

Reclamation Manual

Directives and Standards

Subject:	Depreciation and Amortization
Purpose:	Establishes the responsibilities and procedures for the computing and recording of depreciation on the Bureau of Reclamation assets. This Directive and Standard (D&S) also establishes internal controls over the update of an asset's useful life. The benefit of this D&S is the standardization of the depreciation process Reclamation-wide.
Authority:	Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i> ; FASAB SFFAS 10 , <i>Accounting for Internal Use Software</i> ; and FASAB SFFAS 29 , <i>Heritage Assets and Stewardship Land</i> .
Approving Official:	Director, Management Services Office
Contact:	Business Analysis Division (BAD), Compliance and Audit Team (CAT), 84-27410

1. **Introduction.** The basic financial statements reflect the acquisition cost of general property, plant, and equipment (G-PP&E) as an asset. Except for land, which is a non-depreciable asset, we depreciate/amortize the acquisition cost through straight-line depreciation/amortization over the asset's useful life. The depreciation/amortization expense accumulates in contra asset accounts: accumulated depreciation and accumulated amortization.
2. **Applicability.** This D&S applies to all Reclamation staff responsible for creating real property asset shells, updating the useful life field in the asset record, and manually calculating depreciation/amortization for other assets.
3. **Definitions.**
 - A. **Accumulated Depreciation.** The total amount of depreciation for an asset charged to expense from its acquisition and its availability for use.
 - B. **Amortization.** The systematic and rational allocation of the acquisition cost of intangible assets (software and land/water rights), less salvage value, over a specific period of time on the basis of the asset's useful life.
 - C. **Asset Shell.** An asset shell is the establishment of an asset record.
 - D. **Buildings, Improvements, and Renovations.** The cost of U.S. Federal Government-owned buildings it acquires and uses to provide general U.S. Federal

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Government services or goods. Include the cost of multi-use heritage assets¹ when those costs directly tie to the conduct of U.S. Federal Government operations.

- E. **Composite Service Life.** The estimated useful life of a project based on the weighted average straight-line depreciation for the combined assets that comprise the construction/G-PP&E account.
 - F. **Contra Assets.** Contra asset accounts are accounts that reduce the value of related asset accounts like Equipment (the asset) and Accumulated Depreciation on Equipment (the contra asset).
 - G. **Depreciation.** The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.
 - H. **Equipment.** The amount of capitalized cost of tangible equipment items of a durable nature used by a Federal agency in providing goods and services. This excludes computer software.
 - I. **Improvements to Land.** The cost of nonpermanent, depreciable improvements to land used in general operations. This also includes similar costs to land subject to stewardship reporting², as well as general operations land rights of limited duration.
 - J. **Internal-Use Software.** The amount of capitalized cost for the purchase of commercial off the shelf, contractor developed, or internally developed to meet Reclamation's internal or operational needs.
 - K. **Leasehold Improvements.** The cost of improvements to leased land, buildings, structures, and facilities the U.S. Federal Government occupies as a lessee, as well as easements and rights-of-way.
 - L. **Other Assets.** Assets not otherwise defined herein.
 - M. **Other Structures and Facilities.** The cost or appraised value of U.S. Federal Government-owned structures and facilities that the Government uses general and trust fund appropriations to purchase, and that do not classify as buildings.
4. **Responsibilities.**
- A. **CAT.** CAT will review and approve/disapprove any residual costs identified for posting 3 years after the region transfers the asset to plant.

¹ A multi-use heritage asset is a heritage asset which serves two purposes where the predominant use of the asset is in the general Government operations (e.g., the main Treasury building used as an office building).

² Land and land rights owned by the Federal Government and not acquired for or in connection with items of G-PP&E must be reported as stewardship land.

