This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California
GASB 35 Depreciation Reporting

Issues Resolution No. 15
(Re-issued March 31, 2003)

Accounting Procedures to Eliminate Capital Expenditures from Current Fund Expenditures and to Record Annual Depreciation Expense and Accumulated Depreciation

Define Issues

In FY 2001-2002, the University must begin to record depreciation expense in the Plant Fund. Many capital assets (e.g., equipment, library materials, software) are initially recorded in Current Fund accounts. The University must develop procedures to eliminate capital expenditures from Current Funds and record depreciation expense in Plant Funds.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. Among other matters, these Statements will require the University to account for depreciation in its financial statements for the fiscal year beginning July 1, 2001, with comparative information for the prior year. Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

Historically, the University has reported Current Fund capital asset expenditures as expenditures in the year the asset was purchased. However, depreciation reporting will require the University to amortize and report the costs of capital assets over their useful lives.

Although campuses record construction and renovation activity in the Plant Fund, some capital asset expenditures (e.g., equipment, library materials, software) are recorded in Current Fund accounts. Depreciation reporting will require Current Fund capital asset expenditures to be transferred from Current Funds to Plant Funds to ensure their appropriate accounting treatment and reporting in the financial statements. Without eliminating capital assets expenditures in the Current Fund, the University, in effect, would be expensing the

assets twice: once at acquisition in the Current Fund and again as depreciation expense in the Plant Fund.

Eliminating Capital Expenditures from Current Fund Expenditures

Entries to eliminate capital expenditures from the Current Fund will be required for the fiscal year ending June 30, 2002, and all years thereafter.

At Acquisition

- Campuses will continue to record capital asset expenditures that have customarily been entered in Current Funds by making the following journal entry throughout the year:

  Debit Department expense account/fund using the appropriate object code *
  XXXXXX-XXXXX-X-XXXX

  Credit Cash

  * Object Codes for Current Fund Expenditures

Asset Group	Object Code
Buildings & Structures	9700
General Improvements	9740
Infrastructure Assets	9750
Inventorial Equipment (excluding computers and office furniture)	9000
Inventorial Computer Equipment	9900
Office Furniture/Equipment	9950
Software—Large	9230
Software—Small	9235
Library—General Collections	9200
Library—Rare Books and Materials	9210
Special Collections	9220
Intangible Assets	9760
Hospital Capitalization of Standard Office Furniture	9213
Hospital Capitalization of Non-Inventorial Assets	9214

Capitalization

- Campuses will capitalize assets to reflect balances as of the dates shown in the table below:

Asset Group	Current Fund Expenditures	Plant Fund Expenditures
Real Estate	December 31 and June 30	December 31
Buildings & Structures and Fixed Equipment	December 31 and June 30	December 31
General Improvements	December 31 and June 30	December 31
Infrastructure Assets	December 31 and June 30	December 31
Equipment	December 31 and June 30	December 31 and June 30
Software—Large and Small	June 30	June 30
Library Materials and Collections	June 30	June 30
Special Collections	December 31 and June 30	December 31 and June 30
Intangible Assets	December 31 and June 30	December 31

- <u>Current Fund</u> expenditures for asset groups with a December 31 capitalization requirement (i.e., Buildings & Structures/Fixed Equipment, General Improvements, Infrastructure Assets, Equipment, Special Collections, and Intangible Assets) <u>must be capitalized also at June 30</u>.

- Capital expenditures in Current Funds are not eliminated from Current Funds until June 30 (see the *Year-End Entries* section).

- For some asset groups (i.e., Buildings & Structures/Fixed Equipment, General Improvements, Infrastructure Assets, Equipment, Special Collections, and Intangible Assets), campuses may be able to identify annual expenditures by summarizing expenses by object code. However, other types of expenditures may be included in the capitalization of software and library materials and collections (e.g., salaries and wages, fringe benefits, materials and supplies, travel, etc.). It will be incumbent on the campuses to determine any additional expenditures that are to be included in the capitalization. These asset-related costs must also be eliminated from Current Funds at June 30 (see the *Year-End Entries* section).

