Art & Historical Treasures (depreciable)	10 to 30 years
Equipment and Machinery	3 to 50 years
Motor Vehicles	3 to 30 years
Data Processing Software	3 to 10 years
Data Processing Hardware	3 to 10 years
Other Intangibles *(amortizable, such as patents & copyrights)*	Term of legal rights
Buildings and Building Improvements	10 to 75 years*
Land Improvements	10 to 75 years
Land Use Rights *(amortizable)*	Length of contract
Leasehold Improvements	Length of lease**
Leased Assets	Lease term***
State Highways	20 to 35 years
Other Roads	15 to 50 years
Tunnels and Bridges	20 to 75 years
Airports	20 to 75 years
Utility Systems	5 to 50 years
Docks, Dikes and Dams	30 to 50 years

*Refer to IRS Publication 946 for additional guidance.
**Or life of asset, whichever is shorter.
***Or life of asset, whichever is shorter. If a lease contains a purchase option that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset, unless the asset in nondepreciable.

111. The useful life ranges presented above are recommendations only; an agency's actual experience may differ.

112. Estimated Useful Life versus Actual Experience: Periodically, compare the useful lives assigned to your agency's capital assets to your agency's actual experience. If circumstances indicate the need to change the useful life of a particular class of assets, make the change *prospectively* (i.e., as an adjustment to charges for depreciation/amortization in subsequent periods). Do not make changes to previously reported results.

113. In addition, reevaluate the remaining useful life of a specific capital asset, if the value of that asset (a) increases as the result of an improvement or (b) declines as the result of impairment. For more information on impairments, refer to **OAM 15.60.25**.

114. Adjusting the Estimated Useful Life (example): Equipment acquired for $100,000 (with no salvage value) has an estimated useful life of 20 years. Annual depreciation on a straight-line basis is $5,000. At the end of 12 years, the agency determines the useful life should be 25 years. The change in estimate does not affect the amount already reported as accumulated depreciation. Instead, the agency depreciates the remaining depreciable cost over the remaining "adjusted" useful life of the asset. After adjustment, annual depreciation is $3,077.

Initial depreciation calculation:
$100,000 cost/20 years = $5,000 annual depreciation expense

Accumulated depreciation at the end of 12 years:
$5,000 x 12 = $60,000

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Adjustment to the useful life of the asset:
8 + 5 = 13 remaining years

Adjustment to annual depreciation expense:
$40,000 remaining cost/13 years = $3,077 adjusted annual depreciation expense

Straight-line Method and Variations

115. Straight-line Method and Salvage Value: The straight-line method of depreciation/amortization allocates the cost (less salvage value) of a capital asset evenly over its estimated useful life. Calculate annual straight-line depreciation/amortization by deducting the estimated salvage value from the cost of the asset and dividing the remaining cost by the estimated years of useful life.

NOTE: Salvage value is difficult to predict and requires the use of professional judgment. In general, agencies may ignore salvage value in computing annual depreciation/amortization, if the estimated salvage value is less than ten percent of the asset cost.

116. Group/Composite Depreciation: Ideally, agencies calculate depreciation separately for each individual capital asset. However, agencies may apply depreciation to groupings of assets within a major asset class. The term *group depreciation* is used when the grouped assets are essentially similar; otherwise, the term *composite depreciation* applies. In either case, agencies must calculate an average depreciation rate for the group as a whole.

NOTE: No gains or losses are reported on disposals when the group or composite method is used because all assets are presumed to be (a) fully depreciated at the time of disposal if no cash is received or (b) sold for book value if cash is received.

117. Partial Year Depreciation: To determine depreciation/amortization expense for a partial year, compute the expense for the full year and then prorate. Use any one of the following fractional-year policies to allocate the cost between the first year and the last year as long as the policy is consistently applied.

- Nearest full month
- Nearest fraction of a year
- Half year in period of acquisition and disposal
- Full year in period of acquisition, none in period disposal
- None in period of acquisition, full year in period disposal

118. Fully Depreciated Asset Still in Use: If a capital asset is fully depreciated/amortized (cost = accumulated depreciation) but still in use, continue to carry the asset and related accumulated depreciation/amortization in the subsidiary property ledgers and GL control accounts. Do not record a prior period adjustment to compensate for the error in estimating the asset's useful life. Instead, reevaluate the remaining useful lives of similar assets and make any changes prospectively. Remove the fully depreciated/amortized asset and related accumulated depreciation/amortization *only* upon disposition.

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Building Components

119. A single building often comprises one or more individual components with a significantly shorter useful life (e.g., roof, HVAC). An agency may use any one of three methods to depreciate the components.

Example: Assume that a $6 million building with no salvage value has an estimated useful life of 60 years, but that its roof (one tenth of the $6 million cost = $600,000) will have to be replaced every 20 years.

- **Treat component as separate capital asset**. This approach treats the cost of each major building component as a separate capital asset. Accordingly, the agency depreciates the $600,000 roof in this example over its own estimated 20-year useful life, leaving a zero balance when the time comes to replace it with a new roof.

