

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**

### **Issues Resolution Memo No. 3 Establishing the Balance of Accumulated Depreciation at June 30, 2000.**

#### **Description of the Issue**

Government Accounting Standards Board (GASB) Statement No. 35 will require the University to report depreciation in its annual consolidated financial statements for the fiscal year beginning July 1, 2001, with comparative information for the prior year. To implement this requirement, the University must establish the balance of accumulated depreciation for each building and equipment at June 30, 2000. The process described in this document will not affect the accumulated depreciation balances reported in the individual medical center financial statements.

#### **Background**

Accumulated depreciation is the accumulated balance of depreciation expense taken for each depreciable asset, from the original date of acquisition to the latest reporting date. Normally, depreciation is accumulated over time based on the depreciation expense calculated and reported annually in the institution's financial statements. However, since public universities were not required to report depreciation in their annual financial statements previous to GASB Statement No. 35, the University has not reported depreciation in its annual consolidated financial statements. To begin reporting depreciation in its consolidated financial statements with the fiscal year starting July 1, 2000, the University must establish the balance of accumulated depreciation at June 30, 2000 for all of its depreciable assets.

For items of equipment, establishing the June 30, 2000 balance of accumulated depreciation is relatively straightforward. The annual depreciation expense would be calculated for each item of equipment, for each year, from the original date of acquisition through June 30, 2000, and totaled to establish the accumulated depreciation balance at June 30, 2000 (not to exceed the original acquisition value). Depreciation expense for each asset will be calculated for whole years (12 months per year), regardless of the specific month of acquisition.

For equipment, we will assume that the acquisition balance at June 30, 2000 is equal to the original acquisition value. This assumption ignores the possibility that additions or

enhancements may be made to individual items over time. This assumption should have very little impact on the accuracy of the calculations since most items of equipment are not enhanced or added to over their lives.

For buildings, establishing the accumulated depreciation balance will be more difficult. Buildings have longer useful lives and are subject to additions, enhancements and renovations throughout their lives. The proper calculation of accumulated depreciation would require the account balance at June 30, 2000 for each building (including both original acquisition and renovations) to be stratified by the year of capitalization. Annual depreciation expense per building could then be calculated based on the account balance at the end of each year, back to the year of original acquisition and occupancy. The University has not collected such data in the past, so such a calculation would not be possible. The University may conduct surveys of selected buildings (“laboratory” buildings as suggested in IRM No. 1) to gather such data; however, it is not cost effective for surveys to be conducted for all buildings. An alternative approach must be developed to establish the balance of accumulated depreciation for each building at June 30, 2000.

### **Recommended Methodology -- Buildings**

We have linked the methodology and concepts in IRM No. 1 to this IRM so there is logic and consistency to the approach.

As described in IRM No. 1, campuses may survey some or all buildings to establish useful lives individually per building. These surveys would also determine the balance of accumulated depreciation at June 30, 2000 for each surveyed building by identifying the dates and values of additions and enhancements made to the building since its original acquisition. **The recommended method described below would be used to establishing the balance of accumulated depreciation at June 30, 2000 for non-surveyed buildings.**

### **Description of the Method**

For each non-surveyed building, the University would stratify the value of each building at June 30, 2000 into annual increments based on the analysis of the University’s consolidated annual financial statements for the past 32 years. (32 years is used for this example as a placeholder, pending completion of the analysis, consistent with the sample life discussed in IRM No. 1, Method 1. Campuses choosing Method 2, 3, 4, or 5 would use different number of years for non-surveyed “laboratory” buildings and “all other” buildings.) The stratified values would be used to calculate the depreciation for each year by increment, from the original year of acquisition and occupancy through June 30, 2000. The depreciation expense for each increment per building would be summed to establish the accumulated depreciation balance per building at June 30, 2000. This methodology effectively has the result of imposing the University’s consolidated annual capitalized increments to every individual building. **This means that building by building distinctions is not accurate but it is conceptually sound on a consolidated basis.** This will be accomplished through the following steps.

