

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. 21**

#### **Approach to Leasehold Improvements**

##### **Define Issues**

The University must establish guidelines for the consistent treatment and reporting of leasehold improvements (campus and medical centers).

##### **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 Generally Accepted Accounting Principles (GAAP) and are subject to audit under Generally Accepted Auditing Standards (GAAS).

Leasehold improvements are additions and modifications to leased space to meet tenant use requirements. Currently, leasehold improvements are included in the corporate financial system asset file (CFS AST) by capital asset account numbers (CAAN) and capitalized, but not depreciated. In order to meet the depreciation reporting requirements, the University must establish a process for capitalizing, depreciating, and assigning useful lives to annual leasehold improvements increments.

##### **Authoritative Guidance**

###### *GASB Statement No. 34*

*GASB Statement No. 34, Paragraph 19*—As used in this statement, capital assets includes land, improvements to land, 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.

*GASB Statement No. 34, 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.

*GASB Statement No. 34, 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...

### *Current UC Policy*

The UC Accounting Manual chapter, Investment in Plant (P-415-3) includes leasehold improvements in the definition of Buildings and Structures (Account Number 101801):

All costs incurred in connection with the construction or purchase of a new building or modular unit; costs incurred in connection with significant alterations or structural changes in an existing building that result in greater usefulness, increased efficiency, or the increased life of the building; or improvements over \$100,000 to a leased building are to be capitalized.

### *OMB Circular A-21*

OMB Circular A-21, *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*, sets forth the guidelines for the treatment of capital assets.

*J.12. Depreciation and use allowances*—Institutions may be compensated for the use of their buildings, capital improvements, and equipment, provided that they are used, needed in the institutions' activities, and properly allocable to sponsored agreements.

*J.12.b.*—In the use of the depreciation method, the following shall be observed:

(1) The period of useful service or useful life established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, and the renewal and replacement policies followed for the individual items or classes of assets involved...

### **Recommended Approach**

The recommended approach consolidates some of the issues previously discussed in IRM No. 1, Addendum E and IRM No. 10, Addendum B.

- Leasehold improvements should be assigned a CAAN for each leased building (not for each leasehold improvement in each leased building).

- As of July 1, 2000, the capitalization threshold for leasehold improvements will be \$35,000 (this is a change from the current Accounting Manual).
- Campuses will be required to establish the useful life for each CAAN, based on the shorter of the following criteria:
  - the life of the improvement;
  - the weighted average useful life of the improvements (multiple improvement projects);
  - the life of the lease;
  - the weighted average lease life if there are several leases associated with a CAAN; or
  - the default useful life for “other” buildings (the current placeholder is 32 years).
- Campuses shall apply the same criteria listed above to determine the useful life for each year there is an increment for a leased building. For situations where there are multiple leases and/or multiple improvements, campuses should weigh the variables to assign the useful life for each increment.
- Campuses shall submit to OP the lives for leasehold improvement annual increments in the electronic file used to provide useful lives for “laboratory” and other surveyed building annual increments (currently under development).

### **Next Steps—Required Actions**

#### **Historical Leasehold Improvements Costs**

- Campuses will write off leasehold improvement expenditures less than \$35,000.
- Campuses should verify the attached list of leasehold improvements (by campus, by CAAN) and determine the useful life for each leasehold improvement CAAN. The verification and useful life data should be provided to OP by the time campuses submit their December 31, 2000 files to OP in April 2001.

#### **Prospective Leasehold Improvements Costs**

- Campuses should employ the necessary procedures to ensure that the data on CAANs for buildings which represent leasehold improvements are also recorded in the Fall 2001 facility file submission to OP.
- OP will determine the file format for campuses to use to provide useful lives for leasehold improvements.
- Campuses will be required each year to provide useful life information for leasehold improvements increments, as necessary.

**IRM No. 21--Attachment 1**

**Berkeley Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
1924	BNCRFT 2440	NL	19,713	\$7,273
1938	KITTRDG2150	NL	17,634	\$99,139
1964	CAMINO2272	NL	4,908	\$3,965
1968	CENTER 2000	NL	11,519	\$3,676
3607	WARMSPRINGS	NL	10,548	\$124,830
9401	LAKESIDE 300	NL	128,395	\$9,363,088
9407	SHATTUK2300	NL	51,072	\$13,010
<b>TOTAL BERKELEY</b>			<b>243,789</b>	<b>\$9,614,981</b>

Owner Code           NF           not owned, no cost to UC  
                          NL           UC lease/rental  
                          NX           not owned, charge other than lease/rental