- Assets acquired with Current Funds are capitalized in Investment in Plant using the following journal entry at December 31 and/or June 30:

  Debit Asset Account
  X-1018XX-XXXXX-XXXX

  Credit Investment in Plant Fund Balance
  X-101990-01990 (campuses must use the appropriate transaction codes listed in the table below)

  Note: <u>Campuses will be required to include the fund source with the asset account.</u> Campuses may use the fund numbers originally associated with the expenditures, or they may establish three dummy fund numbers: Federally Sponsored, Non-Federally Sponsored, and All Other. These dummy fund numbers must be associated with a valid fund group code (refer to pages 2 and 3 of the October 23, 2000, letter to JOG members at the following url: www.ucop.edu/irc/campus_specs/cfs/what's_new.html).

Transaction Codes to Record Capitalization of Assets Acquired with Current Funds

Asset Type	Transaction Code	
	Campus	Medical Center
Real Estate	3070	3170
Buildings & Structures	3071	3171
Fixed Equipment	3072	3172
General Improvements	3073	3173
Software > $10M	3074	3174
Software < $10M	3075	3175
Equipment	3076	3176
Library Materials & Library Collections	3077	n/a
Library Rare Books and Rare Book Collections	3078	n/a
Construction in Progress	3079	3179
Intangible Assets	3080	3180
Infrastructure Assets	3081	3181
Special Collections	3082	3182

Year-End Entries to Eliminate Capitalized Values from Current Fund Expenditures

- It will not be practical to eliminate capital expenditures in Current Funds by department and by fund. Therefore, campuses should eliminate capital expenditures in Current Funds in summary form by function by fund group. Exhibit 1 prescribes the recommended method for determining the amounts of annual capital expenditures to be eliminated from Current Funds.

- Campuses shall establish one dummy account for each function to record the reversal of capital expenditures recorded in Current funds. These accounts are similar to the dummy accounts established for compensated absences in 1990.

- UCOP has assigned the following new Uniform Accounting Structure codes to be used to offset capital expenditures in Current Funds:

    - Instruction   400235

    - Research   440235

    - Public Service   620235

    - Academic Support   430235

    - Medical Centers   420235

    - Student Services   680235

    - Institutional Support   720235

    - Operations & Maintenance of Plant   640235

    - Auxiliaries   760235

- Campuses may use the following dummy funds numbers or may assign local fund numbers.

  - General Fund   19990
  - Tuition & Fees   20399
  - Federal Government—Appropriations   21099
  - Federal Government—Grants   24999
  - Federal Government—Contracts   28999
  - State Contracts   20799
  - Special State Appropriations   18998
  - Local Government   20999
  - Private Gifts—Restricted   49999
  - Private Grants—Restricted   58998
  - Private Contracts—Restricted   59999
  - Private Gifts—Unrestricted   39999
  - Endowment Fund—Restricted   09597
  - Endowment Fund—Unrestricted   09598
  - Sales & Service—Educational Activities   65999
  - Sales & Service—Auxiliary Enterprises   74998
  - Sales & Service—Teaching Hospitals   63999
  - Other Sources   69997
  - Reserves   75999

- OP will assign specific object codes to be used with the credit entries to reverse capital expenditures from Current Funds. Campuses may record the credit to the capitalized expenditures object code only, unless there are known, significantly material amounts that were capitalized from salaries and wages, fringe benefits, or other.

  - Capitalized Expenditures (Year-End Credit Entry)   9981
  - Salaries & Wages (Year-End Credit Entry)   1980
  - Fringe Benefits (Year-End Credit Entry)   8890
  - Other (Year-End Credit Entry)   8090

- Campuses will record the following entry at June 30 to eliminate capital expenditures in Current Funds by UAS function, by object code (9981, 1980, 8890, 8090). The entry should be made in summary for all asset types as shown in Exhibit 1.

