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 Memo No. 19

Approach to Incorporating University Depreciation into F&A Cost Rate Proposals

Define Issues

This Issues Resolution Memo establishes procedures for the following issues related to developing facilities and administrative (F&A) cost rate proposals:

- Depreciation data accessible by campuses from the University Depreciation Database;

- Guidance for including depreciation expense in F&A rate proposals; and

- Additional guidance for campuses choosing to allocate building depreciation on a room-by-room basis.

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). In addition, OMB Circular A-21 was revised in 1998 to require institutions that report depreciation in their financial statements to use the same depreciation method for their F&A rate proposals. This requirement will be effective for University F&A proposals developed using data years beginning FY 2001-02. Therefore, the University must establish procedures to support the accumulation and distribution of depreciation costs during the development of F&A rate proposals.

Authoritative Guidance

GASB Statement No. 34

GASB Statement No. 34 sets forth the requirement for reporting depreciation in a public institution's annual financial statements.

Paragraph 18—Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Paragraph 19—As used in this Statement, the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period…

Paragraph 21—Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated.

Paragraph 22—…Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets, (c) a subsystem of a network, or (d) individual assets…

OMB Circular A-21

OMB Circular A-21, *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*, was revised on June 1, 1998 to require institutions that report depreciation in their financial statements to use the same depreciation method for their F&A rate proposals.

J.12.b.(2) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method shall be presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. The depreciation methods used to calculate the depreciation amounts for F&A rate purposes shall be the same methods used by the institution for its financial statements. This requirement does not apply to institutions (e.g., public

institutions) which are not required to record depreciation by applicable generally accepted accounting principles (GAAP).

While not incorporated into the text of the Circular, the June 1, 1998 announcement of the rule change also contained the following language:

> SUPPLEMENTARY INFORMATION: C.3.(b) Require institutions that report depreciation on their financial statements to use the same depreciation method and useful lives for the F&A proposals (see subsection J.12.b).

Data Accessible by Campuses from the University Depreciation Database

In order to facilitate the development of F&A rate proposals and to enable other analyses of depreciation data as needed, the University will provide campuses and UCOP Financial Management access to Depreciation Database output tables. Complete system documentation and procedure for data access will be distributed by UCOP Financial Management. The Depreciation Database will be organized with separate tables for CAAN-Identified Assets, Equipment and Miscellaneous Assets. The tables, field names and descriptions below are relevant to F&A rate proposal preparation.

CAAN-Identified Assets (from Caan_Curr_Year_Depr table)
(Includes Buildings and Structures, Leasehold Improvements, Infrastructure Assets, General Improvements, and Intangible Assets)

Field Name	Field Description
Loc1	Two-digit Campus code (01 for Berkeley, etc.)
Sub Loc	Sublocation code, defined as 1 for Local, 2 for University-wide, 3 for Medical Center
CAAN	Capital Asset Accounting Number that uniquely identifies a capitalized asset
Asset Type	BD–Buildings & Structures (including Fixed Equipment and Leasehold Improvements) IA–Infrastructure Assets GI–General Improvements IN–Intangible Assets
Fund Source	FED—Federal NONFED—Sponsored Non-Federal OTHER—Non-Sponsored
Fiscal Year	Fiscal year for which depreciation expense was calculated
Cap Year	Fiscal year the increment was capitalized (not needed unless optional room-by-room allocations are to be used)
Fiscal Year Dep	Depreciation expense for the fiscal year

Equipment (from Equip_Curr_Year_Depr table)

Field Name	Field Description
Loc1	Two-digit Campus code (01 for Berkeley, etc.)
Sub Loc	Sublocation code, defined as 1 for Local, 2 for University-wide, 3 for Medical Center
Property No	Property number that uniquely identifies an item of equipment
Fund Source	FED—Federal
	NONFED—Sponsored Non-Federal
	OTHER—Non-Sponsored
Title Flag	Code indicating UC ownership or ownership retained by sponsor
Custody Department	Code indicating the department with custody
Program Code	Indicates function and discipline
Fiscal Year	Fiscal year for which depreciation expense was calculated
Fiscal Year Dep	Depreciation expense for the fiscal year