### **Step 1**

Examine the University's past annual consolidated financial statements to identify the UC-wide total value of buildings reported at the end of each year for the past 32 years in order to develop a stratification index as described in step 2 below. **Campuses may choose to provide campus specific data (campus-wide total value of buildings reported at the end of each year for the past 32 years) to UCOP in order to develop a campus specific stratification index. Campus specific data will be subject to audit by PwC.**

### **Step 2**

Divide the UC-wide total building value reported in the annual financial statements at the end of each year by the total building value reported at June 30, 2000 to create an index of growth of building acquisition and renovation values.

### **Step 3**

Apply the index percentage for each year to individual buildings, back to the original year of acquisition, to determine the estimated building value at the end of each fiscal year

### **Step 4**

Calculate the difference between the estimated building values at the end of one year to the next to identify the annual capitalized increments.

### **Step 5**

Calculate the annual depreciation expense for each annual increment back to the original date of acquisition, then total the depreciation expenses to establish the balance of accumulated depreciation at June 30, 2000.

### **Step 6**

In future years, each annual increment would be depreciated at a rate of  $1/32^{\text{nd}}$  of the annual increment until the increment is fully depreciated.

An example of the calculation described above is presented in Attachment 1 and 2.

#### **Advantages:**

- Relatively simple to implement.
- Based on financial statement data.
- Recognizes the fact that current acquisition values are the sum of enhancements and improvements made over time.
- Stratification is extended to individual buildings so that "laboratory" buildings could be treated with shorter lives, consistent with Methods 2, 3, 4, or 5 in IRM No. 1.
- Will not over-depreciate buildings through June 30, 2000.
- Stratification of the June 30, 2000 values into annual increments is consistent with the recommended treatment of future year increments as described in IRM No. 1.

#### **Disadvantages:**

- Assumes that all buildings have increased in value each and every year.
- Assumes that stratification is uniform for buildings at all campuses unless specific data can be provided on a campus by campus basis.
- Systems must be revised to track existing building values by their annual increments.

### **Test for Validity of the Method**

The balance of accumulated depreciation at June 30, 2000 calculated in aggregate for the University based on the annual increments would equal \$3,339,648,890. This can be calculated from the amounts shown in Attachment 2.

(Accumulated Depreciation for Building B at 6/30/00) times (\$9,700,000,000 divided by \$10,000,000)

The ratio of accumulated depreciation to total acquisition cost would equal 34.43%.

$\$3,339,648,890 \text{ divided by } \$9,700,000,000 = 34.43\%$

PwC is using this percentage as a point of reference to determine the validity of the recommended method. Since each building is being stratified only to the original year of acquisition, the recommended method will produce a smaller percentage. PwC has agreed to accept the recommended methodology conditioned on an adjustment to the stratification index that would produce an aggregate accumulated depreciation percentage equal to 34%. We have determined that the original index factors would need to be increased by 18% to meet the stipulated condition.

Attachments 3 and 4 shows the revised index factors and the resulting depreciation for the examples previously presented in Attachments 1 and 2. The final factors will be recalculated based on the June 30, 2000 balance of capitalized building values and the default useful life, which may vary from the 32 years used in the calculations presented in the attachments.

### **Relationship of the Recommended Method to Methods Presented in IRM No. 1**

IRM No. 1 presented campus options for setting the useful lives for buildings. The method for establishing the balance of accumulated depreciation at June 30, 2000 for each building as described above will be applied to each option presented in IRM No. 1 in the following manner:

**IRM No. 1, Method 1 – Establish a single useful life for all buildings (based on the Uniform Building Codes (UBC) assigned to each building and analysis of data provided in architectural valuation references).**

Under this method, no buildings would be surveyed. Thus the balance of accumulated depreciation at June 30, 2000 for all buildings would be based on the recommended methodology described above.