Debit Current Fund Unexpended Balance (campuses must use transaction code 0560)
X-119XXX-XXXXX-0-0560

Credit Dummy Current Fund Expenditure Account (by UAS function)/Fund/Object Code
X-XXXXXX-XXXXX-X-XXXX

Note 1: Campuses must include the appropriate object code for the credit entry. In addition, campuses must use the appropriate dummy fund number.

Note 2: The amount being reversed for capital expenditures in Current Funds should be for <u>University-owned assets, as well as non-University-owned assets purchased with federal funds</u>.

The individual expenditure for capitalized assets remains in the department's account and the above entry reverses the expenditure at the higher level, thus Current Fund expenditures for capitalized assets will net to zero. This offset will be shown in the Campus Financial Schedule B at the functional level, in Schedule C at the end of the schedule, as a total for the campus, and in Schedule D at the fund source level.

The department's account will close to fund balance, permanently reducing the fund's balance. The debit and credit entries to eliminate capital expenditures will close out to the same dummy fund for a net effect of zero in each dummy fund. Campus recharge centers will continue to record monthly depreciation entries and reclassify the balance to a reserve account at year-end.

- A T-account summary of the approach outlined above is provided in Exhibit 2.

Record Annual Depreciation Expense and Accumulated Depreciation

- Campuses must establish accounts to record accumulated depreciation by asset type in Investment in Plant in their General Ledger. These accounts should correspond to the following account group codes established by OP:

  - Buildings & Structures/Fixed Equipment—Campus   121210
  - Buildings & Structures/Fixed Equipment—Medical Center   121220
  - General Improvements—Campus   121310
  - General Improvements—Medical Center   121320
  - Infrastructure Assets—Campus   121810
  - Infrastructure Assets—Medical Center   121820
  - Equipment—Campus   121490
  - Equipment—Medical Center   121480
  - Library Materials and Library Collections   121510
  - Software, Greater than $10 Million—Campus   121440
  - Software, Greater than $10 Million—Medical Center   121450

- Software, Less than $10 Million—Campus   121460
- Software, Less than $10 Million—Medical Center   121470
- Intangible Assets—Campus   121710
- Intangible Assets—Medical Center   121720

- The entry to record depreciation expense and accumulated depreciation by asset type, by fund source is:

  Debit   Investment in Plant Fund Balance
  X-101990-01990 (campuses must use the appropriate transaction codes listed in the table below)

  Credit   Accumulated Depreciation (by asset type)
  X-XXXXXX-XXXXX

  Note: Campuses must record accumulated depreciation by fund source (i.e., Federally Sponsored, Non-Federally Sponsored, All Other).

Transaction Codes to Record Depreciation Expense

Asset Type	Transaction Code	
	Campus	Medical Center
Buildings & Structures/Fixed Equipment	2400	2500
General Improvements	2401	2501
Software > $10M	2402	2502
Software < $10M	2403	2503
Equipment	2404	2504
Library Materials & Library Collections	2405	n/a
Intangible Assets	2406	2506
Infrastructure Assets	2407	2507

Next Steps—Required Actions

- In order to prepare the FY 2000-2001 comparative statements for the FY 2001-2002 Annual Report, campuses will submit to UCOP by August 31, 2001 the total amount of capital expenditures in Current Funds for FY 2000-2001, by UAS function, by fund source (see Exhibit 1).

- Campuses will not record the entries to eliminate capital expenditures for FY 2000-2001. Entries to eliminate capital expenditures from the Current Fund will be required for the fiscal year ending June 30, 2002, and all years thereafter.

