

Facilities Division Policy

NAME: Depreciation and Capital Recovery

NUMBER: 107-08-305

SUBJECT: Depreciation and Capital Recovery


NUMBER: 107-08-305

Supersedes 125-6-305

SECTION: Administration

EFFECTIVE DATE: 07-01-2010

APPROVED:



POLICY / PURPOSE:

This policy explains which real property assets the DAS Facilities Division ("the division") will depreciate and which it will charge with capital recovery. This policy went into effect on July 1, 2009; it applies to all projects capitalized as of that date regardless of the project completion date or whether a portion of the project was capitalized in a prior period.

AUTHORITY:

ORS 276.005 and ORS 276.285

APPLICABILITY:

This policy applies to all real property assets owned by the division.

ATTACHMENTS:

None

DEFINITIONS:

1. **Capital Asset:** Tangible or intangible assets used in agency operations that have initial estimated useful lives beyond one year and an initial cost (including ancillary charges) of at least \$5,000. The Oregon Accounting Manual (OAM) 15.60.10.103 states: "The state's capitalization threshold is \$5,000. Thus, capital assets with a cost of \$5,000 or more and a useful life of at least one year should be capitalized and reported in the agency's accounting records. Property with a cost of less than \$5,000 should not be capitalized; it should be expensed in accordance with OAM 15.55.00 Non-Capital Assets."
2. **Capital Projects Fund (CPF):** A fund used to account for monies set apart for the purchase, construction, improvement, repair, equipping, and furnishing of office buildings, or the purchase, construction, improvement, and repair of utility and service facilities.
3. **Capital Recovery:** Revenue transfers from the division's operating fund to the Capital Projects Fund to replenish the cash used in capital construction and improvement projects.
4. **Dedicated Fund:** A fund in the State Treasury that the Legislature dedicates, appropriates or sets aside for a limited object or purpose; it does not include a revolving fund or a trust fund.
5. **Depreciation:** A portion of the cost of a capital asset charged as an expense during a particular period because the serviceable life of the asset diminishes due to wear and tear or deterioration or it becomes inadequate or obsolete.
6. **General Fund:** The fund used to account for all state transactions not accounted for in another fund.
7. **Real Property:** Land, structures and other additions or improvements.
8. **Revenue Transfer:** The transfer of revenue from one fund or agency to another; includes all inter-fund transactions (except loans or advances), inter-fund services provided or used and reimbursements.

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GUIDELINES:

I. Depreciation

Depreciate all capital outlay costs related to acquiring, constructing or improving real property.

II. Capital Recovery

Two revenue sources apply to capital recovery, Uniform Rent and Self Support Rent. These programs are different enough that the division identifies costs for capital recovery differently between the two programs; however, the method used to calculate the amount to transfer to the CPF is the same: Calculate the monthly depreciation of real property assets, then process a revenue transfer to the CPF for the amount depreciated.

A. UNIFORM RENT

Calculate capital recovery for all real property assets in this program including assets funded from loans, dedicated funds or general funds.

B. SELF SUPPORT RENT

Calculate capital recovery for only real property assets in this program funded from the CPF. Exclude real property assets funded with dedicated funds, general funds or loans.

III. Furnishings and Equipment

For new construction or major renovations, the division does not generally provide furnishings or equipment for tenants at occupancy. If the parties agree in writing, the division will provide the items and recover the costs through rent rates (capital recovery). However, the tenant is responsible for any replacement of the items in the future.

IV. Depreciation Schedule

If feasible, depreciate the cost of acquiring, constructing or renovating real property assets by major component (see schedule below). Otherwise, use the Single Item Schedule. Depreciate all other construction and improvement costs by major component.

A. SINGLE ITEM SCHEDULE

<u>Asset</u>	<u>Life</u>
Office Buildings	25 Years
Warehouse	25 Years
Parking Structures	25 Years

B. COMPONENT SCHEDULE

<u>General Requirements Subgroup</u>	<u>Life</u>
Division 01 - General Requirements	(to be allocated)
Facility Construction Subgroup	
Division 02 - Site Construction	25 Years
Division 03 - Concrete	25 Years
Division 04 - Masonry	25 Years
Division 05 - Metals	25 Years
Division 06 - Wood, Plastics, and Composites	20 Years
Division 07 - Thermal and Moisture Protection	10 Years
Division 08 - Openings	10 Years

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Division 09 - Finishes	10 Years
Division 10 - Specialties	20 Years
Division 11 - Equipment	15 Years
Division 12 - Furnishings	10 Years
Division 13 - Special Construction	25 Years
Division 14 - Conveying Equipment	20 Years

Facility Services Subgroup:

Division 21 - Fire Suppression	25 Years
Division 22 - Plumbing	25 Years
Division 23 - Heating Ventilating and Air Conditioning	20 Years
Division 25 - Integrated Automation	10 Years
Division 26 - Electrical	25 Years
Division 27 - Communications	10 Years
Division 28 - Electronic Safety and Security	10 Years

Site and Infrastructure Subgroup:

Division 31 - Earthwork	25 Years
Division 32 - Exterior Improvements	25 Years
Division 33 - Utilities	25 Years
Division 34 - Transportation	25 Years
Division 35 - Waterways and Marine Construction	CBC*
Division 40 - Process Integration	25 Years
Division 41 - Material Processing and Handling Equipment	20 Years
Division 42 - Process Heating, Cooling, and Drying Equipment	20 Years
Division 43 - Process Gas and Liquid Handling, Purification and Storage Equipment	20 Years
Division 44 - Pollution Control Equipment	20 Years
Division 45 - Industry-Specific Manufacturing Equipment	CBC*
Division 46 - Water and Wastewater Equipment	22 Years
Division 48 - Electrical Power Generation	20 Years

* CBC: projects so diverse and specialized that the division must determine the useful life on a case-by-case basis.

The terms listed above are from the Construction Specifications Institute. For additional details and examples, visit <http://www.csinet.org/>.

PROCEDURES:

<u>Step</u>	<u>Responsible Party</u>	<u>Action</u>
1.	DAS Facilities	The division puts in place sufficient internal controls to ensure that it depreciates assets according to the schedule in this policy.
2.	Tenant	Tenant provides furnishings and equipment for new construction or major renovations unless the parties agree in writing that the division will provide the items at occupancy and recover the costs through rent rates (capital recovery). Future replacement of furnishings and equipment is the sole responsibility of the tenant.