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- B. Reclamation Integration Office (RIO), Denver.** RIO will:
- (1) generate the monthly useful life additions and changes report, and
 - (2) collaborate with the regional finance offices to resolve any errors from the Test Mode depreciation program.
- C. Regional Finance Office or Regional Property Office.** The regional finance office or the regional property office staff with access to update the useful life field in the Financial and Business Management System (FBMS) asset record, as the region determines, will:
- (1) record the proper useful life and depreciation start date in the asset record for real property assets within FBMS, and
 - (2) attach the useful life determination documentation to the asset record in FBMS.
- D. Regional Finance Offices.** The regional finance offices will:
- (1) comply with Paragraph 4.C., if applicable,
 - (2) timely complete the transfer of Asset Under Construction (AUC) (formerly referred to as Construction In Progress) to the appropriate G-PP&E account which triggers the depreciation start date of an asset,
 - (3) collaborate with RIO to promptly clear the rejects identified from the Test Mode depreciation program,
 - (4) calculate and manually record depreciation expense for other assets,
 - (5) validate the useful life additions and changes report monthly, and
 - (6) after 3 years from the asset transfer to plant, submit residual cost to CAT for review and approval prior to posting.
- E. Regional Finance Officer.** The regional finance officer will certify the useful life additions and changes report.
- F. Regional Property Offices.** To ensure the proper depreciation calculation at the end of each month, the regional property offices will:
- (1) comply with Paragraph 4.C., if applicable,
 - (2) timely complete the receiving report for the acquisition of assets, and
 - (3) timely prepare the property voucher for the transfer, disposal, or retirement of assets.

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- G. **Property Policy Section, Denver.** The Denver Property Policy Section will complete the system of record transactions for the transfer, disposal or retirement of assets.
- H. **BAD, Reporting and Accounting Team (RAT).** RAT will provide the monthly useful life additions and changes report to regional finance offices for validation and certification. RAT will monitor the receipt of the regional certifications.
5. **Month-End Financial Posting.** Prior to executing the month-end processes for property, the regional property and finance offices must complete every required financial posting. These include any acquisition, disposal, retirement, or transfer transactions to assets and any postings of accruals to capital projects. This ensures that asset values are up to date prior to executing month-end depreciation.
6. **Recognition of Depreciation Expense.** Reclamation will recognize depreciation expense on all G-PP&E, except land. Reclamation will apply amortization to intangible assets in the same manner as we depreciate G-PP&E. Amortize land rights with a specific lifetime over that specific time. The FBMS depreciation program calculates depreciation/amortization monthly for Reclamation assets within the following standard general ledgers (GLs):
- A. **1712** – *Improvements to Land,*
 - B. **1730** – *Buildings, Improvements, and Renovations,*
 - C. **1740** – *Other Structures and Facilities,*
 - D. **1750** – *Capitalized Equipment,*
 - E. **1810** – *Capitalized Lease,*
 - F. **1820** – *Leasehold Improvements*
 - G. **1830** – *Internal Use Software,* and
 - H. **1890** – *Other G-PP&E.*
7. **FBMS Monthly Depreciation Program.** Department of the Interior (DOI), Business Integration Office (BIO) establishes the schedule and controls the monthly depreciation program within FBMS.
- A. **Test Mode.** BIO executes the monthly depreciation program in Test Mode to simulate monthly depreciation. This simulation identifies any errors. BIO provides the error files to RIO for correction of the individual asset records causing the error. Once RIO, in collaboration with the regions, corrects the errors, BIO executes the Test Mode again to verify the error corrections. BIO will repeat the process until the file is error free.

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B. Update Mode. Once BIO verifies the simulation, they execute the actual depreciation program (update mode). The depreciation program runs at the company code (DOI) level, and calculates depreciation for each asset using the depreciation start date, the useful life, the acquisition cost, and accumulated depreciation to date. The monthly depreciation program run calculates depreciation for each individual asset record and creates financial accounting posting transactions on each asset record. Depreciation posts in the controlling module Work Breakdown Structure assigned to each asset record. The posting documents save to the FBMS GL on the last day of the month. The generated accounting documents post to depreciation expense and accumulated depreciation.

