



Policy 105

Depreciation Policy

Section: 100 – General Administration
Responsible Executive: Associate Executive Director, Finance and Business Operations
Responsible Department: Finance and Business Operations Office
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1.0 PURPOSE

- 1.1. To provide general direction to management in the definition of depreciable assets, the determination of useful lives, and the method of allocating depreciation costs.

2.0 BACKGROUND

- 2.1. The American Institute of Certified Public Accountants, in its Accounting Terminology Bulletin, provides that:
 - 2.1.1. "Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner."
- 2.2. The basic purpose of depreciation accounting is the spreading of the cost of a fixed asset over its Useful Life and the reflection of this cost in the statements of operation. There is a corresponding systematic reduction in the "book value" of the fixed asset, but this effect is secondary to the cost distribution function.

3.0 POLICY

- 3.1. Depreciable Assets. All Depreciable Assets will be classified as Equipment, Computer Hardware and Software, Facility and Leasehold Improvements, or Extraordinary Repairs and Replacements. These items have a cost factor which must be recovered by matching income and expense. Depreciable Assets may be capitalized and depreciated, or directly expensed, depending on the specific asset.
 - 3.1.1. Depreciable Assets to be capitalized and depreciated. Criteria for capitalization and depreciation:
 - 3.1.1.1. Cost to be recovered from one of the Corporation's (CPC) auxiliary activities, including commercial operations, conferences and workshops, indirect cost recovery funds held by CPC, research centers, and institutes; and
 - 3.1.1.2. Assets purchased with CPC restricted or designated funds.
 - 3.1.2. Depreciable Assets to be directly expensed. Criteria for direct expense:
 - 3.1.2.1. Assets received by CPC as gifts.
 - 3.1.2.2. Assets purchased with externally sponsored program funds.
 - 3.1.2.3. Requests from the University to purchase equipment or renovate facilities which generate no revenue for CPC, or in supportive programs for which CPC has no direct management responsibility.

3.2. Classification of Depreciable Assets.

3.2.1. Equipment. Equipment is defined as movable articles of non-expendable property which have all of the following characteristics:

- 3.2.1.1. A normal useful life of three years or more,
- 3.2.1.2. An identity which does not change with use,
- 3.2.1.3. A nature that makes formal property accountability practical, and
- 3.2.1.4. An approximate unit cost of \$1,000.00 or more.

3.2.2. Improvements. Improvements consist of all structures, additions to structures, replacement of fixtures permanently attached to structures, and remodeling of structures. All such improvements, additions, or replacements with a cost of \$5,000 or more will be capitalized when installed.

3.2.3. Extraordinary Repairs and Replacements. Extraordinary Repairs and Replacements expenditures are those which extend the life of the facility or those which that are significant in cost and cyclical in nature. Expenditures for carpeting, exterior painting, replacement of conveyor belts and draperies, or reconditioning of ovens are examples of Extraordinary Repairs and Replacements. All such expenditures in excess of \$10,000 shall be capitalized.

3.3. Determination of Useful Life. The Useful Life is the service life of an asset or group of assets representing the period of usefulness to its owner.

3.3.1. Estimate of Useful Life. An estimated Useful Life is determined after consideration of the following Physical and Functional factors:

3.3.1.1. Physical factors.

- 3.3.1.1.1. Wear and Tear
- 3.3.1.1.2. Deterioration and decay
- 3.3.1.1.3. Damage or destruction

3.3.1.2. Functional factors.

- 3.3.1.2.1. Inadequacy
- 3.3.1.2.2. Obsolescence

3.3.1. Useful Life Period Required. Since CPC fixed assets must be funded from fund balances with the cost recovered from operations, the Useful Life of any fixed asset must be determined. The entity, department or individual requesting approval of capital outlay expenditure shall provide management with the estimate, with the supervising authority or department head approval/agreement, of:

- 3.3.1.3. The requested service life for the estimated Useful Life of the asset for depreciation purposes, and
- 3.3.1.4. The estimated replacement date for reserve purposes.

3.4. Depreciation method. The Straight-Line Method shall be used in depreciating all fixed assets. The service life will be expressed in months and will begin on the first day of the month following the acquisition date. Salvage values will not be assigned to any fixed asset.

4.0 DEFINITIONS

4.1. Depreciable Assets. Assets that are classified as Equipment, Computer Hardware and Software, Facility and, Leasehold Improvements, or Extraordinary Repairs and Replacements. *See* §3.2.

4.2. Useful Life. The Useful Life is the service life of an asset or group of assets representing the period of usefulness to its owner. *See* §3.3.

5.0 PROCEDURES, GUIDELINES AND FORMS

5.1. The Associate Executive Director, Finance and Business Operations, is authorized to establish procedures, guidelines and forms consistent with and in implementation of this policy.

6.0 COMPLIANCE

6.1. All auxiliary units, departments and personnel and any authorized personnel requesting purchase funds from any account held by CPC must comply with this policy.

7.0 REFERENCES AND RELATED POLICY

7.1. American Institute of Certified Public Accountants,

7.2.