**IRM No. 21--Attachment 2**

**San Francisco Campus List of Leashold Improvements**

CAAN	BLDG NAME	OWNER CODE	BLDG ASF	PA COST
2868	939 MARKET	NL	17,500	\$856,737
2888	2186 GEARY B	NL	2,341	\$10,733
2902	SFGH BLDG 3	NL	36,805	\$1,262,501
2906	SFGH BLDG 10	NL	31,258	\$1,228,058
2932	SFGH BLDG 5	NL	7,322	\$1,264,168
2941	3330 GEARY	NL	19,256	\$533,354
2946	1545 DIVISAD	NL	16,500	\$138,495
2950	SFGH BLDG 30	NL	24,773	\$82,000
2957	SFGH BLDG 1	NL	32,886	\$10,591,169
2965	350 PARNASSU	NL	33,060	\$10,911
2971	2380 SUTTER	NL	10,321	\$1,044,011
2980	1569 SLOAT A	NL	11,712	\$1,182,447
2988	SFGH BLDG 20	NL	9,421	\$541,000
<b>TOTAL SAN FRANCISCO</b>			<b>253,155</b>	<b>\$18,745,584</b>

<b>Owner Code</b>	<b>NF</b>	<b>not owned, no cost to UC</b>
	<b>NL</b>	<b>UC lease/rental</b>
	<b>NX</b>	<b>not owned, charge other than lease/rental</b>

IRM No. 21--Attachment 3

Davis Campus List of Leashold Improvements

CAAN	BLDG NAME	OWNER CODE	BLDG ASF	PA COST
S118	S COTTON GIN	NL	4,545	\$245,023
3302	VCTI-DIS TR	NL	550	\$43,529
3750	IEHR AN HS 1	NX	6,117	\$36,644
3789	IEHR SHOP	NX	1,760	\$4,687
3791	IEHR PATH CL	NX	1,284	\$96,251
4000	GRHS 056	NX	350	\$309
4084	IEHR FEEDMIX	NX	2,082	\$34
4085	IEHR CLN MED	NX	2,546	\$33
4248	AQ WEED HDHS	NX	1,254	\$7,034
4441	GRHS 078	NX	2,301	\$68,765
4452	CELL BIO LAB	NX	2,872	\$71,477
4479	IEHR SML AN	NX	1,446	\$544
4507	WLDLF&FSH TR	NX	1,130	\$9,125
4515	GRMPLSM HDHS	NX	3,879	\$6,568
4516	GRMPLSM LATH	NX	1,500	\$20,615
4567	THURMAN	NX	26,620	\$7,571,561
8007	UMC CHICO I	NL	10,440	\$317,325
8009	UMC FOLSOM	NL	13,040	\$390,867
8014	UMC AUB NESB	NL	2,401	\$83,840
8024	UMC CAR MADN	NL	20,567	\$634,234
8025	UMC CHICO II	NL	12,854	\$697,446
8028	UMC FOLSOM 2	NL	10,563	\$346,574
8030	UMC SIMON 6	NL	2,755	\$184,132
8033	UMC VACAVILL	NL	11,232	\$937,216
8034	UMC ROCKLIN	NL	3,500	\$192,485
8042	UMC SIMON 7	NL	3,007	\$194,083
8049	UMC DONNER	NL	16,824	\$15,631
9494	UMC LEMONGRS	NL	2,270	\$241,875
9501	UMC WONG	NL	10,885	\$323,264
9535	V DLAB TURLO	NX	2,559	\$148,197
9536	V DLAB SANBR	NX	9,990	\$459,441
9537	V DLAB FRSNO	NX	8,942	\$261,855
9557	UMC SAT SURG	NL	6,803	\$285,426
9558	UMC PARKNG I	NL	2,654	\$6,858,250
9590	UMC BULKLEY	NL	13,387	\$504,868
9814	UMC GLASSRCK	NL	48,165	\$2,927,423
9829	RR-MAIN RES	NF	4,500	\$702,087
9831	RR-BATH HS	NF	350	\$15,308
9833	RR-BTH-FLTR	NF	200	\$12,916
9835	RR-GAR & RES	NF	2,400	\$58,570
9836	RR-TANK HS	NF	400	\$2,902
9837	RR-CHCKN HS	NF	300	\$323
9838	RR-BARN 1	NF	3,900	\$39,306
9839	RR-TACK HS	NF	150	\$1,172
9841	RR-PUMP HS	NF	175	\$957