Miscellaneous Assets (from Misc_Curr_Year_Depr table)
(Includes Library Material/Library Collections and Software)

Field Name	Field Description
Loc1	Two-digit Campus code (01 for Berkeley, etc.)
Sub Loc	Sublocation code, defined as 1 for Local, 2 for University-wide, 3 for Medical Center
Asset Type	LB–Library Materials/Library Collections–General SL–Software Projects Greater Than $10 Million SM–Software Projects Greater Than $1,500 and Less Than $10 Million
Fund Source	FED—Federal
	NONFED—Sponsored Non-Federal
	OTHER—Non-Sponsored
Fiscal Year	Fiscal year for which depreciation expense was calculated
Fiscal Year Dep	Depreciation expense for the fiscal year

Depreciation Summary Table

Field Name	Field Description
Loc1	Two-digit Campus code (01 for Berkeley, etc.)
Sub Loc	Sublocation code, defined as 1 for Local, 2 for University-wide, 3 for Medical Center
Asset Type	BD–Buildings & Structures (including Fixed Equipment and Leasehold Improvements) IA–Infrastructure Assets GI–General Improvements EQ–Equipment IN–Intangible Assets EQ–Equipment LB–Library Materials/Library Collections–General SL–Software Projects Greater Than $10 Million SM–Software Projects Greater Than $1,500 and Less Than $10 Million
Fund Source	FED—Federal NONFED—Sponsored Non-Federal OTHER—Non-Sponsored
Fiscal Year	Fiscal year for which depreciation expense was calculated
Fiscal Year Dep	Depreciation expense for the fiscal year

Guidance for Including Depreciation Expense in F&A Rate Proposals

Before depreciation was reportable in the University's financial statements, the preparation of a campus F&A rate proposal involved calculating use allowance or depreciation on buildings, general improvements and equipment in order to create the facilities cost pools for these items. Beginning with fiscal year 2002 data, F&A rate proposals will use extracted data from the Depreciation Database rather than independent calculations of use allowance or depreciation. This change impacts the cost pooling process only; allocation rules – whether performed by the University-licensed F&A rate development software (CRIS) or another product – are not in principle affected by the use of Depreciation Database extracts (The exception to this rule is allocating building depreciation by increment by room, which is discussed in the following section of this IRM).

There is more than one valid approach to extracting data from the Depreciation Database. The approach described here minimizes the transfer of data that will not be used in the F&A rate proposal.

The F&A rate proposal should include a schedule reconciling the depreciation expense shown in the Campus Financial Schedules to the depreciation expense in the F&A rate proposal. The schedule should show total fiscal year depreciation, amounts excluded from the F&A rate proposal, and amounts included in F&A cost pools. In most cases this schedule

can be prepared from data extracted from the Depreciation Summary Table, as in the sample below.

Data from Depreciation Summary Table
Fiscal Year = 2001, Loc1 = 09, Sub Loc <>2

Asset Type	FY Depreciation	Exclusions	F&A totals	F&A-Med Ctr	F&A–All Other
BD – Buildings	58,913,150	556,992	58,356,158	9,649,693	48,706,465
EQ – Equipment	44,673,243	13,363,416	31,309,827	11,355,707	19,954,120
GI – General Improvements	4,244,718	-	4,244,718	319,313	3,925,405
IA - Infrastructure Assets	1,657,956	-	1,657,956	411,808	1,246,148
IN - Intangible Assets	-	-	-	-	-
LB - Library Books	17,949,767	17,949,767	-	-	-
SL - Software, Large	-	-	-	-	-
SM - Software, Small	-	-	-	-	-
Total	127,438,834	31,870,175	95,568,659	21,736,521	73,832,138

Depreciation expense for assets acquired with federal funds (Fund Source = FED) is unallowable and must be excluded from F&A allocations. Depreciation expense for assets acquired with nonfederal sponsored funds (Fund Source = NONFED) must either be excluded or, if included, discounted and justified as to why remaining amounts are allowable. Depreciation expense for library books (Asset Type LB) must be excluded to avoid double counting, because annual expenditures on library book purchases are included in the Library cost pool group according to OMB Circular A-21.