**IRM No. 1, Method 2 – Establish a single life per category of buildings (“laboratory” and “all other”, based on the Uniform Building Codes (UBC) assigned to each building and analysis of data provided in architectural valuation references)**

Under this method, no buildings would be surveyed. Thus the balance of accumulated depreciation at June 30, 2000 for all buildings would be based on the recommended methodology described above. However, since different lives will be established for each category of buildings (“laboratory” and “all other”) based on the analysis of UBC codes, the appropriate life should be applied when making the calculation in Step 5.

**IRM No. 1, Method 3 – Survey some “laboratory” buildings.**

Under this method, some “laboratory” buildings would be surveyed. The balance of accumulated depreciation at June 30, 2000 for surveyed buildings would be determined individually by the survey. The balance of accumulated depreciation at June 30, 2000 for the non-surveyed “laboratory” buildings and all “all other” buildings will be established based on the recommended methodology described above. However, since separate lives will be established for each category of buildings (“laboratory” and “all other”) based on the analysis of UBC codes, the appropriate life should be applied when making the calculation in Step 5.

**IRM No. 1, Method 4 – Survey all “laboratory” buildings.**

Under this method, all “laboratory” buildings would be surveyed. The balance of accumulated depreciation at June 30, 2000 for surveyed buildings will be determined individually by the survey. The balance of accumulated depreciation at June 30, 2000 for all “all other” buildings would be established based on the recommended methodology described above.

**IRM No. 1, Method 5 – Survey all “laboratory” buildings UC-wide and depreciate by individual building component.**

Under this method, all “laboratory” buildings would be surveyed. The balance of accumulated depreciation at June 30, 2000 for surveyed buildings will be determined individually by component through the survey. The balance of accumulated depreciation at June 30, 2000 for all “all other” buildings would be established based on the recommended methodology described above.

**Recommended Methodology – Equipment**

For each item of equipment, the annual depreciation expense would be calculated for each year, from the original date of acquisition through June 30, 2000, and totaled to establish the accumulated depreciation balance at June 30, 2000 (not to exceed the original acquisition value). Depreciation expense for each asset will be calculated for whole years (12 months per year), regardless of the specific month of acquisition.

Annual depreciation expense beginning with the fiscal year 2000-2001 will be calculated for all items on the inventory at December 31. The depreciation expense will be taken for the whole year (12 months) regardless of the specific month of acquisition.

### **Conclusion**

The method recommended above will allow the University to establish a reasonable, supportable balance of accumulated depreciation for buildings and equipment at June 30, 2000. Campuses may elect to refine the building calculations by providing campus specific financial statement data to establish a campus specific index for stratification and/or conduct surveys for additional buildings.

Other alternatives were considered but rejected. They are presented for your information in Attachment 5.

### **Next Step – Required Action**

1. PwC and UCOP will continue to discuss the viability and details of the presented methods.
2. Seek campus concurrence with the recommended approach at the April meetings.
3. Campuses need to determine their approach (Methods 1 – 5) by June 15, 2000.
4. UCOP to set schedule for implementation based on campus decisions.
5. Campuses choosing Methods 3 or 4 must begin surveys of “laboratory” buildings. Surveys must be completed by October 31, 2000.
6. UCOP to complete calculation of the June 30, 2000 accumulated depreciation balances by December 31, 2000.

Recommended Methodology Applied to Sample Building A  
Original Acquisition Date -- 1988  
Value at 6/30/00 if \$10 million

