

## Appendix A: Depreciable/Useful Life - Depreciation/Replacement Schedule

### I. Terms:

**Asset:** Property that cost \$5,000 or more and has a determinable useful life of greater than one year.

**Capitalize:** To classify a cost as a long-term investment rather than charging it to current year operations. However, the depreciation expense related to the capitalized cost will be a current year operations expense.

**Depreciation Schedule, Depreciable Life, Replacement Schedule, Useful Life:** The time of recovering the cost of using property. These four terms generally have the same meaning.

### II. To Obtain OPT Approval of Useful Life:<sup>5</sup>

To obtain approval of the useful life of an asset purchased with any local funds, please submit a written request to your PM that includes the following:

- Description of the asset (e.g., 2007 GMC Pick-up Truck with snowplow; nonrevenue vehicle).
- Identification number of the asset (e.g., VIN #1GTGK24K7SE502591).
- Date placed in service.
- Use and condition.
- The state contract and authorization number if the asset was partially purchased with federal or state funds.<sup>6</sup> If the asset was purchased entirely with local funds, then there would not be a state contract or authorization number.
- The cost of the asset.
- Asset Class (See VI. Determining Useful Life: A. New Assets, Useful Life - Depreciation/Replacement Schedule, and B. Used Assets).
- Explanation of how the useful life was determined.
- Warranty coverage (e.g., type of coverage and duration).

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<sup>5</sup> OPT requests TAs to input the useful life of equipment and facilities into the PTMS. This useful life information is used to determine (1) the TA's capital needs and (2) when and how much federal and/or state funds are needed to meet the capital needs of the TA. Do not confuse the identification of useful life for capital need purposes with the requirement to obtain approval from OPT for the useful life of assets purchased with local money.

<sup>6</sup> If the local funds are depreciated using the same useful life assigned for the federal and state funds, OPT approval of the useful life for the local funds is not required.

- Straight line method of depreciation will be used.
- Any other information OPT may deem necessary.

Depreciation records indicating the amount of depreciation taken each fiscal year must be maintained.

Approval of the depreciation of replacement engines, transmissions, differentials, and drive axles, which were originally purchased with federal and/or state funds, will be based, in part, on the review of the TA's compliance with its maintenance plan.

### III. When Does Depreciation Begin:

Depreciation begins when the asset is placed in service or ready to be placed in service.

### IV. Improvement/Replacement, Changes to Existing Asset:

If a new or used asset is purchased to improve, replace a part of, or modify (including attachments, accessories, or auxiliary and component parts) an existing asset, treat the improvement, replacement, or modification as a separate depreciable asset.

### V. Multiple Units of the Same/Auxiliary and Component Parts:

Groups of equipment or furniture that consist of multiple units of the same or similar product with a total value of \$5,000 or more and a useful life of greater than one year should be capitalized.

Example: Tools and cart purchased together as a unit and cost \$5,000 would be capitalized and depreciated.

Groups of equipment not intended to be used in conjunction with each other and individually do not cost \$5,000 or more do not have to be capitalized.

Example: The TA purchases three laptop computers at a price of \$2,500 each. These computers are for individual employee use, operate separately, and are not a part of the dispatch, GPS, or other system. These computers can be expensed and do not have to be capitalized.

Note: Regardless of the accounting policy of the property (expensed or capitalized), if property is purchased with a capital contract, it must be entered into PTMS.

### VI. Determining Useful Life:

#### A. New Assets:

The following guidelines should be used to determine the depreciable/useful life of a new asset. This schedule is not intended to be all inclusive. If the asset is not listed on the schedule, one of the following methods should be used to determine its depreciable/useful life:

- Generally accepted accounting principles,
- Independent evaluation,
- Manufacturer's estimated useful life,
- IRS Publication 946,
- Industry standards,
- Years for which the vehicle was tested at a federal test facility, such as FTA/Altoona Testing. For more information regarding Altoona testing go to: <http://altoonabustest.psu.edu/>.

Asset Class:	Description:	Depreciable/Useful Life:
Bus: Small body on van cut-away	Light-duty chassis - less than 30 feet.	FTA/Altoona testing results
Bus: Medium body on truck chassis/trolleys	Medium-duty chassis - less than 30 feet.	FTA/Altoona testing results
Bus: Medium body on truck chassis/trolleys	Heavy-duty chassis - 30 to 34 feet.	Delivered prior to Jan. 1, 2008: 10 years or 350,000 miles Delivered on or after Jan. 1, 2008: Altoona testing results.
Bus: Large	Heavy-duty chassis - 35 to 60 feet.	Delivered prior to Jan. 1, 2008: 12 years or 500,000 miles Delivered on or after Jan. 1, 2008: Altoona testing results
Cars, minivans, standard van, conversion van	Less than 13,000 pounds gross vehicle weight (GVW).	4 years or 100,000 miles
Trucks	Light-duty (less than 13,000 pounds GVW).	4 years
Trucks	Heavy-duty (more than 13,000 pounds GVW).	6 years
Office furniture and fixtures	Desks, files, safes.	10 years
Office equipment	Copiers, radios (digital/analog, 911, repeater, voice antenna,	5 years

	automatic vehicle locators), fax, phones, security cameras.	
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Computers and peripheral equipment	Computers, card readers, card punches, high-speed printers, mass storage units.	5 years
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Software	<p>Costs related to the purchase of the software should be capitalized. Costs of upgrades and enhancements that enable the software to perform tasks it was previously incapable of performing should be capitalized.</p> <p>Fees paid for training, conversion costs, and software maintenance are expensed.</p>	3 years
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Maintenance tools, equipment	Power/hand tools, lawn mowers, snow blowers.	5 years
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Maintenance equipment and fixtures	Vehicle hoist/lift (four/six post life, in-ground, drive-on, scissor lift-electric or hydraulic), transmission flush and exchange unit, floor sweeper/scrubber, pressure washer/steam cleaner (hot/cold)/parts cleaner/steamer - upholstery cleaner, portable/vehicle installed generator, brake lathes/milling machines/drill press/grinders, lubrication and fuel dispensing equipment, carbon monoxide detectors/fuel leak detectors, roller cabinets, portable tool stands, compressors, diagnostic equipment, tractors - utility, lawn and attachments (e.g., back blades, snowplow, mower decks).	12 years
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Passenger bus shelter	Structure for waiting passengers along transit routes.	10 - 15 years
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Buildings	Administration, maintenance garages, cold storage building/bus shelter.	40 years
Land	Cannot be depreciated.	0 years

B. Used Assets:

If a used asset is purchased, the TA must determine depreciable/useful life based on such factors as type of construction, nature of the equipment, past usage patterns, age, mileage, and technological developments. The asset class will remain the same as listed above under new assets. Acceptable methods to determine depreciable/useful life include but are not limited to:

- TA's independent auditor to recommend a depreciable/useful life,
- Manufacturer's estimated depreciable/useful life,
- IRS Publication 946,
- Industry standards.

The depreciable/useful life of a used asset will be handled on a case-by-case basis. Contact your MDOT project manager regarding this request.