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. 4
(re-issued October 25, 2001)

Procedures for Recording Gains and Losses on Disposal of Assets

Define Issues

The University must establish a process to record and report gains and losses on disposal of capital assets consistently throughout the institution.

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. This means that we must begin to capture all gains and losses on disposal of assets with the fiscal year beginning July 1, 2000. Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

Historically, the University has not reported depreciation in its annual consolidated financial statements. Net book value for individual assets has not been established. Receipts from the sale of University property are currently recorded as income or as a credit to expense for the fund that was used to acquire the asset. To meet the requirements of OMB Circular A-21, proceeds from disposals are processed as applicable credits to the appropriate cost pools in developing campus facilities and administrative cost rate proposals.

Under the requirements of GASB Statements No. 34 and 35, the University must establish the net book value of individual assets and must recognize gains or losses upon the disposal of its assets.

Authoritative Guidance

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 gains and losses in the development of F&A proposals.

J.33. *Profits and losses on disposition of plant equipment or other capital assets*.

a.(1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis [net book value] of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under Section J.12.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in Section J.21.d.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection a shall be excluded in computing Federal award costs.

c. When assets acquired with Federal funds, in part or wholly, are disposed of, the distribution of the proceeds shall be made in accordance with Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

Recommended Approach

The University will apply the following approach to record the disposal of assets:

- Generally, assets will be considered to be disposed when an asset is permanently removed from service.

- Throughout the year, campuses will continue to record proceeds from the disposal of assets in Current Funds. However, all proceeds must be recorded as revenue, not as a credit to expense.
- Throughout the year, campuses will write-off the original cost value of disposed assets in Investment in Plant.
- At year-end, for each fiscal year (beginning July 1, 2001), UCOP will provide the total accumulated depreciation (in aggregate by asset type) associated with the disposed assets for campuses to write-off.
- Total annual gains/losses on disposal to be reported in the financial statements will be calculated as the difference between the total proceeds realized from disposals (recorded in Current Funds) and net book value of the assets disposed during the year (recorded in Investment in Plant).
- Beginning FY 2001-2002, the University will report the gains or loss on the Statement of Revenues, Expenses and Changes in Net Assets through the appropriate assignment of account group codes to proceeds and transaction codes to disposals. Comparative data will be provided for FY 2000-2001.

Implementation Procedures

New Account Group Codes and Transaction Codes

- Campuses will open new accounts that map to the following account group codes in Current Funds in order to record the proceeds from the sale of capitalized assets. Campuses may begin using the account group codes for the May 2001 CFS submission.
  - Account Group Code 208310—Proceeds from Sale of Capitalized Assets–Campus
  - Account Group Code 208320—Proceeds from Sale of Capitalized Assets–Medical Center

  These accounts should be used to record all proceeds from the sale of capital assets, i.e., campuses should not record proceeds as a credit to expense.
- Campuses will establish the following new transaction codes in Investment in Plant to record the disposal of capitalized assets. Campuses will begin using the transaction codes July 1, 2001.

Asset Type	Transaction Codes to Record Disposal of Asset	Transaction Codes to Record Write-Off of Accumulated Depreciation
Real Estate–Campus	2420	n/a
Real Estate–Medical Center	2520	n/a
Buildings & Structures–Campus	2421	2440
Buildings & Structures–Medical Center	2521	2540

Asset Type	Transaction Codes to Record Disposal of Asset	Transaction Codes to Record Write-Off of Accumulated Depreciation
Fixed Equipment–Campus	2422	2440
Fixed Equipment–Medical Center	2522	2540
General Improvements–Campus	2423	2441
General Improvements–Medical Center	2523	2541
Software > $10 Million–Campus	2424	2442
Software > $10 Million–Medical Center	2524	2542
Software < $10 Million–Campus	2425	2443
Software < $10 Million–Medical Center	2525	2543
Equipment–Medical Center	2526	2544
Equipment–Campus	2426	2444
Intangible Assets–Campus	2427	2445
Intangible Assets–Medical Center	2527	2545
Infrastructure Assets–Campus	2428	2446
Infrastructure Assets–Medical Center	2528	2546
Special Collections–Excl Lib–Campus	2429	n/a
Special Collections–Excl Lib–Medical Center	2529	n/a

- UCOP will use these account group codes and transaction codes to determine the amount to be reported as *Disposal of Capital Assets, Net of Proceeds* on the Statement of Revenue, Expenses and Changes in Net Assets.

