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 and the Division of Cost Allocation, U.S. Department of Health and Human Services (DCA-DHHS); however, it represents the best information available to date.

University of California
GASB 35 Depreciation Reporting

Addendum B to
Issues Resolution Memo No. 1

Consistency in Calculation Methodology – Depreciation of Buildings

This addendum address campus comments to Issues Resolution Memo No. 1, and Addendum A to IRM No.1. It provides information on the following topics:

- Optional treatment for non-laboratory buildings with shorter than average lives (plant and other intensive use buildings).
- Refinement of Method 3 – criteria for extrapolating survey results to non-surveyed buildings.
- Clarification on changing from one method to another in future years.
- Definition of "laboratory" buildings.

Intensive Use Buildings

Buildings with special characteristics, such as co-generation, chiller and supercomputer facilities are structurally very different, may have very high fixed equipment components, and generally may have shorter useful lives compared to other buildings. Additionally, a campus may have non-laboratory research buildings where intensive use results in a shorter life compared to other buildings. While these buildings would not qualify as "laboratory" buildings, they may be surveyed individually to determine their individual useful lives and accumulated depreciation. Since it is unlikely that these special buildings would be representative of the category of "other buildings", the results of the surveys may be applied only to the specifically surveyed buildings, and may not be extrapolated to non-surveyed buildings.

This approach is consistent with the methods previously summarized in Attachment 1 of IRM No.1. Campuses may choose from Method 1 through Method 4 for each category of buildings ("laboratory" and "other"). Thus, a campus may choose Method 4 for "laboratory" buildings and Method 3 for "other" buildings, or any combination of methods 1 through 4. The

Attachment included in IRM No.1 has been revised to reflect this approach to certain intensive use, non-laboratory buildings. The revised Attachment is presented as Attachment 1 on page 5.

This approach was selected in lieu of creating a third category of buildings. To establish a third category, a common definition of the category would need to be established based on objective criteria related to the physical attributes of the building. In our analysis, it became apparent that defining a third category with common physical traits would be very difficult. We believe that the recommended approach meets the needs of the campuses within the structure previously approved by PwC and as described in IRM No. 1.

Refinement of Method 3

To reflect the optional treatment for intensive use buildings as discussed above, Method 3 has been further refined into Method 3A and 3B. Both methods 3A and 3B would allow campuses to survey **some** buildings. In addition, under Method 3A, the criteria for surveyed buildings to be considered as representative of the building category was expanded.

Method 3A

If the surveyed buildings are not representative of the total building category, the weighted average useful life of the surveyed buildings may not be applied to non-surveyed buildings in that category. The default useful life established for the building category must be applied to the non-surveyed buildings.

Method 3B

If the surveyed buildings are representative of the building category, the weighted average useful life of the surveyed buildings may be applied to the non-surveyed buildings in the same category.

All of the following conditions must be met for the surveyed buildings to be considered as representative of the building category:

- The total acquisition values of the surveyed buildings within a building category must represent at least 50% of the total acquisition values of all buildings of that category at the campus.
- Campuses must submit a list of the surveyed buildings and all non-surveyed buildings for each building category to the Office of the President for review and possible audit by PwC.

The refinement of Method 3 into Methods 3A and 3B are reflected in Attachment 1 on page 5.

Changing From One Method to Another

Campuses may choose from methods 1 through 4, independent of other campuses. A campus may change from one method to another in future years as long as the change is made in ascending order. For example, a campus may choose Method 2 now and change to Method 3A/B or 4 in future years. Campuses may not change Methods in descending order; however, an exception is made for campuses choosing Method 4 (survey all buildings within a category) that may decide in a future year not to survey a new building in that category. In such cases, the weighted average useful life of the surveyed buildings could be applied to the new non-surveyed building.

Indirect cost rate proposals based on fiscal year 1999-2000 or 2000-2001 data may incorporate any depreciation method consistent with the requirements of OMB Circular A-21. The method used in these rate proposals will not limit the choice of methods open to the campus for financial reporting in 2001-2002.