Establishing the Index				Applying the Index to a Sample Building				
Age	At June 30	From Annual Financial Statemetns -- Buildings and Structures	Index (FYE Balance) divided by (FYE 2000 Balance)	Value of Building A at FYE	Annual Increment	Age times 1/32nd	Accumulated Depreciation at 6/30/00 per Annual Increment	Depreciation Expense FYE 2001* (1/32nd times annual increment)
1	2000	9,700,000,000	100.00%	10,000,000	1,125,660	0.031	35,177	35,177
2	1999	8,608,110,000	88.74%	8,874,340	761,800	0.063	47,613	23,806
3	1998	7,869,164,000	81.13%	8,112,540	130,122	0.094	12,199	4,066
4	1997	7,742,946,000	79.82%	7,982,419	603,580	0.125	75,448	18,862
5	1996	7,157,473,000	73.79%	7,378,838	696,669	0.156	108,855	21,771
6	1995	6,481,704,000	66.82%	6,682,169	705,132	0.188	132,212	22,035
7	1994	5,797,726,000	59.77%	5,977,037	491,223	0.219	107,455	15,351
8	1993	5,321,240,000	54.86%	5,485,814	626,087	0.250	156,522	19,565
9	1992	4,713,936,000	48.60%	4,859,728	391,172	0.281	110,017	12,224
10	1991	4,334,499,000	44.69%	4,468,556	516,484	0.313	161,401	16,140
11	1990	3,833,510,000	39.52%	3,952,072	441,433	0.344	151,743	13,795
12	1989	3,405,320,000	35.11%	3,510,639	301,599	0.375	113,100	9,425
13	1988	3,112,769,000	32.09%	3,209,040	3,209,040	0.406	1,303,673	100,283
14	1987	2,787,548,000	28.74%					
15	1986	2,485,090,000	25.62%					
16	1985	2,306,809,000	23.78%					
17	1984	2,084,745,000	21.49%					
18	1983	1,927,934,000	19.88%					
19	1982	1,789,222,000	18.45%					
20	1981	1,576,070,000	16.25%					
21	1980	1,469,556,000	15.15%					
22	1979	1,406,477,000	14.50%					
23	1978	1,339,850,000	13.81%					
24	1977	1,274,272,000	13.14%					
25	1976	1,195,412,000	12.32%					
26	1975	1,150,806,000	11.86%					
27	1974	1,115,772,000	11.50%					
28	1973	1,079,099,000	11.12%					
29	1972	1,046,033,000	10.78%					
30	1971	992,950,000	10.24%					
31	1970	918,371,000	9.47%					
32	1969	844,355,000	8.70%					
Totals				10,000,000			2,515,412	312,500

\* Depreciation expense for the fiscal year ending June 30, 2001 would also include 1/32nd of the newly capitalized value during the year.