IRM No. 21--Attachment 3

Davis Campus List of Leashold Improvements

CAAN	BLDG NAME	OWNER CODE	BLDG ASF	PA COST
9842	RR-SHOP	NF	1,000	\$12,246
9843	RR-BARN 2	NF	2,600	\$26,789
9844	RR-BARN 3	NF	5,350	\$42,862
9845	RR-LEANTO 1	NF	1,600	\$9,759
9846	RR-LEANTO 2	NF	1,500	\$9,185
9847	RR-LEANTO 3	NF	800	\$5,023
9848	RR-RES 2	NF	1,100	\$44,648
9849	RR-BUNKHS 1	NF	200	\$1,674
9850	RR-BUNKHS 2	NF	250	\$2,093
9851	RR-SHOWER HS	NF	75	\$1,993
9884	UMC SHRMAN	NL	22,497	\$5,487,902
9886	UMC TICON 3	NL	19,792	\$553,636
9900	UMC CAL MED	NL	17,070	\$277,842
9905	UMC MPDAVIS	NL	24,146	\$425,417
9906	DV 1633 DVNC	NL	6,707	\$1,437,771
9909	UMC IMAGING	NL	8,976	\$739,590
9921	UMC BROADWAY	NL	86,918	\$15,224,760
9938	UMC EG LAGUN	NL	9,483	\$400,001
9963	UMC ROSE	NL	25,000	\$1,070,186
9964	UMC AUBURN 2	NL	18,500	\$402,204
9979	UMC SAC OST	NL	10,013	\$440,038
9990	UMC JACK PRK	NL	22,754	\$134,784
<b>TOTAL DAVIS</b>			<b>571,780</b>	<b>\$51,770,575</b>

Owner Code           NF           not owned, no cost to UC  
                           NL           UC lease/rental  
                           NX           not owned, charge other than lease/rental

**IRM No. 21--Attachment 4**

**Los Angeles Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
4045	XOCEAN DISC	NL	3,698	\$313,591
4048	X11318NATION	NL	3,900	\$380,978
4077	X8420WILSHR	NL	9,930	\$947,529
4338	DREW-HAWKINS	NL	24,679	\$2,293,452
<b>TOTAL LOS ANGELES</b>			<b>42,207</b>	<b>\$3,935,550</b>

Owner Code           NF           not owned, no cost to UC  
                          NL           UC lease/rental  
                          NX           not owned, charge other than lease/rental



**IRM No. 21--Attachment 5**

**Riverside Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
5989	UV UNET	NL	1,931	\$4,800

**Owner Code**

<b>NF</b>	<b>not owned, no cost to UC</b>
<b>NL</b>	<b>UC lease/rental</b>
<b>NX</b>	<b>not owned, charge other than lease/rental</b>

**IRM No. 21--Attachment 6**

**San Diego Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
6171	477 ELCAMINO	NL	6,686	\$65,400
6180	1545 HTL CIR	NL	1,830	\$142
6185	UH SKIN CTR	NL	880	\$151,510
6265	330 W. LEWIS	NL	22,461	\$129,659
6955	UH 4185 FRNT	NL	8,005	\$166,367
6987	7177- CONVOY	NL	36,800	\$732,627
<b>TOTAL SAN DIEGO</b>			<b>76,662</b>	<b>\$1,245,705</b>

Owner Code            NF            not owned, no cost to UC  
                              NL            UC lease/rental  
                              NX            not owned, charge other than lease/rental

**IRM No. 21--Attachment 7**

**Santa Cruz Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
7526	UC EX MOFFET	NL	14,021	\$197,683
7817	CAM FAC TR 3	NL	612	\$576
<b>TOTAL SANTA CRUZ</b>			<b>14,633</b>	<b>\$198,259</b>

Owner Code            NF            not owned, no cost to UC  
                              NL            UC lease/rental  
                              NX            not owned, charge other than lease/rental

**IRM No. 21--Attachment 8**

**Santa Barbara Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
8388	PARK SERV 2	NL	1,839	\$53,875
8944	CACHUM BT HS	NX	2,180	\$34,507
8972	FM TRLR	NL	2,621	\$34,727
<b>TOTAL SANTA BARBARA</b>			<b>6,640</b>	<b>\$123,109</b>

Owner Code            NF            not owned, no cost to UC  
                              NL            UC lease/rental  
                              NX            not owned, charge other than lease/rental

**IRM No. 21--Attachment 9**

**Irvine Campus List of Leashold Improvements**

<b>CAAN</b>	<b>BLDG NAME</b>	<b>OWNER CODE</b>	<b>BLDG ASF</b>	<b>PA COST</b>
9032	HUM INT CLRM	NL	1,302	\$315,991
9033	HUM CLRM EXP	NL	2,604	\$294,603
9085	BIO SCI MOD	NL	8,139	\$1,565,009
9124	ENGR INSTFAC	NL	5,943	\$799,787
9127	ICS ETC TRLR	NL	2,453	\$59,459
9248	MAIL DISTRIB	NL	3,993	\$151,730
9711	MC BLDG 11	NL	2,181	\$6,986
9758	MC BLDG 58	NL	1,783	\$20,670
9763	MC BLDG 63	NL	58,562	\$702,860
9901	BOAT HOUSE	NF	2,436	\$15,700
9903	CENTERPOINTE	NL	13,241	\$43,886
<b>TOTAL IRVINE</b>			<b>102,637</b>	<b>\$3,976,681</b>

Owner Code           NF           not owned, no cost to UC  
                           NL           UC lease/rental  
                           NX           not owned, charge other than lease/rental