

DEPARTMENT OF GENERAL SERVICES

POLICY TITLE: Useful Life, Asset Value, Salvage Value **DATE:** 01/15/09
POLICY NUMBER: FS-12 **EFFECTIVE DATE:** 07/01/08
REVISION NUMBER: N/A **PAGE:** 1 of 7
APPROVED BY: *R. F. Muzowski*, DGS Director

I. PURPOSE

The purpose of this policy is to provide guidance in the assignment and reevaluation of asset useful life. This policy represents the agency's useful life estimate methodology. This policy also provides guidance on the assignment of asset value and salvage value.

II. REFERENCES

- Anderson, Needles, Caldwell, *Principles of Accounting*, 1990
- CAPP 30210 *Acquisition Valuation*
- CAPP 30315 *Nomenclature Codes*
- CAPP 30405 *Additions, Renovations, Repairs*
- CAPP 30605 *Useful Life*

III. DEFINITIONS

For purposes of this policy and related procedures, the terms are defined as follows:

Asset Category A classification used to separate assets into 1 of the 4 asset classes reported on the Comprehensive Annual Financial Report (CAFR). The asset categories are 1 - Land, 2 - Buildings, 3 - Equipment, and 4 - Infrastructure, (formerly Improvements Other Than Buildings). Asset Category is the 3rd digit in the nomenclature code. A fifth asset category, 5 - Construction-in-Progress (CIP - Summary Maintenance), does not require a nomenclature code.

Depreciable Asset Assets with a useful life longer than one year and valued at greater than or equal to \$5000. Asset categories 2 (Buildings), 3 (Infrastructure), and 4 (Equipment) are depreciable assets. Asset category 1 (Land) and 5 (CIP) are not depreciable.

Federal Cost Category A classification used for federal indirect cost allocation reporting purposes. Federal Cost Category is the 1st and 2nd digits in the nomenclature code. The classifications are:

- 01 Land
- 02 Buildings
- 03 Improvements Other Than Buildings (Infrastructure in FAACS)
- 04 Office Equipment
- 05 Research Equipment
- 06 Transportation Equipment
- 07 Automated Data Processing Equipment
- 08 Academic or Agency Support Equipment
- 09 Building Components

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Net Realizable Value An assessed value of the asset, i.e., the division's "exit value" or value for which the Division thinks it could sell the asset.

Nomenclature Code An eleven character code used to classify assets. It is comprised of the 2 digit federal cost category, 1 digit asset category, 6 digit major asset group, and 2 digit minor asset group. The major asset group describes the major class of the asset (e.g., typewriter). The minor asset group is optionally defined by the agency and further categorizes the typewriter as manual typewriter and electric typewriter; else the code ends with trailing zeroes. (XX-X-XXXXXX-00)

The useful life of an asset defaults from the nomenclature code assigned to it. It may be necessary for the agency to request the establishment of a new nomenclature code to differentiate between assets in the same major and/or minor asset group but different asset useful lives. This is accomplished by the establishment of another nomenclature code with a new minor asset group. Minor asset groups may be assigned from 00 to 99. See *CAPP 60302 Nomenclature Codes* for a list of codes.

Related Entity Any entity reporting in the Comprehensive Annual Financial Report (CAFR).

Salvage Value Estimated value an asset will have when it reaches the end of its useful life. Also known as residual value or disposal value, it is the estimated net scrap, salvage, or trade-in value of the asset as of the estimated date of disposal.

Useful Life The period of time an agency intends to use or place an asset in service. Total number of service years expected from an asset.

IV. POLICY

It is the policy of DGS to assign realistic useful lives to assets and to periodically evaluate the useful life assigned to assets to determine whether the useful life estimated is reasonably accurate. It is also the policy of DGS to realistically assign asset value and salvage value and to reassess these values when appropriate.

V. RESPONSIBLE DIVISION/STAFF DIRECTOR

DGS Controller will be responsible for making revisions to this policy as necessary.

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VI. CONTACT POSITION FOR INTERPRETATION

DGS Controller, Fiscal Services, (804) 786-7925

VII. POLICIES SUPERSEDED

Not applicable.

VIII. EXCEPTIONS

Exceptions to this policy shall be made on a case-by-case basis as approved by DGS Director and/or DGS Controller.

IX. PROCEDURES

A. USEFUL LIFE, ASSET VALUE, SALVAGE VALUE

1. Division Directors *shall* ensure the following occurs as it pertains to assets within their divisions:
 - a. A realistic useful life is assigned to all depreciable assets.
 - b. Major assets are periodically examined for major occurrences which may increase or decrease the existing useful life.
 - c. Assets are properly revalued and updated on a timely basis so that the proper costs exist for depreciation calculations.
 - d. Depreciation is appropriately calculated for all capitalized assets through assignment of accurate useful lives, asset values, and salvage values (if any).

B. USEFUL LIFE (RE)ASSIGNMENT

1. Division Directors (or authorized designees) *shall* develop and periodically update a methodology for assigning asset useful lives. The table in Appendix A may be used as a guide. However, due to the unique nature of assets existing within the divisions, Division Directors *shall* consider the following in determining asset useful life:
 - a. Governmental organizations often use fixed assets longer than private sector for profit businesses.