Medical center assets are separately identifiable in the Depreciation Database (Sub Loc = 3). To ensure consistent F&A costing, it is suggested that campuses with medical centers create separate cost pools for medical center vs. non-medical center depreciation on buildings, equipment and other capital improvements. The cost pool amounts for medical center assets can be input manually as lump sums in the F&A rate calculation model and allocated directly to the medical center base in Other Institutional Activities without having to extract or process detailed records from the Depreciation Database.

Allowable depreciation expense for capital assets other than buildings and equipment (primarily general improvements and infrastructure, but software may also be included) can be pooled as a lump sum in the F&A rate calculation model and allocated across campus space without having to extract or process detailed records from the Depreciation Database.

Detailed records are required for non-medical center equipment to meet the allocation requirements of Circular A-21. Allowable depreciation of non-medical center equipment must be extracted by property number from the Equip_Curr_Year_Depr table. The extracted equipment depreciation data must in turn be matched to other item-specific information such as custodial department and building number extracted from the equipment inventory. CRIS software users would begin by creating a table in Visual FoxPro from the extracted data, such that the property number is contained in a 20-character field named EQ_NO. The depreciation table is then related to the EQP_EXTR table based on EQ_NO. Next the field DWN_LD_DEP in the EQP_EXTR table is filled with the extracted depreciation amounts for

matching EQ_NO records. Finally, on the Equipment Set-Up Table (item 1.6.3 of the 2001 version of CRIS), the question "Download Equipment Depreciation?" must be checked Yes.

Detailed records are likewise required for non-medical center buildings. Unless information identifying building increments to benefiting rooms has been collected by the campus as described in the following section, allowable depreciation of non-medical center buildings should be extracted by CAAN from the Caan_Curr_Year_Depr table. The extracted building depreciation data must in turn be matched to other building-specific information such as building name extracted from the facilities inventory. CRIS software users would begin by creating a table in Visual FoxPro from the extracted data, such that the CAAN is contained in an 8-character field named B_NUM. The depreciation table is then related to the BULD_VAL table based on B_NUM. Next the field DWN_LD_DEP in the BULD_VAL table is filled with the extracted depreciation amounts for matching B_NUM records. Finally, on the Building Set-Up Table (item 1.5.5 of the 2001 version of CRIS), the question "Download Building Depreciation?" must be checked Yes.

Guidance for Campuses Allocating Building Depreciation on a Room-by-Room Basis

For all UC campuses, the use of depreciation by increment represents a significant acceleration in cost recovery compared with the former two percent use allowance. An additional acceleration of cost recovery is possible by allocating the depreciation of each capitalization event to the impacted rooms. However, this requires the campus to create and maintain an information system that relates particular capitalization events to the benefiting rooms.

IRM No. 1, Addendum C, describes options available to campuses to optimize building depreciation allocations to OMB Circular A-21 room functions, as well as comply with the federal requirement that educational institutions use the same depreciation methods for financial reporting and F&A cost rate proposal development.
The requirements outlined below apply to campuses that elect to allocate building depreciation costs to individual rooms based on the survey of individual buildings. Such surveys may determine that certain rooms within a building have higher per-square-foot costs than others.

- Beginning July 1, 2002, campuses may elect to identify annual building depreciation costs to specific rooms for the purposes of developing F&A cost proposals.

- This decision to allocate to specific rooms is independent of the campus decision to conduct surveys to establish weighted average useful lives for building capitalization events. However, the campus must conduct surveys to determine the rooms affected by each project or annual increment.