- (1) Depreciation expense posts to the following GLs:
 - (a) **6710.00000** – *Depreciation Expense Personal Property,*
 - (b) **6710.10000** – *Depreciation Expense Improvements to Land,*
 - (c) **6710.20000** – *Depreciation Expense Buildings, Improvements, and Renovations,*
 - (d) **6710.30000** – *Depreciation Expense Other Structures and Facilities,*
 - (e) **6710.40000** – *Amortization Expense Capital Lease,*
 - (f) **6710.50000** – *Amortization Expense Leasehold Improvements,*
 - (g) **6710.60000** – *Amortization Expense Internal Use Software, and*
 - (h) **6710.70000** – *Depreciation Expense Other Assets.*

- (2) Accumulated depreciation posts to the following GLs:
 - (a) **1719.xxxxx** – *Accumulated Depreciation on Improvements to Land,*
 - (b) **1739.xxxxx** – *Accumulated Depreciation on Buildings, Improvements, and Renovations,*
 - (c) **1749.xxxxx** – *Accumulated Depreciation on Other Structures & Facilities,*
 - (d) **1759.xxxxx** – *Accumulated Depreciation on Equipment,*
 - (e) **1819.xxxxx** – *Accumulated Depreciation on Capital Leases,*
 - (f) **1829.xxxxx** – *Accumulated Amortization on Leasehold Improvements, and*
 - (g) **1839.xxxxx** – *Accumulated Amortization on Internal Use Software.*

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8. **Composite Service Life.** Reclamation used the composite service life for depreciation purposes for real property in the Federal Financial System. Reclamation populated the composite life in the useful life field for a majority of assets during the conversion to FBMS. Reclamation will not use composite service life when establishing new assets records after FBMS implementation (Fiscal Year 2013).
9. **Useful Life.** Typically, FBMS defaults the useful life from the asset class, and the sub-assets would have the same useful life as the main asset. The regional finance office and the regional property office staff with the appropriate FBMS roles have the ability to update the useful life manually. Reclamation calculates depreciation at the asset level. This allows each asset to have a unique useful life and depreciation start date. To properly depreciate each real property asset, the regional finance or regional property staff with the appropriate FBMS roles must manually validate the asset's useful life populated from the selection of the asset class in the creation of the asset shell. If the asset class does not have a default useful life or if a different useful life is more appropriate, the regional finance or property staff will update the useful life as determined below.
 - A. **Sources to Determine Useful Life.** Reclamation must document and attach to the asset record in FBMS any method it uses to determine the useful life of an asset.
 - (1) **Replacements Book.** The [Replacements Book](#) will be the primary source for the determination of useful life. The Western Area Power Administration, Reclamation, Bonneville Power Administration, and the U.S. Army Corp of Engineers update the Replacements Book approximately every 10 years.
 - (2) **Other Possible Sources.**
 - (a) Request assistance from the project manager and/or project engineer to determine the useful life. The project manager and/or project engineer can extrapolate a service life based upon the manufacturer's recommendation and from experiences with similar technology/equipment.
 - (b) Any other reasonable and reliable source like an industry standard.
 - B. **Determination of Useful Life.** The regional finance or regional property staff with the appropriate FBMS roles will manually update the useful life in accordance with the following.
 - (1) **Residual Cost.**
 - (a) Residual costs are costs necessary to complete an asset after its transfer to the appropriate Plant account. Examples of residual costs include those Reclamation incurs to close out contracts and project, "punch list" items, etc. Residual cost does not include additions, replacement, or betterments.