- **Include component as integral part of larger capital asset and treat subsequent replacement as repair**. The second approach treats the component as an integral part of the larger asset and depreciates the combined cost over the life of the latter. Accordingly, the agency depreciates the full $6 million cost of the building over 60 years. The agency accounts for the subsequent replacement of the roof in year 21 and year 41 as a repair (an expense of the period).

- **Include component as integral part of larger capital asset and treat subsequent replacement as disposal**. The third approach also treats the roof as an integral part of the building and depreciates the combined cost over the life of the building. However, each time the roof is replaced, the agency removes the undepreciated balance of the current roof and recognizes a loss upon disposal. The agency depreciates the cost of each new roof over the remaining life of the building.

  If detailed project costs by building component are not available, the agency may estimate the cost of the original roof. The original roof's undepreciated balance (carrying value) at date of replacement is equal to the estimated cost less depreciation-to-date, based on the life of the building. (NOTE: The estimated cost must be reasonable and supporting documentation must be maintained.)

Leasehold Improvements

120. Leasehold improvements revert to the owner of the property upon termination of the lease. Therefore, the lessee amortizes leasehold improvements over the economic life of the improvement or the life of the lease, whichever is shorter. When determining the life of the lease, include any renewal options management is reasonably certain to exercise.

Idle Assets

121. If the total service capacity of an asset that is temporarily idle is not affected, do not report depreciation expense (if material) while the asset is idle. Otherwise, record depreciation each year, regardless of whether the asset is idle or in active use.

122. For example, assume a certain piece of equipment is capable of providing ten years of service, but that the equipment has to be taken out of service for one year (in year 6). If the asset will still provide a full ten years of service, only in different years, report depreciation expense only in the years receiving the service (i.e., years 1-5 and 7-11); report no depreciation expense in year 6 when the asset is idle. Conversely, if the asset's service utility is limited to ten chronological

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years, regardless of whether it is actually used, report depreciation expense in each year (i.e., years 1-10).

NOTE: If an agency permanently retires a capital asset from service (either voluntarily or involuntarily) and does not immediately sell or otherwise dispose of the asset, the asset ceases to be a capital asset (because it no longer will be used in operations) and must be reclassified to state owned property held for sale (GL 0927). Report assets held for sale at the lower of carrying value or fair value.

Accounting for Depreciation and Amortization

122. Depreciate/amortize capital assets acquired by proprietary funds or fiduciary funds within the accounts of those funds. Capital assets acquired by governmental funds are considered general capital assets (assets associated with governmental activities). Depreciate/amortize general capital assets in the government-wide reporting fund.

123. Use the following comptroller objects to record annual depreciation/amortization expense:

- 7474 Amortization of Other Capital Assets
- 7475 Amortization of Leasehold Improvements
- 7476 Depreciation Expense
- 7478 Amortization of Software
- 7480 Amortization of Leased Equip and Machinery
- 7481 Amortization of Leased Motor Vehicles
- 7482 Amortization of Leased Data Processing Hardware
- 7483 Amortization of Leased Tunnels and Bridges
- 7484 Amortization of Leased Airports
- 7485 Amortization of Leased Docks, Dikes, and Dams
- 7486 Amortization of Leased Land
- 7487 Amortization of Leased Buildings
- 7488 Amortization of Other Leased Assets

124. The entry below illustrates how to record depreciation expense for a building placed in service on July 1. The building cost $5,250,000 and has an estimated useful life of 50 years and an estimated salvage value of $525,000. The building was purchased with special revenue fund resources. Annual depreciation expense is $94,500 ($5,250,000 – $525,000)/50 years).

Government-wide Reporting Fund

T-code 542: To record depreciation expense using comptroller object 7476 – Depreciation Expense.

DR 3600 GAAP Expenditure Offset (C/O 7476)	94,500	
DR 3018 Invested in Capital Assets	94,500	
CR 0875 Accumulated Depreciation – Buildings		94,500
CR 3074 Change in Capital Assets		94,500

Financial Statement Reporting

125. The Statewide Accounting and Reporting Services (SARS) reports depreciation/amortization expense in proprietary funds in the statement of revenues, expenses and changes in fund net position as a separate line item within operating expenses. Depreciation/amortization expense

in fiduciary funds is reported in administrative expenses in the statement of changes in fiduciary net position. SARS reports depreciation/amortization expense in the government-wide reporting fund in the statement of activities in the applicable function/program for governmental or business-type activities.

126. Accumulated depreciation/amortization is reported as a contra account to capital assets in the proprietary funds balance sheet and the government-wide statement of net position. SARS reports capital assets, net of accumulated depreciation, in the statement of fiduciary net position.

Disclosure Requirements

127. Capital asset activity must be disclosed in the state's financial statements. The requirements include disclosure of beginning balance, increases, decreases, and ending balance of each asset classification and the related accumulated depreciation/amortization account.

128. Notes to the State's financial statements also include a schedule to illustrate the amount of depreciation/amortization expense charged to each function during the fiscal year. SARS presents depreciation/amortization for capital assets used in governmental activities, business-type activities, and fiduciary fund activities separately.

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DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:**	15.60.20
DIVISION:	Chief Financial Office	**Effective date:**	August 1, 2010
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Depreciation and Amortization		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

Statewide Policy

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