Definition of "Laboratory" Buildings

Additional Room Use Codes

The following Room Use Codes are added to the Room Use Codes that define "laboratory" buildings.

- 580 Animal Quarters
- 585 Animal Quarters Service
- 710 Shop – General and Research
- 711 Shop – Teaching Laboratory
- 715 Shop Services – General and Research
- 716 Shop Services – Teaching Laboratory

A revised table with the additional Room Use Codes is presented as Attachment 2 on page 6.

"Laboratory" or "Research" Buildings

Several comments were received on the use of "laboratory" buildings as a category of buildings. Suggestions were made to replace "laboratory" with "research" as a category of buildings, using the results of functional space use surveys to identify "research" buildings. Some campuses take functional space use surveys when preparing indirect cost rate proposals for submission to the federal government.

Upon further analysis, review and discussion with PwC, the definition contained in Addendum A of IRM No.1 was retained.

W recognized that research activity is likely to subject buildings to more intensive use, resulting in shorter useful lives; however, it was difficult to justify a useful life category based solely on activity conducted with the building, rather than on the physical characteristics of the

building structure. In addition, using the results of the functional space use surveys would not necessarily result in "more precise" data compared to the "laboratory" category defined by room type and academic discipline.

- The surveys are conducted using the A-21 definition of research. Research space is defined as space where extramurally sponsored research and University research (separately budgeted and accounted for) takes place. The survey would exclude departmental research space that may have similar structural characteristics.
- The functional space use survey would not differentiate research conducted in laboratories from research conducted in offices, classroom or other less intensive use space.

Campuses with non-laboratory buildings, within which high levels of research are conducted, may select Method 3A for the "other" category of buildings. This option would allow campuses to determine the appropriate useful life for specific non-laboratory research / intensive use buildings consistent with the approach previously discussed in IRM No. 1 and approved by PwC.

The "laboratory" category and its definition as contained in Addendum A of IRM No. 1 is retained without change:

- Buildings where at least 25% of the total assignable square feet (ASF) of the building is dedicated to laboratory space, or
- Buildings with at least 7,500 ASF of laboratory space.

  Laboratory space is defined in Attachment 2 on page 6, using Room Use Codes and Program Codes established in the University's *Facilities Inventory Guide*.

