

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

Addendum B to Issues Resolution Memo No. 17 (Re-issued November 5, 2002)

Approach to Depreciating Equipment

This addendum updates the approach originally outlined in IRM No. 17 to incorporate the GASB requirement to capitalize and depreciate assets to which the University does not retain title. In addition, this addendum provides the guidelines for the treatment of University-owned equipment at DOE laboratories.

Non-University-Owned Equipment

IRM No. 17 was originally issued December 22, 2000, and provided an approach to depreciating University-owned equipment. However, in December 2001, the GASB issued the *Guide to Implementation of GASB Statement 34 and Related Pronouncements—Questions and Answers* in which the GASB expanded the reporting requirement to assets to which the University does not retain title. Specifically, Question 27 of the Guide states the following:

Capitalization Amount and Policy—Question 27

Q—The federal government often retains a reversionary interest in capital assets purchased by state and local governments with federal awards. Should state and local governments report these capital assets?

A—Yes. Although property records may indicate that the capital assets were acquired with federal funds and the federal government retains a reversionary interest in the salvage values of the assets, the state or local government is the party that uses the assets in its activities and makes the decisions regarding when and how the assets will be used and managed. The historical cost of these assets should be reported in the state or local government's statement of

net assets, and depreciation expense, if applicable, for these assets should be included in the expenses for the function that uses the assets.

The University possesses equipment in which title is retained by the sponsor, hereafter called non-University-owned equipment. The University must capitalize, depreciate and report all capital equipment (items with a useful life greater than one year and acquisition value of \$1,500 or more), regardless of ownership.

Recommended Approach

Note: The capitalization and depreciation entries outlined below must be made into the Corporate Financial System (CFS) and the General Ledgers. Detailed entries are provided in IRM No. 22, *Summary of Accounting/Journal Entries for Recording the Depreciation of Capital Assets*.

As of June 30, 2000

- OP will use the June 30, 2000 EFA100 file to determine the acquisition value of non-University-owned equipment at June 30, 2000 and provide campuses with the following capitalization entry:

Debit Equipment (account should map to account group codes 120480 and 120490)

Credit Investment in Plant Fund Balance (using transaction code 6300)

- OP will calculate the balance of accumulated depreciation for non-University-owned equipment as of June 30, 2000 and provide campuses with the entry to record the balance of accumulated depreciation (refer to IRM No. 22).

For FY 2000-2001

- OP will use the December 31, 2000 EFA100 file to determine the net additions to non-University-owned equipment between July 1, 2000 and December 31, 2000. OP will provide campuses with the following capitalization entry:

Debit Equipment (account should map to account group codes 120480 and 120490)

Credit Investment in Plant Fund Balance (using transaction code 6300)

- The depreciation expense for non-University-owned equipment will be provided to the campuses as part of the entry to record the FY 2001 equipment depreciation expense (refer to IRM No. 22).

For FY 2001-2002

- OP will use the December 31, 2001 EFA100 file to determine the net additions to non-University-owned equipment between January 1, 2001 and December 31, 2001. OP will provide campuses with the following capitalization entry:

Debit Equipment (account should map to account group codes 120480 and 120490)

Credit Investment in Plant (using transaction codes for transfers from Current Funds: 3076 (campus) and 3176: (medical center))

- The depreciation expense for non-University-owned equipment will be provided to the campuses as part of the entry to record the FY 2002 equipment depreciation expense.

At June 30, 2002

- Campuses are currently required to capitalize University-owned equipment acquired between January 1 and June 30 at June 30, 2002. Effective this fiscal year, campuses should also capitalize the value of non-University-owned equipment acquired between January 1 and June 30 at June 30, 2002.
- Campuses will include non-University-owned equipment in the calculation of the credit to Current Fund expenditures (refer to IRM No. 15, *Accounting Procedures to Eliminate Capital Expenditures from Current Fund Expenditures*).

Procedures Beginning December 31, 2002

- Campuses are expected to capitalize the value of all equipment (University-owned or non-University-owned) acquired between July 1 and December 31 and reconcile the total value reported on the EFA100 to the values recorded in the General Ledger as outlined in IRM No. 2, *Data Quality and Reconciliation Issues*. This will eliminate what formerly was a reconciling item between the EFA100 and the General Ledger.