Coordination with UCOP

- UCOP will calculate the total accumulated depreciation to be written-off (by asset type) using data provided by the campuses. The campuses are responsible for the integrity of the data provided to UCOP. UCOP will be responsible for processing the information to determine the accumulated depreciation to be written-off.
- The disposal of some buildings may require special treatment and disclosure on the financial statements or MD&A (depending on materiality). Campus Controllers should review the accounting treatment of disposed buildings and notify the Vice President for Financial Management whenever a decision is made to sell, demolish or dispose of a building to discuss the specific treatment for these circumstances if the original cost of the building exceeds $25 million. This is particularly important for buildings that are disposed between January 1 and June 30.

Journal Entries

- Campuses will use the new account group codes and transaction codes established for the disposal and write-off of capitalized assets and related accumulated depreciation.
- Campuses will continue to make the following entries throughout the year to write-off the original cost of disposed items. Campuses must make these journal entries throughout the year that will, in effect, adjust campus records to delete the acquisition cost of disposed items from its ledger and inventory.

  In Current Funds, Record the Amount of Proceeds

  Debit Cash

  Credit Proceeds from Sale of Capital Assets (account should map to account group codes 208310 or 208320, as appropriate)

  Note: The entry should reflect the cash received.

  In Investment in Plant, Reduce (Write-Off) the Original Cost

  Debit Fund Balance (using appropriate transaction codes provided in the table above)

  Credit Asset (by asset type, e.g., Buildings and Structures, Equipment, etc.)

  Note: This entry should reflect the cost basis of the disposed asset.

- Accumulated depreciation on disposals will be calculated by UCOP once a year for each campus (in aggregate, by asset type).
  - On a campus-by-campus basis, UCOP will compare prior fiscal year to current fiscal year assets (as of December 31) to determine those assets that were disposed of or otherwise deleted from the system. This comparison will be based on the EFA and AST files submitted to UCOP.
  - On a campus-by-campus basis, UCOP will determine the original cost, including any additions and/or modifications, and the related accumulated depreciation for <u>all</u> disposed (deleted) assets.
  - UCOP will provide campuses with the total accumulated depreciation, by asset type, for disposed assets. Campuses will make the following journal entries at the end of the fiscal year to reverse accumulated depreciation on disposed assets:

    In Investment in Plant, Reduce the Total Campus Balance of Accumulated Depreciation

    Debit Accumulated Depreciation (account should map to appropriate account group code)

    Credit Fund Balance (using appropriate transaction codes provided in the table above)

Exhibits 1 and 2 illustrate the relationship and timing among the data elements used to determine gains and losses. Exhibit 3 provides a T-account summary of the recommended approach.

Next Steps—Required Actions

- By May 31, 2001, each campus must establish accounts that map to the following account group codes in Current Funds to record the proceeds from the disposal of assets. Campuses may begin using the account group codes for the May 2001 CFS submission.
  - Account Group Code 208310—Proceeds from Sale of Capitalized Assets–Campus
  - Account Group Code 208320—Proceeds from Sale of Capitalized Assets–Medical Center
- By May 31, 2001, campuses must establish the new transaction codes (provided in the table above) in Investment in Plant to record the disposal of assets and associated accumulated depreciation. Campuses will begin using the transaction codes July 1, 2001.
- In order to prepare comparative statements for the FY 2001-2002 Annual Report:
  - UCOP will provide campuses the total accumulated depreciation, by asset type, associated with the disposal of assets for FY 2000-2001.
  - Campuses will record the FY 2000-2001 entries to reduce accumulated depreciation related to the disposal of assets in the general ledger as of July 1, 2001 to provide information for the restatement:

    Debit Accumulated Depreciation (account should map to account group code 121480 or 121490, as appropriate)

    Credit Fund Balance (using transaction code 6300—Prior Year Hand Posted Journal Entry)

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Exhibit 1—Illustration of Data Elements Used to Determine Gains and Losses Beginning FY 2001-2002

December 31, 2000 — December 31, 2001

A

Accumulated Depreciation of Disposed Assets Identified Based on a Comparison of 12/31/01 and 12/31/00 EFA100 and CFSAST files
(OP)

July 1, 2001 — June 30, 2002

B

Write-Off Disposed Assets Throughout the Year
(Campus)

July 1, 2001 — June 30, 2002

C

Proceeds from Sale Recorded Throughout the Year
(Campus)

July 1, 2001 — June 30, 2002

D

Gains/Losses Derived: C - B + A
(OP)

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Exhibit 2—Illustration of Data Elements Used to Determine Gains and Losses for FY 2000-2001