Depreciation Methods -- Viable Alternatives

Coarser information → **Finer information**

	Individual Campus Options -- A campus may move from one method to another in ascending order over time. A campus may choose one method for "Labs" and another method for "Other Buildings"					**Must be adopted by all campuses (per category)**
	Method 1	**Method 2**	**Method 3A**	**Method 3B**	**Method 4**	**Method 5**
	Single weighted average life for all buildings based on UBC analysis	**Separate lives for labs and other buildings based on UBC analysis**	**Survey non-representative sample of buildings per category.** **Apply results individually to surveyed buildings.** **UBC based life applied to non-surveyed buildings per category**	**Survey representative sample of buildings per category.** **Apply results individually to surveyed buildings.** **Weighted average life of surveyed buildings applied to non-surveyed buildings per category**	**Survey every building in category to determine a specific life for each building**	**Survey every building in category and depreciate individual component per building**
Building Category	**Life**	**Life**	**Life**	**Life**	**Life**	**Life**
Labs Buildings	Building 1 32	Building 1 30	Building 1* 28	Building 1* 28	Building 1* 28	Building 1* 28
	2	2	2* 27	2* 27	2* 27	2* 27
	3	3	3* 26	3* 26	3* 26	3* 26
	4	4	4* 25	4* 25	4* 25	4* 25
	…	…	…	…	…	…
	20	20	20* 28	20* 28	20* 28	20* 28
	…	…	…	…	…	…
	28	28	28** 30	28**	28* 25	28* 25
	29	29	29**	29**	29* 30	29* 30
	30	30 30	30** 30	30**	30* 27	30* 27
Other Buildings	Building 31	Building 31 32	Building 31* 25	Building 31* 25	Building 31* 25	Building 31* 25
	70	70	70* 23	70* 23	70* 23	70* 23
	71	71	71* 15	71* 15	71* 15	71* 15
	…	…	…	…	…	…
	200	200	200** 32	200**	200* 35	200* 35
	…	…	…	…	…	…
	226	226	226**	226**	226* 40	226* 40
	…	…	…	…	…	…
	229 32	229 32	229** 32	229**	229* 42	229* 42
Source to Establish Useful Lives	Average of appraisal based on UBC of all buildings.	Average of appraisal based on UBC per category of buildings.	Survey results applied to each surveyed building. UBC based life for each category will be applied to non-surveyed buildings.	Survey results applied to each building. Weighted average of surveyed buildings per category applied to non-surveyed buildings.	Survey results applied to each building.	Survey results applied to each component per buildings.
How Life is Applied	Depreciated by annual increment per building, life based on specific analysis of each increment, or UBC based life.	Depreciate by annual increment, life based on specific analysis of each increment, or UBC based life of the category.	Depreciate by annual increment, life based on specific analysis of each increment, survey results if the building was surveyed, or UBC based life of the category.	Depreciate by annual increment, life based on specific analysis of each increment, survey result if the building was surveyed, or weighted average life for the category.	Depreciate by annual increment, life based on specific analysis of each increment or survey results.	Depreciate by annual increment, by individual component, based on specific analysis of each increment.
Comments	Assumes UBC per building is available.	Assumes UBC per building is available. Buildings designated as "Labs" are subject to verification by PwC.	Assumes UBC per building is available. Buildings designated as "Labs" are subject to verification by PwC.	Buildings designated as "Labs" are subject to verification by PwC. Must survey representative sample of buildings in the category.	Buildings designated as "Labs" are subject to verification by PwC.	Buildings designated as "Labs" are subject to verification by PwC.

UBC = Uniform Building Codes.
Lives shown are examples for discussion purposes and do not necessary reflect the actual lives to be used.
* Surveyed buildings.

Attachment 2

Rooms with the following Room Use Codes assigned to the listed Program Codes (disciplines) will be counted as laboratory space. Room Use Codes and Program Codes are defined in the University's *Facilities Inventory Guide*.

Room Use Codes
210 Research Laboratory or Studio or
225 Research Laboratory or Studio Services or
260 Class Laboratory or
261 Special Class laboratory or
265 Class Laboratory Services or
270 Open Laboratory or
275 Open Laboratory Service or
580 Animal Quarters or
585 Animal Quarters Service or
860 Diagnostic Service Laboratory or
710 Shop – General and Research or
711 Shop – Teaching Laboratory or
715 Shop Services – General and Research or
716 Shop Services – Teaching Laboratory or
862 Diagnostic Service Laboratory Support

Program Codes (Disciplines)
1101, 2101, 3101 - Agricultural Business and Production or
1102, 2102, 3102 - Agricultural Sciences or
1103, 2103, 3103 - Conservation and Renewable Natural Resources or
1111, 2111, 3111 - Computer and Information Sciences or
1114, 2114, 3114 - Engineering or
1115, 2115, 3115 - Engineering-Related Technologies or
1126, 2126, 3126 - Biological Sciences and Life Sciences or
1140, 2140, 3140 - Physical Sciences or
1141, 2141, 3141 – Science Technologies or
1204, 2204, 3204 - Architecture and Environmental Design or
1209, 2209, 3209 - Communications or
1301, 2301, 3301 - Medicine or
1302, 2302, 3302 - Veterinary Medicine or
1303, 2303, 3303 - Dentistry or
1304, 2304, 3304 - Nursing or
1305, 2305, 3305 - Pharmacy or
1306, 2306, 3306 - Public Health or
1307, 2307, 3307 - Optometry or
1309, 2309, 3309 - General and Unclassified Health Science Academic Subjects or
1390, 2390, 3390 - General Assignment/Support: Health Sciences or
3400 – Agricultural Field Stations or
3500 – Natural Reserve System