- The decision to identify building depreciation costs to specific rooms may be made on a CAAN-by-CAAN basis (i.e., campuses will not be required to allocate depreciation costs to specific rooms for all buildings).

- Campuses that elect to identify annual building depreciation costs to specific rooms will be required to maintain the following data to determine which rooms are affected by the capitalization event and in what proportion:

  - Year of Capitalization

  - CAAN

  - Account Number

  - Fund Number

  - Account Group (maps to sub location code in Depreciation Database)

  - Fund Group (maps to fund source code in Depreciation Database)

  - List of Rooms Impacted by the Capitalization Event

  - Weighting Factor for Each Room, e.g., assignable square footage, costs, etc. If the increment benefits all affected rooms in a comparable way (e.g., a new roof benefits all rooms beneath it), using the assignable square footage of each room as the statistical weighting parameters would be appropriate. If the benefits of the increment are unequal in nature, the statistical weighting parameters should be the capitalized cost of the increment applicable to each room (obtained from a building survey, cost records, contractor invoices, etc.). The documentation must clearly show the relative dollar value of the capitalized improvements to each room. Weighting factors based on dollars and ASF cannot be mixed for the same increment. An example of weighting factors is provided in IRM 1, Addendum C.

  UCOP recommends that campuses using this methodology update their information at least annually so it is available for F&A rate proposal development or modeling purposes.

- Appropriate documentation must be maintained from which the calculation of weighting factors can be shown. If the increment benefits all affected rooms in a comparable way (e.g., a new roof benefits all rooms beneath it), the appropriate weighting factors would be the assignable square footage of each room. If the benefits of the increment are unequal in nature, the weighting factors should be the capitalized cost of the increment applicable to each room (obtained from a building survey, cost records, contractor invoices, etc.). Weighting factors based on dollars and ASF cannot be mixed for the same increment.

- Once a campus has made the decision to allocate depreciation costs for a specific CAAN to specific rooms, then all subsequent capitalization events for that CAAN must continue to be allocated to specific rooms.

- If a campus stops recording the room-by-room benefit for increments of a specific CAAN, it cannot allocate any increments on a room-by-room basis for that CAAN.

- Campuses must maintain space data for the affected rooms for the entire life of the increment.

- Campuses may choose to allocate historical depreciation costs to benefiting rooms, regardless of whether campuses have surveyed buildings to establish useful lives.

The Depreciation Database calculates annual depreciation expense for each of the University's buildings at a level—called an increment for convenience of reference—identifiable by a unique set of key fields consisting of location and sub location codes, current fiscal year, asset type (BD for buildings), asset key (CAAN), year capitalized and fund source. For every building in which a room-by-room allocation is desired, data from the Depreciation Database must be extracted at the increment level, not rolled up to the CAAN level. It may be practical to create separate cost pools for building depreciation allocated to the entire building, and for building depreciation allocated by increment to rooms.

Implementing Room-by-Room Allocation in CRIS

CRIS is a University-licensed tool for grouping F&A costs into cost pools and allocating them to successive indirect and/or direct cost pools. As indicated above, CRIS is able to import building depreciation amounts that have been calculated in the Depreciation Database. Parameters for allocating costs are known as "statistics" within CRIS. Some statistics are system-generated, while others can be created by the user. (Note: The comments below reflect the 2001 version of CRIS. System capabilities in future versions may be different than described here.)

CRIS is designed to pool depreciation costs at the building level rather than the increment level. Similarly, the system-generated building allocation statistics in CRIS assume statistics are accumulated at the building level rather than the increment level. However, CRIS does have a ten-character field called COMPONENT, which allows a single building to have multiple contributing sources of depreciation. To best utilize the features of CRIS for room-by-room allocations, the BULD_VAL.dbf table should use CAAN for the B_NUM field and year capitalized for COMPONENT.

