

# NAF Accounting Working Group Depreciation Allocation Position Paper #17

## Issue

The Services are reporting significantly different depreciation figures in the Overhead account on the Program Metric Report, suggesting that the Services are not treating or allocating depreciation in the same way. This paper will discuss when depreciation should be charged to the program or Installation as opposed to being allocated to the overhead account.

## Research

Below outlines the guidance and DoD regulations on assets being used by multiple entities and the allocation of depreciation expense between those entities.

Depreciation Treatment and Guidelines	Air Force	Army	Navy	Marines
<b>Services' Process for Allocation of Common Support Overhead</b>	<b>Current Allocation Method :</b> NAF depreciation allocation of Common Support fixed assets is part of the NAF Common Support expenses allocated to each category and the same percentage applies to all expense elements (i.e., if Cat A NAF expenses are 10% of total ABC NAF expenses, 10% of each element of expense, including depreciation, is allocated to Cat A.) Common support expenses	<b>Current Allocation Method:</b> Depreciation is recorded based on benefiting activity. Depreciation in overhead is either specific to the overhead function, or the acquisition is for the benefit of all activities. Depreciation is not split between multiple locations as the asset is only counted in one place.	<b>Current Allocation Method:</b> Centrally funded projects are depreciated to overhead. Locally funded projects are depreciated at the Activity Level.	<b>Current Allocation Method:</b> 1. Installations books in a Program Cost Center: reported in the specific Program Cost Center - no allocation 2. Installations books in a Program OH Cost Center: allocated to specific Program (CAT A, B or C) Direct OH. 3. Installations books in an OH Cost Center: allocated to CAT A, B and C Direct OH by FTEs 4. Construction: allocated to the CAT A, B and C Direct

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	(including depreciation) are not allocated to bases or to individual activities, only at the category level.			<p>primarily by the Cost Center the asset is tagged OR by FTEs 5. IT and any other Depreciation Expense in a HQ OH Cost Center: allocated to CAT A, B and C Direct OH by FTEs</p> <p>Note: Allocation process also contains MCX.</p>
<p><b>DoDI1015.15:</b> <b>6.4.2.6. Depreciation and Amortization.</b> Tangible fixed assets, except construction in progress, shall be depreciated over their expected useful lives. Depreciation and amortization shall be established and reported on financial statements.</p> <p><b>6.4.2.6.1.</b> The DoD Components shall utilize the straight-line method of depreciation, and shall prescribe the useful lives of assets and disclose them in the notes to the financial statements.</p> <p><b>6.4.2.6.2.4.</b> If an asset remains in use longer than its estimated useful life, it shall be retained in the property accountability or management system, as well as in the accounting records, and the record shall reflect both its recorded cost and accumulated depreciation until its disposition.</p>	Unclear	Unclear	Unclear	Unclear

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Silent on allocation to Overhead cost pool vs to an Activity.				
<b>FMR Volume 13, Chapter 5, 050601.AF. Administrative Common Support Service (April 2013):</b> This general ledger account is for recording the amount paid for support services, such as, accounting, payroll, civilian personnel, procurement, data processing, and administrative.	Unclear	Depreciation not expressly permitted in the overhead account	Depreciation not expressly permitted in the overhead account	Depreciation not expressly permitted in the overhead account
<b>FMR Volume 13, Chapter 3, 030306. A.10. Depreciation:</b> Depreciation accounting distributes the cost or other basic value of tangible capital assets over the estimated useful life of such assets in a systematic and rational manner. Accounting for depreciation as an expense is an integral part of the accrual basis of accounting. <u>Accordingly, all NAF activities recognize depreciation of their fixed assets.</u> For NAF capital assets whose titles are transferred to APFs, but are still used by the NAFI, continue to depreciate these fixed assets on the NAFIs book until the items are fully depreciated. The straight line method of depreciation is used for determining the monthly depreciation expense.	Unclear	Unclear	Per one on one discussions, Navy asked if depreciation can be pooled into the common support overhead account rather than recorded at each activity. Guidance suggests recording at each activity.	Unclear

**Discussion**

As the DoDI 1015.15 requires straight-line depreciation, the depreciation expense amount associated with any specific asset for any given year will be known to the reporting entity, provided historical cost information or estimates are available and known to the entity. Presumably, the entity knows what Activities or functions the asset is used in. With a known amount of expense and known origin of expense for each asset, it is not appropriate to use a cost-pool method that allocates expenses, such as would be the case with common support overhead.

**Recommendation**

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We recommend depreciation be recorded at the MWR activity level for consistency of financial reporting and consistency with FMR Volume 13 Chapter 3 as a period cost that is directly tied to the Activity or Activities in which the asset is used. When the Services purchase an asset that is used at the installation level, depreciation costs are to be kept at the installation level.

If there are in fact assets which are primarily used to support overhead functions (such as Regional/Major Command and Headquarters assets), we recommend the Services charge depreciation related to these assets to overhead at the Regional/Major Command or Headquarters level. These costs would be held at the Regional/Major Command or Headquarters level.

### Service Concurrence

Service	Concurrence	Reason for Non-concurrence
Air Force	Concurred 6/21/2019.	
Army	Concurred 6/21/2019.	
Marines	Concurred 6/21/2019.	
Navy	Concurred 10/25/2018.	

### USD (P&R)/MC&FP Disposition

No further action.

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### DFAS Disposition

No further action.

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### Forward to DoDIG?

No DoDIG equities.

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