IRM 15—Exhibit 1

Worksheet to Determine Total Amount of Capitalized Expenditures to be Eliminated from Current Funds

	Buildings & Structures	General Improvements	Infrastructure Assets	Equipment (c)	Software Greater than $10 million	Software Less than $10 million	Library Materials and Collections (General)	Library Materials and Collections (Rare)	Special Collections	Intangible Assets	Total Capital Expenditures to be Eliminated
Total of Newly Capitalized Assets **(a)**	$	$	$	$	$	$	$	$	$	$	$ -
Less:											
Capitalized from Plant Funds	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	-
Capital Leases **(b)**	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	-
Capitalizations from Gifts	( )	( )	( )	( )	( )	( )	( )	( )	( )	( )	-
Total Amount of Current Funds to be Eliminated	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1)

(a) As determined by the value of newly capitalized items in Plant Funds, and may or may not equal the Current Funds expenditures in object codes 9xxx.

(b) The intention is to exclude new capital leases. Identifying the annual addition to the lease liability may be the most straightforward means to capture new capital leases.

(c) Includes capitalized fabricated equipment expenditures.

	UAS									
Fund Source	Instruction Equipment (2) (OC 9981)	Research Equipment (2) (OC 9981)	Public Service Equipment (2) (OC 9981)	Academic Support Equipment (2) (OC 9981)	Medical Centers Equipment (2) (OC 9981)	Student Services Equipment (2) (OC 9981)	Institutional Support Equipment (2) (OC 9981)	Operations & Maintenance Equipment (2) (OC 9981)	Auxiliaries Equipment (2) (OC 9981)	Total Equipment (2) (OC 9981)
General Fund (19990)	$	$	$	$	$	$	$	$	$	$ -
Tuition & Fees (20399)										$ -
Federal Government--Appropriations (21099)										$ -
Federal Government--Grants (24999)										$ -
Federal Government--Contracts (28999)										$ -
State Contracts (20799)										$ -
Special State Appropriations (18998)										$ -
Local Government (20999)										$ -
Private Gifts--Restricted (49999)										$ -
Private Grants--Restricted (58998)										$ -
Private Contracts--Restricted (59999)										$ -
Private--Unrestricted (39999)										$ -
Endowment--Restricted (09597)										$ -
Endowment--Unrestricted (09598)										$ -
Sales & Service--Educational (65999)										$ -
Sales & Service--Auxiliary (74998)										$ -
Sales & Service--Hospitals (63999)										$ -
Other Sources (69997)										$ -
Reserves (75999)										$ -
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1)

Note 1: The total amount of Current Funds to be eliminated must be allocated by UAS, by fund source, by year-end credit entry object code. The allocation to UAS and fund source may be based on an analysis of Current Fund expenditures.

Note 2: Allocation may be made entirely to the equipment object code (9981) unless significant and material costs in other object codes (salaries and wages, fringe benefits, and other) are known.

IRM 15—Exhibit 2

Exhibit 2: T-Account Summary of the Recommended Procedures

(1)   In November 2001, Department A purchases an equipment item for $50,000 using an Instruction expense account.

(2)   Campus capitalizes $50,000 at December 31, 2001.

(3)   In March 2002, Department B purchases an equipment item for $75,000 using an Instruction expense account.

(4)   Campus capitalizes $75,000 at June 30, 2002.

(5)   Campus reverses current fund expenditures ($125,000) at June 30, 2002.

(6)   Campus records depreciation expense of $10,000 at June 30, 2002 ($50,000 item of equipment with a five-year useful life).

Time	Current Funds				Plant Funds			

November 2001

Department A Expense Account		Cash	
(1) $50,000			$50,000 (1)

December 2001

Equipment Account		Fund Balance	
(2) $50,000			$50,000 (2)

March 2002

Department B Expense Account		Cash	
(3) $75,000			$50,000 (1)
			$75,000 (3)

June 2002

Equipment Account		Fund Balance	
(2) $50,000			$50,000 (2)
(4) $75,000			$75,000 (4)

Dummy Instruction Expense Account		Dummy Fund Fund Balance	
(5)	$125,000	$125,000	(5)

Investment in Plant Fund Balance		Accumulated Depreciation	
(6) $10,000			$10,000 (6)