Every allocation statistic in CRIS is represented both on a "header" file, which identifies and describes the purpose of the statistic, and a "detail" file, which identifies the specific amounts to be used as the basis for spreading the cost to be allocated. The critical elements of the detail file are:

ST_FILE_NO	ST_SEQ_NO	ST_CODE	ST_RECVNG	ST_AMOUNT
[name of stat]	[sequence #]	[start point]	[end point]	[weighting]

The user-created statistics needed to allocate increments to rooms are called manual statistics in CRIS and will involve modifications to ST_MNMST.dbf (the "header" file) and ST_MNDET.dbf (the "detail" file). The allocation will be in three steps, designated here as manual statistics M1, M2 and M3.

- *Manual Statistic M1*
  The first allocation step is to take the building depreciation amount from the level of the cost pool to the level of the increment. The increment can be identified by concatenating B_NUM (CAAN) and COMPONENT (year capitalized). The statistical weighting parameters are the depreciation amounts for each increment.

    Example—

    The table below shows the first three records in a hypothetical model where the building depreciation cost pool is 001.

    - CAAN 1000 had two capitalization events: one in FY 1992 and one in FY 2002.

    - CAAN 1001 had one capitalization event in 1995.

	ST_FILE_NO	ST_SEQ_NO	ST_CODE	ST_RECVNG	ST_AMOUNT
	[name of stat]	[sequence #]	[depr.cost pool]	[increment]	[depr. amount]
*	M1	0001	001	1000-2002	6167
	M1	0002	001	1000-1992	10400
	M1	0003	001	1001-1995	345

    Statistic M1 can be created in a straightforward manner based on the information in the depreciation database download. The effect of statistic M1 is to split up the building depreciation cost pool into the size of each contributing increment.

- *Manual Statistic M2*
  The second allocation step is to take the building depreciation amount from the level of the increment to the level of the room(s) affected by the increment. The information needed to create this statistic must be provided by the campus. The room can be uniquely identified by concatenating CAAN + room number.

    Example—

    The table below shows the first four records in a hypothetical model where the first increment in the table in the example above (as indicated with *) benefits 3 rooms (100, 101 and 102) based on the capitalized amount (i.e., ST_AMOUNT = capitalized amount) for each room.

	ST_FILE_NO	ST_SEQ_NO	ST_CODE	ST_RECVNG	ST_AMOUNT
	[name of stat]	[sequence #]	[increment]	[CAAN+room]	[sq.ft or $]
**	M2	0001	1000-2002	1000-100	50000
	M2	0002	1000-2002	1000-101	45000
	M2	0003	1000-2002	1000-102	90000

- *Manual Statistic M3*
  The third allocation step will be to take the building depreciation amount from the level of the room to the level of the cost pool(s) of activities in the room.

Example—

The table below shows the first two records in a hypothetical model where the first room in the table in the example above (as indicated with **) is 200 square feet and has two functions: 15 percent I&DR (cost pool 910) and 85 percent OR (cost pool 920).

ST_FILE_NO	ST_SEQ_NO	ST_CODE	ST_RECVNG	ST_AMOUNT
[name of stat]	[sequence #]	[CAAN+room]	[cost pool]	[sq.ft by func]
M3	0001	1000-100	910	30
M3	0002	1000-100	920	170

Although the information needed to create this table is available within CRIS, it may not be available from a single table or file. The SPAC_EXT table contains functionalized square footage data on all surveyed rooms, but no functionalization data for non-surveyed rooms. The functionalization of non-surveyed rooms depends on departmental salaries and wages, which are stored in the table ATACDPT1. A computer program can be written to generate the M3 allocation statistic from SPAC_EXT and ATACDPT1 but it would have to run after the cost pooling stage of CRIS processing is completed, and before the cost allocation stage of CRIS processing. If any changes are subsequently made to the space survey, cost pooling rules, or amounts (account mapping, transfers, adjustments, etc.), the M3 allocation statistic should be created again.

Next Steps

- UCOP to develop and implement procedures for campus access of data contained in the UCOP Depreciation Database.