University-Owned Equipment at DOE Laboratories

Currently, University-owned equipment at the DOE laboratories is not included in the equipment inventory (EFA100) and is not reported in the University's financial statements. The University must establish processes to ensure the laboratories report University-owned equipment and the depreciation associated with these items to the University for recording in the financial statements.

Recommended Approach

- DOE laboratories will continue to track and depreciate University-owned equipment using their established procedures and systems.
- UCOP recorded in the General Ledger the total acquisition value and accumulated depreciation of University-owned equipment as of June 30, 2000 as provided by the DOE laboratories.
- UCOP recorded in the General Ledger the net additions and the additional depreciation expense of University-owned equipment as of June 30, 2001 as provided by the DOE laboratories.

- During the FY 2001-2002 fiscal close, UCOP assumed the University would adopt procedures to record net additions or disposals and the additional depreciation expense of University-owned equipment at the DOE laboratories on a one-year lag basis. As a result, UCOP did not record entries as of June 30, 2002.
- The procedures related to the treatment of University-owned equipment at DOE laboratories were modified after the FY 2001-2002 fiscal close. The revised procedures that go in effect FY 2002-2003 prescribe recording net additions or disposals and the accumulated depreciation as of June 30 in the current year, rather than on a one-year lag basis.

Note: In FY 2002-2003, the capitalization and depreciation entries will include two years of activity (i.e., as of June 30, 2002 and 2003) in order to properly reflect the capitalization and depreciation values.

- University-owned equipment at the DOE laboratories will not be included in the equipment inventory (EFA100) nor in the Corporate Asset Depreciation system (DFR). The amounts of capitalized values and accumulated depreciation of University-owned equipment at DOE laboratories will be a reconciling item between the equipment inventory (EFA100) and DPR and the General Ledger.

Next Steps—Required Actions

Responsibility (C, OP, Labs)	Required Completion Date	Action Item/Task
OP	8-Mar-02	Update IRM No. 2 and 22 —Update IRM No. 2, <i>Data Quality and Reconciliation Issues</i> , and IRM No. 22, <i>Summary of Accounting/Journal Entries for Recording the Depreciation of Capital Assets</i> , to reflect the changes resulting from the GASB requirement to capitalize, depreciate and report non-University-owned equipment.
OP	15-Mar-02	Modify the Equipment Depreciation Database —Modify the Equipment Depreciation Database to include non-University-owned equipment and finalize the depreciation calculations for 2000 and 2001 (does not apply to DOE laboratories).
OP/C	29-Mar-02	Modify Fiscal Closing Schedule —Add fiscal closing step to capitalize non-University-owned equipment at June 30, 2002.
OP/Labs	29-Mar-02	Modify Fiscal Closing Schedule —Add fiscal closing step to incorporate the University-owned equipment at DOE laboratories accounting entry into the annual closing process.
OP	15-May-02	Provide Journal Entries to Campus —Provide the entries to capitalize non-University-owned equipment at June 30, 2000, June 30, 2001, and December 31, 2001.
C	31-May-02	Record Journal Entries —Record the non-University-owned capitalization entries provided by OP (June 30, 2000, June 30, 2001, and December 31, 2001).

Responsibility (C, OP, Labs)	Required Completion Date	Action Item/Task
C	30-Jun-02	Capitalization —Capitalize all equipment acquired between January 1 and June 30 (in accordance with IRM No. 5, <i>Half-Year Convention</i> , and IRM No. 17, <i>Approach to Depreciating Equipment</i>), including non-University-owned items, in accordance with this addendum.
Labs	26-Jul-02	Report University-Owned Equipment and Accumulated Depreciation —Report the total acquisition value and accumulated depreciation of University-owned equipment as of June 30, 2002 to OP.
Labs	25-Jul-03	Report University-Owned Equipment and Accumulated Depreciation —Report the total acquisition value and accumulated depreciation of University-owned equipment as of June 30, 2003 to OP.
OP	1-Aug-03	Record Journal Entries —Record net additions or disposals and the additional depreciation expense of University-owned equipment at DOE laboratories (as of June 30, 2002 and 2003).