## Recommended Methodology Applied to Sample Building B

Original Acquisition Date -- 1965

Value at 6/30/00 if \$10 million

Establishing the Index				Applying the Index to a Sample Building				
Age	At June 30	From Annual Financial Statemetns -- Buildings and Structures	Index (FYE Balance) divided by (FYE 2000 Balance)	Value of Building B at FYE	Annual Increment	Age times 1/32nd	Accumulated Depreciation at 6/30/00 per Annual Increment	Depreciation Expense FYE 2001* (1/32nd times annual increment)
1	2000	9,700,000,000	100.00%	10,000,000	1,125,660	0.031	35,177	35,177
2	1999	8,608,110,000	88.74%	8,874,340	761,800	0.063	47,613	23,806
3	1998	7,869,164,000	81.13%	8,112,540	130,122	0.094	12,199	4,066
4	1997	7,742,946,000	79.82%	7,982,419	603,580	0.125	75,448	18,862
5	1996	7,157,473,000	73.79%	7,378,838	696,669	0.156	108,855	21,771
6	1995	6,481,704,000	66.82%	6,682,169	705,132	0.188	132,212	22,035
7	1994	5,797,726,000	59.77%	5,977,037	491,223	0.219	107,455	15,351
8	1993	5,321,240,000	54.86%	5,485,814	626,087	0.250	156,522	19,565
9	1992	4,713,936,000	48.60%	4,859,728	391,172	0.281	110,017	12,224
10	1991	4,334,499,000	44.69%	4,468,556	516,484	0.313	161,401	16,140
11	1990	3,833,510,000	39.52%	3,952,072	441,433	0.344	151,743	13,795
12	1989	3,405,320,000	35.11%	3,510,639	301,599	0.375	113,100	9,425
13	1988	3,112,769,000	32.09%	3,209,040	335,279	0.406	136,207	10,477
14	1987	2,787,548,000	28.74%	2,873,761	311,812	0.438	136,418	9,744
15	1986	2,485,090,000	25.62%	2,561,948	183,795	0.469	86,154	5,744
16	1985	2,306,809,000	23.78%	2,378,154	228,932	0.500	114,466	7,154
17	1984	2,084,745,000	21.49%	2,149,222	161,661	0.531	85,882	5,052
18	1983	1,927,934,000	19.88%	1,987,561	143,002	0.563	80,439	4,469
19	1982	1,789,222,000	18.45%	1,844,559	219,744	0.594	130,473	6,867
20	1981	1,576,070,000	16.25%	1,624,814	109,808	0.625	68,630	3,432
21	1980	1,469,556,000	15.15%	1,515,006	65,030	0.656	42,676	2,032
22	1979	1,406,477,000	14.50%	1,449,976	68,688	0.688	47,223	2,146
23	1978	1,339,850,000	13.81%	1,381,289	67,606	0.719	48,592	2,113
24	1977	1,274,272,000	13.14%	1,313,682	81,299	0.750	60,974	2,541
25	1976	1,195,412,000	12.32%	1,232,384	45,986	0.781	35,926	1,437
26	1975	1,150,806,000	11.86%	1,186,398	36,118	0.813	29,345	1,129
27	1974	1,115,772,000	11.50%	1,150,280	37,807	0.844	31,900	1,181
28	1973	1,079,099,000	11.12%	1,112,473	34,089	0.875	29,828	1,065
29	1972	1,046,033,000	10.78%	1,078,385	54,725	0.906	49,594	1,710
30	1971	992,950,000	10.24%	1,023,660	76,886	0.938	72,080	2,403
31	1970	918,371,000	9.47%	946,774	76,305	0.969	73,921	2,385
32	1969	844,355,000	8.70%	870,469	870,469	1.000	870,469	
Totals				10,000,000			3,442,937	285,298

\* Depreciation expense for the fiscal year ending June 30, 2001 would also include 1/32nd of the newly capitalized value during the year.



Recommended Methodology (Revised\*\*) Applied to Sample Building A  
Original Acquisition Date -- 1988  
Value at 6/30/00 if \$10 million

Establishing the Index				Applying the Index to a Sample Building				
Age	At June 30	From Annual Financial Statements -- Buildings and Structures	Revised** Index [(FYE Balance) divided by (FYE 2000)	Value of Building A at FYE	Annual Increment	Age times 1/32nd	Accumulated Depreciation at 6/30/00 per Annual Increment	Depreciation Expense FYE 2001* (1/32nd times annual)
1	2000	9,700,000,000	100.00%	10,000,000	0	0.031	0	0
2	1999	8,608,110,000	100.00%	10,000,000	427,203	0.063	26,700	13,350
3	1998	7,869,164,000	95.73%	9,572,797	153,544	0.094	14,395	4,798
4	1997	7,742,946,000	94.19%	9,419,254	712,225	0.125	89,028	22,257
5	1996	7,157,473,000	87.07%	8,707,029	822,070	0.156	128,448	25,690
6	1995	6,481,704,000	78.85%	7,884,960	832,056	0.188	156,010	26,002
7	1994	5,797,726,000	70.53%	7,052,904	579,643	0.219	126,797	18,114
8	1993	5,321,240,000	64.73%	6,473,261	738,782	0.250	184,696	23,087
9	1992	4,713,936,000	57.34%	5,734,479	461,583	0.281	129,820	14,424
10	1991	4,334,499,000	52.73%	5,272,896	609,451	0.313	190,453	19,045
11	1990	3,833,510,000	46.63%	4,663,445	520,891	0.344	179,056	16,278
12	1989	3,405,320,000	41.43%	4,142,554	355,887	0.375	133,458	11,121
13	1988	3,112,769,000	37.87%	3,786,667	3,786,667	0.406	1,538,334	118,333
14	1987	2,787,548,000	33.91%					
15	1986	2,485,090,000	30.23%					
16	1985	2,306,809,000	28.06%					
17	1984	2,084,745,000	25.36%					
18	1983	1,927,934,000	23.45%					
19	1982	1,789,222,000	21.77%					
20	1981	1,576,070,000	19.17%					
21	1980	1,469,556,000	17.88%					
22	1979	1,406,477,000	17.11%					
23	1978	1,339,850,000	16.30%					
24	1977	1,274,272,000	15.50%					
25	1976	1,195,412,000	14.54%					
26	1975	1,150,806,000	14.00%					
27	1974	1,115,772,000	13.57%					
28	1973	1,079,099,000	13.13%					
29	1972	1,046,033,000	12.72%					
30	1971	992,950,000	12.08%					
31	1970	918,371,000	11.17%					
32	1969	844,355,000	10.27%					
Totals				10,000,000			2,897,195	312,500