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- (i) **AUC to Plant Method.** The regional finance office will post residual cost to an existing asset/sub-asset, increasing the value of the asset/sub-asset without changing the useful life, using the AUC to Plant Method. Reclamation will use the AUC to Plant Method until BIO corrects the functionality of the ZASSETTRANSFER transaction.
 - (ii) **Residual Cost Method.** Reclamation will not use the Residual Cost Method for any new actions after November 6, 2015, per guidance disseminated at the RIO/Finance meeting on November 5, 2015. The regional finance offices may continue to use the Residual Cost Method for any records established prior to November 6, 2015.
- (b) Residual cost usually post within 3 years after the transfer of asset to plant. After 3 years, the regional finance office will submit residual cost posting to CAT for review and approval.
- (i) The regional finance accountant will send an email to CAT for any valid residual cost incurred 3 years after the asset transferred to Plant. The accountant will identify the transaction, the type of transaction (i.e., payroll, contract, correction of erroneously posted transaction, etc.), a brief explanation (i.e., just received final invoice from contractor, erroneous posting just identified, etc.) and any other pertinent data.
 - (ii) CAT will review and provide a response within 3 business days after receiving all the pertinent data.
- (2) **Additions.** Additions are new, separate, physical assets/sub-assets augmenting (adding to) the output of existing assets/sub-assets. Establish a new asset/sub-asset record, and use the Replacements Book useful life or determination from other reliable sources, such as manufacturer's recommendation, similar technology/equipment, historical data, etc.
- (3) **Replacements.** Replacements are the construction or installation of G-PP&E to replace existing property. The new replacement asset does not increase the capacity, efficiency, or useful life.
- (4) **Betterments.**
- (a) **Betterment by Replacement of an Existing Asset.** Betterment by replacement is replacing an existing asset in a way that increases the capacity, efficiency, or useful life. Retire the old asset, establish a new asset/sub-asset record, and use the Replacements Book useful life or determination from other reliable sources, such as manufacturer's recommendation, similar technology/equipment, historical data, etc.

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- (b) **Betterment of an Existing Asset.** Betterment of an existing asset increases the capacity, efficiency, or useful life. Establish a new asset/sub-asset record and use the Replacements Book useful life or determination from other reliable sources, such as manufacturer's recommendation, similar technology/equipment, historical data, etc.
10. **Other Assets – GL 1990.A0000.** Reclamation must manually compute depreciation expenses at least quarterly for the GL 1990.A0000 – *Other Assets*. The regional finance office calculates the depreciation expense using the start date, the useful life, the acquisition cost, and accumulated depreciation to date. The regional finance office then prepares and submits a journal voucher (SB document) to RAT to post the depreciation expense. RAT will post the depreciation expense to GL 6710.70000 – *Depreciation Expense Other Assets* and GL 1990.A00000 – *Other Assets*.
11. **Removal of Asset From Service.** Depreciation/amortization ends upon removal of an asset from G-PP&E in anticipation of disposal, retirement, or removal from service.
12. **Internal Controls on Useful Life.** As Reclamation is the only bureau within the Department of the Interior with the capability to establish the useful life in the asset records in FBMS, internal controls to review additions and changes to the useful life are necessary. The regional finance officers will certify monthly the changes in useful life report.
- A. RIO will generate a monthly report reflecting additions (new assets added) and changes to the useful life by comparing the current month's useful life to the prior month's useful life for each asset.
- B. RAT will forward the report via electronic mail monthly to the regional finance officers in each region specifying a due date for the certification.
- C. The regional finance officers will submit a monthly certification to RAT by the specified due date stating they either agree with the useful life reflected on the report or will provide actions the region will take to adjust the invalid useful life. The regional finance office will maintain sufficient documentation to support the determination of the useful life.
13. **Rescinds August 19, 2015, Memorandum.** This D&S rescinds the Revised Determination of the Useful Life for Capitalized Assets memorandum, dated August 19, 2015.

RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: _____

Release No. _____

Ensure all employees needing this information are provided a copy of this release.

Reclamation Manual Release Number and Subject

Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

Filing instructions

Remove Sheets

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All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: _____

Date: _____