

## Depreciation

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Dear Reader:

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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 municipal 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 MTAS website material.

Sincerely,

The University of Tennessee  
Municipal Technical Advisory Service  
1610 University Avenue  
Knoxville, TN 37921-6741  
865-974-0411 phone  
865-974-0423 fax  
[www.mtas.tennessee.edu](http://www.mtas.tennessee.edu)

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## Depreciation

**Reference Number:** MTAS-841

One of the most misunderstood aspects of water and sewer utility accounting is depreciation. Because depreciation does not involve paying out cash funds, like all other expenses, many city officials don't want to recognize it as a legitimate expense. In accounting terms depreciation is the orderly write-off of a long-term asset over its useful life. Rather than expensing a new piece of equipment, such as a truck, at the time of the purchase, a portion of the cost of the truck is expensed each year for several years. In reality, depreciation is very important to a city's utility operation for another reason. By funding for the depreciation expense each year, the utility can set aside funds to purchase a new truck when the old one is no longer of use. Depreciation provides the city with an orderly way to have the funds necessary for new capital purchases. Rather than being viewed in a negative way, depreciation should be seen for its positive results.

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