\* Depreciation expense for the fiscal year ending June 30, 2001 would also include 1/32nd of the newly capitalized value during the year

\*\* The index factors were increased by 18% so that the total aggregate accumulated depreciation percentage would equal 34%.

## Recommended Methodology (Revised\*\*) Applied to Sample Building B

Original Acquisition Date -- 1965

Value at 6/30/00 if \$10 million

Establishing the Index				Applying the Index to a Sample Building				
Age	At June 30	From Annual Financial Statements -- Buildings and Structures	Revised** Index [(FYE Balance) divided by (FYE 2000)]	Value of Building B at FYE	Annual Increment	Age times 1/32nd	Accumulated Depreciation at 6/30/00 per Annual Increment	Depreciation Expense FYE 2001* (1/32nd times annual)
1	2000	9,700,000,000	100.00%	10,000,000	0	0.031	0	0
2	1999	8,608,110,000	100.00%	10,000,000	427,203	0.063	26,700	13,350
3	1998	7,869,164,000	95.73%	9,572,797	153,544	0.094	14,395	4,798
4	1997	7,742,946,000	94.19%	9,419,254	712,225	0.125	89,028	22,257
5	1996	7,157,473,000	87.07%	8,707,029	822,070	0.156	128,448	25,690
6	1995	6,481,704,000	78.85%	7,884,960	832,056	0.188	156,010	26,002
7	1994	5,797,726,000	70.53%	7,052,904	579,643	0.219	126,797	18,114
8	1993	5,321,240,000	64.73%	6,473,261	738,782	0.250	184,696	23,087
9	1992	4,713,936,000	57.34%	5,734,479	461,583	0.281	129,820	14,424
10	1991	4,334,499,000	52.73%	5,272,896	609,451	0.313	190,453	19,045
11	1990	3,833,510,000	46.63%	4,663,445	520,891	0.344	179,056	16,278
12	1989	3,405,320,000	41.43%	4,142,554	355,887	0.375	133,458	11,121
13	1988	3,112,769,000	37.87%	3,786,667	395,630	0.406	160,725	12,363
14	1987	2,787,548,000	33.91%	3,391,038	367,939	0.438	160,973	11,498
15	1986	2,485,090,000	30.23%	3,023,099	216,878	0.469	101,662	6,777
16	1985	2,306,809,000	28.06%	2,806,221	270,140	0.500	135,070	8,442
17	1984	2,084,745,000	25.36%	2,536,082	190,760	0.531	101,341	5,961
18	1983	1,927,934,000	23.45%	2,345,322	168,742	0.563	94,918	5,273
19	1982	1,789,222,000	21.77%	2,176,579	259,298	0.594	153,958	8,103
20	1981	1,576,070,000	19.17%	1,917,281	129,574	0.625	80,984	4,049
21	1980	1,469,556,000	17.88%	1,787,707	76,735	0.656	50,358	2,398
22	1979	1,406,477,000	17.11%	1,710,972	81,051	0.688	55,723	2,533
23	1978	1,339,850,000	16.30%	1,629,921	79,775	0.719	57,338	2,493
24	1977	1,274,272,000	15.50%	1,550,145	95,933	0.750	71,950	2,998
25	1976	1,195,412,000	14.54%	1,454,213	54,263	0.781	42,393	1,696
26	1975	1,150,806,000	14.00%	1,399,950	42,619	0.813	34,628	1,332
27	1974	1,115,772,000	13.57%	1,357,331	44,613	0.844	37,642	1,394
28	1973	1,079,099,000	13.13%	1,312,718	40,225	0.875	35,197	1,257
29	1972	1,046,033,000	12.72%	1,272,494	64,575	0.906	58,521	2,018
30	1971	992,950,000	12.08%	1,207,919	90,725	0.938	85,055	2,835
31	1970	918,371,000	11.17%	1,117,194	90,040	0.969	87,226	2,814
32	1969	844,355,000	10.27%	1,027,154	1,027,154	1.000	1,027,154	
Totals				10,000,000			3,991,674	280,401

