



Policy 105

Depreciation Policy

Section: 100 - General Administration

Responsible Executive: Lead Financial Administrator

Responsible Department: Business and Finance Office

First Effective Date: April 17, 1992

Last Reviewed: February 2026

Next Scheduled Review: June 2029

1.0 PURPOSE

- 1.1. To provide general direction to Cal Poly Corporation, dba, Cal Poly Partners ("CPP") management in the definition of depreciable assets, the determination of useful lives, and the method of depreciation.

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 Buildings & Improvements, Leasehold Improvements, Equipment/Furniture/Fixtures, Software, or Licenses & Permits. These items have a cost factor which must be recovered by matching income and expense. Depreciable Assets may be capitalized and depreciated, or amortized, or directly expensed, depending on the specific asset.
 - 3.1.1. Depreciable Assets to be capitalized and depreciated or amortized. Criteria for capitalization and depreciation:
 - 3.1.1.1. Assets purchased from one of the Partners' (CPP) auxiliary activities, including commercial operations, conferences and workshops, indirect cost recovery funds held by CPP, research centers, and institutes; and
 - 3.1.1.2. Assets purchased with CPP restricted or designated funds.
 - 3.1.2. Depreciable Assets to be directly expensed. Criteria for direct expense:
 - 3.1.2.1. Assets purchased with externally sponsored program funds.
 - 3.1.2.2. Requests from the University to purchase equipment or renovate facilities which generate no revenue for CPP, or in supportive programs for which CPP has no direct management responsibility.
- 3.2. Classification of Depreciable Assets.
 - 3.2.1. Equipment/Furniture/Fixtures. Assets 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 \$5,000.00 or more.
- 3.2.2. Buildings & Improvements/Leasehold Improvements. Assets consisting of all structures, additions to structures, replacement of fixtures permanently attached to structures, and remodeling of structures. All such structures, improvements, additions, or replacements with a cost of \$5,000 or more will be capitalized when installed.
- 3.2.3. Software. Commercially available computer software that is purchased or licensed and placed into operation without modification requiring more than minimal incremental effort (that is, the computer software is not considered internally generated) and software that is for internal use. Assets with an acquisition cost of at least \$5,000 and an estimated life of greater than one year will be capitalized.
- 3.2.4. Licenses & Permits. Licenses or permits refer to that permission as well as to the documents memorializing that permission. Licenses or permits may be granted to CPP as an element of an agreement with another party. Assets with an acquisition cost of at least \$5,000 and an estimated life of greater than one year will be capitalized. Licenses where no period is mentioned (i.e., perpetual licenses) are capitalized if the cost per license meets the threshold previously stated due to meeting the characteristics of an asset, in which its useful life extends beyond a single year.
- 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
 - 3.3.2. Useful Life Period Required. Fixed assets must be funded from, and the cost recovered from, the CPP business unit requesting the asset. 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:
 - 3.3.2.1. The requested service life for the estimated useful life of the asset for depreciation purposes, and
 - 3.3.2.2. 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 Buildings & Improvements, Leasehold Improvements, Equipment/Furniture/Fixtures, Software, or Licenses & Permits. *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 Lead Financial Administrator or his/her designee 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 CPP must comply with this policy.

7.0 REFERENCES AND RELATED POLICY

- 7.1. American Institute of Certified Public Accountants,
- 7.2. General Accepted Accounting Principles (GAAP)

Technical and administrative change updates

7-25-12 for title and organization structure changes.