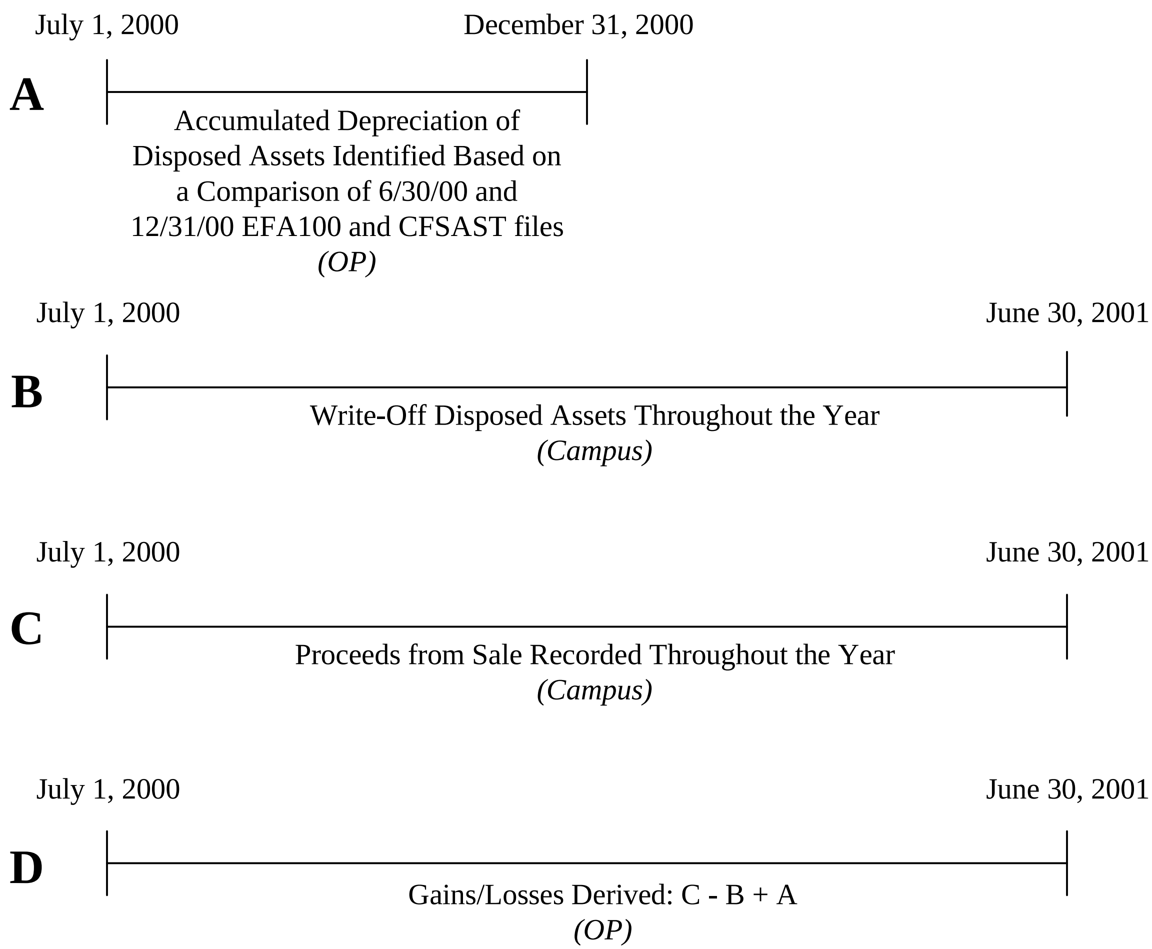

Exhibit 3: T-Account Summary of the Recommended Procedures

(1) Campus records new building value $1 million.

(2) Campus records depreciation expense $100,000--$1 million building with a ten-year useful life (transaction code 2400).

(3) Campus disposes of building:

(a) Campus records proceeds of $700,000 (account group code 208310).

(b) Campus writes-off original cost of $1 million (transaction code 2421).

(c) Campus writes-off accumulated depreciation (provided by UCOP) of $100,000 associated with the building (transaction code 2440).

Plant Funds

Building	
(1) $1,000,000	

Fund Balance	
	$1,000,000 (1)

Accumulated Depreciation	
	$100,000 (2)

Fund Balance	
(2) $100,000	

Building	
	$1,000,000 (3b)

Fund Balance	
(3b) $1,000,000	

Accumulated Depreciation	
(3c) $100,000	

Fund Balance	
	$100,000 (3c)

Current Funds

Cash	
(3a) $700,000	

Proceeds (Nonoperating Revenue)	
	$700,000 (3a)

Calculating Gain or Loss

Proceeds (Account Group Code 208310)	$700,000
Original Cost (Trans Code 2421)	($1,000,000)
Accumulated Depreciation (Trans Code 2440)	$100,000
Gain/(Loss)	($200,000)

The $200,000 loss will be reported on the Statement of Revenues, Expenses and Changes in Net Assets, under "Nonoperating Revenues," line item *Disposal of Capital Assets, Net of Proceeds.*

The proceeds of $700,000 will be reported on the Statement of Cash Flows, under "Cash Flows from Capital and Related Financing Activities," line item *Proceeds from the Sale of Capital Assets.*