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 No. 5

Half-Year Conventions

Define Issues

The University must adopt a methodology that will allow for the depreciation calculation to be made outside of the year-end fiscal closing process in order to provide sufficient time for accumulating, reviewing, and processing the calculations.

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 and are subject to audit under GAAS.

The GASB requirement to account for depreciation will impact campuses in the following way:

- Quality of asset data must be optimized for the University to report depreciation accurately in the consolidated financial statements.
- Campuses will be required to submit reconciliation schedules to OP with the asset data files.
- Reconciling adjustments must be included in the data files or the general ledger prior to submission to OP.
- Campus controllers and medical center CFO’s must review and approve reconciliation schedules prior to submission to OP.
- Campuses electing to survey buildings (Methods 3, 4, or 5 in IRM No. 1) must submit the results of their survey establishing the useful lives to OP by April 30th.
- Campuses electing to survey buildings must submit the results of their surveys of each year’s increment establishing the useful lives to OP by April 30th.

- Campuses must prepare journal entries in June to record the depreciation and accumulated depreciation expense based on calculations by OP.

Given these additional requirements, it will be necessary to adopt a depreciation convention that will not delay the publication of the University's financial statements. December 31st was chosen as the deadline based on the University's assessment of the magnitude of the tasks that must be accomplished by June 30th each year.

Under the half year convention, the University will calculate a full year's depreciation expense on calendar year basis (January 1 through December 31) and record it on a fiscal year basis (July 1 through June 30). This convention will provide a reasonable approximation of a full fiscal year's depreciation expense.

Recommended Approach

The University will record a full year's depreciation for assets that have been capitalized as of December 31st.

The following procedures beginning December 31, 2000, are proposed to accommodate the time needed to gather the necessary data and to process the calculation and accounting entries.

Procedures for December 31st Closing—Buildings, General Improvements and Equipment

- Campuses will perform a full accounting close and capitalize buildings, general improvements, and equipment at December 31st (refer to IRM No. 8—*Approach to Infrastructure Assets (General Improvements)* for discussion of General Improvements).
- There will be insufficient time to perform the required tasks to capitalize and record activity through December 31st in the December ledger. Therefore, activity through December 31st will be capitalized and recorded in the January ledger. January activity must not be capitalized in the January ledger.
- Buildings, general improvements, and equipment may be capitalized between February 1 and June 30, but will not be included in the depreciation calculation.
- Asset data files (CFS AST and EFA100) and reconciliation schedules approved by the campus Controller must be submitted to OP by February 28th (refer to IRM No. 2—*Data Quality and Reconciliations Issues* for submission requirements).
- OP will review the reconciliations and edit the data files to ensure data integrity. If necessary, OP will work with campuses to review the data.
- OP will consult with campuses to determine the appropriate treatment of unusual asset transactions (e.g., demolition or disposal of buildings).

- OP will compare current year to prior year asset files to establish disposals.
- Campuses that have elected Methods 3, 4, or 5 (IRM No. 1) must conduct building surveys to determine useful lives for new buildings and newly capitalized increments of existing buildings. Useful lives data must be submitted to OP by April 30th.
- OP will calculate annual depreciation expense, accumulated depreciation, and gains and losses. OP will provide journal entries, detailed reports, and files to campuses by June 15th.
- Campuses will record the journal entries by June 30th.

Procedures at June 30th

- Campuses will record the journal entries (depreciation, accumulated depreciation, gains and losses) provided by OP by June 30th.
- At June 30th, campuses will identify buildings that have been occupied between January 1st and June 30th and completed general improvements and reclassify their values from CIP to Buildings & Structures and General Improvements for financial reporting purposes. Reconciliation schedules must be developed to support the reclassification.
- Campuses should reverse the reclassification on July 1st.
- Campuses will capitalize equipment at June 30th (items acquired since the December 31st close). They will not be required to submit the data files (EFA100) or reconciliation schedules to OP.

Appendix 1 summarizes the schedule of events outlined above. The time intervals appear to be reasonable for the required tasks. Campus input on the schedule is encouraged.

Advantages

- Data will be provided to OP for processing with sufficient time to address issues/problems without impacting the publication of University financial statements.
- Buildings & Improvements will only have to be capitalized once each year. This should alleviate campuses concerns regarding additional administrative burden.

Disadvantages

- Equipment will have to be capitalized twice each year. However, the data files (EFA100) and reconciliations related to the June 30th capitalization will not have to be submitted to OP.

- Depreciation for a full year will be calculated on information at December 31st and will not include the result of transactions in the last six months of the fiscal year (refer to Appendix 1 in IRM No. 4—*Procedures for Recording Gains and Losses on Disposal of Assets* for an illustration). However, this convention should not affect the overall accuracy of the calculation or the amounts to be reported.

Indirect Cost Rate Proposals

Campuses that occupy (and capitalize) buildings after December 31st in a rate proposal data year, should include the cost of such buildings in the rate proposal. Those buildings should be clearly identified as new buildings capitalized in the last six months of the fiscal year, not depreciated in the consolidated financial statements.

Next Steps—Required Actions

- Campuses must review local procedures and systems to accommodate the December 31st closing.
- OP, in consultation with the campuses, must update the Accounting Manual to reflect these procedures, including a clear definition of when capital projects should be capitalized (e.g., 90 percent complete, certificate of occupancy issued, etc.) and how to make the year-end entry to reclassify amounts from CIP to Buildings and Improvements.
- OP must develop file specifications for the December file to be submitted by the campuses.
- OP must determine procedures to populate useful lives in data files (by OP or by campuses).
- OP must determine procedures to return the detailed depreciation expense data back to the campuses.

Issues Resolution Memo No. 5

Half Year Convention

Appendix 1—Timeline Using Half Year Convention (December 31st)

12/31/00

Campuses capitalize buildings and equipment

2/28/01

Campuses send December files to UCOP with reconciliation to GL

Campus close and reconcile:

1) Campus files to GL
2) Medical center GL to campus GL

3/1/01

4/30/01

Finalize useful lives to be used for new additions for the year and submit to UCOP

Campuses complete surveys to determine useful lives:

1) For new buildings
2) For increments to existing buildings

UCOP will:

1) Review reconciliations
2) Edit data files for data integrity
3) Work with campuses to review data, as necessary
4) Compare previous year asset files to establish disposals
5) Work with campuses to determine the appropriate treatment of unusual transactions

5/1/01

6/15/01

UCOP provide journal entries, detailed reports, and files to campuses

Campuses record in GL 6/30/01

UCOP process:

1) Calculate depreciation expense
2) Calculate accumulated depreciation
3) Calculate gains and losses

6/30/01

Final Ledger

Campus financial reporting

1) At 6/30/01 transfer all Plant expenditures to CIP
2) Reclassify buildings occupied between 1/1/01 to 6/30/01 from CIP to Buildings & Improvements for financial reporting purposes. Reverse on 7/1/01
3) Capitalize equipment

05/08/00