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- b. The actual use patterns for different types of assets within the division, i.e., whether the asset is used frequently or infrequently or at some other frequency that differs from the norm.
 - c. The actual length of time different assets have been used within the division in the past.
 - d. Whether there are fully depreciated assets still in use within the division. This is a good indication that asset useful life may need to be extended for assets within this asset category.
 - e. That it may be necessary to request the establishment of another nomenclature code not only to properly describe the asset, but also to appropriately define its useful life.
2. Division Directors *shall* periodically review the useful life of assets for which they are responsible to ensure that the useful life of these assets are reasonably estimated. This review/evaluation *shall*:
- a. Take into account the considerations listed in a. - e. of 1. above. For example, does the currently assigned useful life of the asset differ from actual use patterns or actual length of time the division has used the asset or similar assets?
 - b. Factor in whether (1) past experience with similar assets as mentioned above, (2) the asset's present condition, (3) the Division's repair and maintenance policy, (4) current technology and industry trends, or (5) local conditions such as weather have impacted the useful life assigned.
 - c. Be performed no less than once at the inception or effective date of this policy and once every 3-5 years thereafter.

This will ensure that asset useful lives closely mirror the actual life of the asset.

3. Division Directors *shall* inform the Division Fixed Asset Coordinator of any changes in an individual asset or class or category of assets' useful life.

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C. ASSET (RE)VALUATION

1. Division Directors *shall* recognize the importance of properly valuing and accurately recording fixed assets in FAACS.
2. Division Directors (or authorized designees) *shall* value all fixed assets at its acquisition cost or actual cost (if readily determined); otherwise, an estimated cost may be used. This value *shall* include the cost to transport the asset to its intended destination for use and costs incurred to make the asset ready for use. This value represents:
 - a. For purchased assets, the voucher and/or wire payment to the vendor/property owner or a series of invoices supporting the voucher and/or wire payment to a contractor/vendor/property owner.
 - b. For internally-developed or contractor-developed software, the voucher payments to a vendor/contractor and/or labor charges of IS staff. This value will be accumulated by Information System Services (ISS) with Division assistance.
 - c. For donated assets, the fair market value if donated from an unrelated entity; the book value or historical cost of the asset if donated from a related entity.
 - d. For surplus property, the acquisition price plus any costs incurred to make the asset operational.
 - e. For constructed assets, the construction cost.
3. Division Directors *shall* periodically review the value of all assets for which they are responsible to ensure the value of these assets are not materially overstated or understated.
4. Division Directors *shall* inform the Division Fixed Asset Coordinator whenever the value of an asset is materially overstated or understated so that the asset may be written down to its net realizable value or increased. Increases or decreases in asset value may change an asset from being a capitalized or depreciable asset to a controlled asset and vice versa.

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D. SALVAGE VALUE (RE)ASSIGNMENT

1. Division Directors (or authorized designees) *shall* assign a salvage value, if any, to each asset. The salvage value assigned may be zero but it may not be equal to the total cost of the asset. Salvage value should be estimated based on the following:
 - Type of Asset: Some assets such as vehicles, forklifts, and other equipment are often still in working order when replaced and are generally sold or auctioned for some value.
 - Asset's Obsolescence: Due to continuous changes in technology, assets such as computers are often worthless at the time of replacement and have no salvage value.
 - Degree of Usefulness of the Asset at Disposal
 - Nature of the Disposal Process for the Asset: If asset will be scrapped or destroyed, it likely has no salvage value.
2. Division Directors *shall* inform the Division Fixed Asset Coordinator of any changes in an asset's salvage value.

E. CHANGES IN USEFUL LIFE, ASSET VALUE, SALVAGE VALUE

1. Division Fixed Asset Coordinators *shall* notify the Department Fixed Asset Coordinator of all required changes in asset useful life, asset value, and salvage value through use of the FAACS form FACM0110.

X. EFFECTIVE DATE, DISTRIBUTION METHOD, AND EXPIRATION DATE

This policy shall be distributed through normal distribution channels. It shall be effective July 1, 2008 for 7 years expiring on July 1, 2015. This policy, and as such, the agency's useful life methodology will be reviewed periodically at the expiration and each successive re-issuance of this policy.

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APPENDIX A – COMMONWEALTH OF VA USEFUL LIFE GUIDE

Asset	Useful Life Range	
	Minimum	Maximum
Buildings: Residential Warehouse, Storage, Facilities, Machine Shops, Garage, etc.	20 years 30 years	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	To be Determined Individually	
Prisons, Recreation Buildings, and includes furniture and fixtures which are not structural components of a building	To be Determined Individually	
Equipment: Automobiles Buses Light General Purpose Trucks and Vans: Unloaded with less than 13,000 pounds	3 years 10 years 5 years	8 years N/A 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
Examples: Furnishings (e.g., carpet, draperies, etc.) Office Equipment and Furniture (e.g., desks, chairs, bookcases, typewriters, calculators, accounting machines, etc.)	5 years 10 years	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