County Technical Assistance Service
INSTITUTE for PUBLIC SERVICE

May 01, 2025

Depreciation Methods and Rates

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

The University of Tennessee
County Technical Assistance Service
226 Anne Dallas Dudley Boulevard, Suite 400
Nashville, Tennessee 37219
615.532.3555 phone
615.532.3699 fax
www.ctas.tennessee.edu

Table of Contents

Depreciation Methods and Rates

Reference Number: CTAS-1978

Depreciation is the process of allocating the cost of tangible property over a period of time, rather then deducting the cost as an expense in the year of acquisition. Typically at the end of an asset's useful life the sum of the amount charged for depreciation will equal original cost less salvage value (if any). GASB Statement 34 allows a county to use any established rational and systematic method of depreciation. This includes such methods as straight-line, sum-of-the-years digits, double-declining balance, and declining balance. The use of straight-line depreciation—the most widely used and simplest method for calculating depreciation—is highly recommended.

Under the straight-line depreciation method, the basis of an asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year of the asset's useful life. In order to identify the annual depreciation expense for an asset using straight-line deprecation, the total cost of an asset (less the salvage value) is divided by the asset's useful life.

Example of straight-line depreciation:

Original cost	$10,000
Salvage value	500
Adjusted basis	$ 9,500
Estimated life	5
Depreciation per year	$1,900

Salvage Value

The salvage value of an asset is an estimate made by management of what the value of an asset will be at the end of its useful life. The GASB allows county management to determine salvage value from general guidelines from professional organizations such as the Government Finance Officers Association, information from other governments, professionals such as engineers, and by internal experience of what an asset is worth at the end of its useful life. Using the assumption that many counties in Tennessee tend to use capital assets until they are literally worthless, a county could assign a salvage value of zero (0) to its capital assets to help streamline recordkeeping. The CTAS sample capital asset policy uses this assumption.

Averaging Conventions

In order for management to avoid the complications of depreciating individual assets from the specific date that the asset was placed in service, GAAP supports the adoption of guidelines that assume assets are placed in service or disposed of at designated times of the year. These guidelines are known as averaging conventions. There are several types of averaging conventions (mid-quarter, half-year, modified half-year, etc.); however, it is highly recommended that counties adopt the full-month averaging convention. By using the full-month averaging convention, property placed into service at any time during a given month is treated as if it were placed in service at the first day of that month, regardless of the actual day of the month acquired. Likewise, when the asset is disposed of, the actual date of disposal is disregarded and the disposal date is the end of the month prior to the month of disposal (i.e. no depreciation is taken for the month of disposal).

Useful lives of assets

An asset's useful life can be defined as the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired. GASB does not recommend any specific useful life schedule, but recommends several sources for a county to estimate the useful lives of their assets. These sources include general guidelines from professional organizations, information for comparable assets from other county governments, and internal experience. Counties should not merely copy the useful life schedule of another county as conditions and asset usage may differsignificantly from county to county.

> Example:
> Gray County assigns a useful life of six years to all sheriff pursuit cars. Blue County, which is located next to Gray County, is in the process of attempting to comply with GASB 34 and copies Gray County's useful life schedule without any modification. Blue County's management does not take into consideration that their county has rougher terrain and is three times larger than Gray County, meaning Blue County's deputies will drive their vehicles more and in rougher conditions than Gray County's deputies. After three years, as is typical in Blue County, the police cruisers are

worn out and are taken out of service, even though on paper the vehicles should have three years of useful life left. Because of the inaccurate useful life estimate, Blue County could recognize a significant loss on the disposal of the vehicles.

Source URL: *https://www.ctas.tennessee.edu/eli/depreciation-methods-and-rates*