\* Depreciation expense for the fiscal year ending June 30, 2001 would also include 1/32nd of the newly capitalized value during the year

\*\* The index factors were increased by 18% so that the total aggregate accumulated depreciation percentage would equal 34%.

### **Other Methods Considered and Rejected**

The following methods were considered and rejected.

#### **Method 1**

**Analyze the University's annual financial statements to determine the average percentage of accumulated depreciation for all non-surveyed buildings. Apply the average percentage of accumulated depreciation to each building at June 30, 2000 to establish the balance of accumulated depreciation for each building.**

- Examine the University's annual consolidated financial statements for the past 32 years to identify the UC-wide total value of buildings reported at the end of each year for the past 32 years.
- Establish the UC-wide value of annual incremental additions by taking the difference in the annual balances from one year to the next.
- For each UC-wide annual increment, apply an accumulated depreciation factor (a factor of  $1/32^{\text{nd}}$ ) to determine the accumulated depreciation balance at June 30, 2000 for that increment. For example:
  - The 1999-00 increment will have accumulated depreciation of  $1/32^{\text{nd}}$  of the increment.
  - The 1998-99 increment will have accumulated depreciation of  $2/32^{\text{nd}}$  of the increment.
  - .....
  - The 1969-70 increment will have accumulated depreciation of  $31/32^{\text{nd}}$  of the increment.
  - The total balance at June 30, 1969 will have fully depreciated by June 30, 2000.
- Sum the accumulated depreciation calculated for each UC-wide increment
- Divide the sum of the accumulated depreciation by the UC-wide total building value at June 30, 2000 to establish the average accumulated depreciation percentage.
- Apply the average accumulated depreciation percentage to the value of each building at June 30, 2000 to establish the balance of accumulated depreciation for each building at June 30, 2000.
- Depreciation expense for future years would equal  $1/32^{\text{nd}}$  of the building value at June 30, 2000, until fully depreciated.
- Future additions and renovations would be recorded by their annual increment and depreciated separately according to IRM No. 1.

Advantages:

- Simple to implement (assuming annual total value of buildings can be identified).

Disadvantages:

- Assumes that all buildings have been depreciated to the same level.
- Newer buildings will be over-depreciated.
- Older buildings will be under-depreciated.
- A material fall-off of depreciation expense will occur in about 21 years when all of the current building values would become fully depreciated.

## Method 2

**When available, use the “Year of Latest Improvement” in place of the original acquisition and occupancy date. Calculate the depreciation expense for each building for each year from the year of latest improvement (or year of original acquisition if year of latest improvement is not available or applicable) through June 30, 2000 based on the June 30, 2000 building values. Sum the annual depreciation per building to establish the balance of accumulated depreciation at June 30, 2000.**

Advantages:

- Simple to implement.

Disadvantages:

- Assumes that the building value at June 30, 2000 was the acquisition cost at the year of last renovation or at original acquisition date.
- Buildings with recent renovations will be under-depreciated.
- Buildings with no recent renovations will be over-depreciated.