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**University of California
GASB 35 Depreciation Reporting**

**Addendum A to
Issues Resolution Memo No. 5**

(Re-issued January 23, 2003)

Half-Year Conventions

This addendum modifies the approach previously discussed in Issues Resolution Memo (IRM) No. 5.

Recommended Approach for All Physical Plant Assets

- The University has elected to apply the half-year convention to specific asset types. The following table summarizes the timing for required capitalization by asset type.

Asset Type	Required to Capitalize As Of:		Calculate Annual Depreciation Expense Based on Capitalization Value As Of:
	December 31	June 30	
Buildings & Structures (including Fixed Equipment and Leasehold Improvements)	Yes	No ¹	December 31
Infrastructure Assets	Yes	No ¹	December 31
General Improvements	Yes	No ¹	December 31
Intangible Assets	Yes	No ¹	December 31
Equipment	Yes	Yes	December 31
Software > \$10 Million	No	Yes	June 30 of the prior FY
Software < \$10 Million	No	Yes	June 30 of the prior FY
Library Collections—General	No ²	Yes	June 30 of the prior FY
Library Collections—Rare	No ²	Yes	N/A
Special Collections	Yes ³	Yes ³	N/A

Notes:

- 1 Campuses should make summary reclassification from CIP for material items in a reversing journal.

- 2 If the June 30 capitalization was based on estimates, campuses must update the June 30 capitalization at December 31. However, updates to actual values will be used in the subsequent depreciation cycle.
- 3 Special Collections are included on campus inventory systems under Equipment Classification Code H50xx and, therefore, must be capitalized in accordance with the requirements for capital equipment.

Procedures for December 31

- Campuses will capitalize the following assets at December 31:
 - Buildings & Structures
 - Fixed Equipment
 - Infrastructure Assets
 - General Improvements
 - Intangible Assets
 - Equipment
 - Library Materials and Collections (update for actual values if estimates were used at June 30 capitalization)
 - Rare Library Materials and Collections (update for actual values if estimates were used at June 30 capitalization)
 - Special Collections (excluding Library Materials and Collections)
- The December 31 balances must be reflected in the campus General Ledger as of December 31 or January 31 depending on campus capitalization schedules. The December 31 balances must be reflected in the General Ledger no later than the January ledger.
- Asset data files and reconciliation schedules reflecting the capitalized balances as of December 31 and approved by the campus Controller must be submitted to UCOP by the eighth working day in February (refer to IRM No. 2).
- UCOP will review the reconciliations and edit the data files to ensure data integrity.
- UCOP will compare current year to prior year asset files to establish disposals for equipment (refer to IRM No. 4).
- Campuses that have elected Methods 3 or 4 (IRM No. 1) must conduct building surveys, as necessary, to determine useful lives of new buildings and newly capitalized increments of existing buildings. Useful life data must be submitted to UCOP by the eighth working day of February.
- UCOP will calculate annual depreciation expense and accumulated depreciation. UCOP will provide journal entries and files to campuses to record the depreciation expense, accumulated depreciation and accumulated depreciation of disposed items by June 15.

Procedures for June 30 Closing—Buildings & Structures, Fixed Equipment, Infrastructure Assets, General Improvements, Intangible Assets

- Campuses will record the journal entries (depreciation, accumulated depreciation, accumulated depreciation of disposed items) provided by UCOP by June 30.
- Campuses will record Construction in Progress (CIP).
- Campuses may elect to formally capitalize CAAN-based assets as of June 30.
- If campuses do not elect to formally capitalize CAAN-based assets as of June 30, campuses will make reversing journal entries to recognize significant capital items that have been obtained or have come on-line since the previous December that have not been formally capitalized. Reconciliation schedules must be developed and maintained by the campuses to support the reclassification.
 - *Buildings & Structures and Fixed Equipment*—Identify materially significant buildings that become occupied between January 1 and June 30, but not formally capitalized, and reclassify their values from CIP to Buildings & Structures and Fixed Equipment.
 - Debit* Buildings & Structures (maps to account group code 120210 or 120220)
 - Debit* Fixed Equipment (maps to account group code 120230 or 120240)
 - Credit* CIP (maps to account group code 120610 or 120620)
 - *Infrastructure Assets and General Improvements*—Identify materially significant infrastructure assets and general improvements that have been completed, but not formally capitalized, and reclassify their values from CIP to Infrastructure Assets and General Improvements.
 - Debit* Infrastructure Assets (maps to account group code 120810 or 120820)
 - Debit* General Improvements (maps to account group code 120310 or 120320)
 - Credit* CIP (maps to account group code 120610 or 120620)
 - Campuses will reverse the entries in the July ledger and formally capitalize these items in the following December 31 process.

Procedures for June 30 Closing—Equipment and Special Collections

- Campuses will record the journal entries (depreciation, accumulated depreciation, accumulated depreciation of disposed items) provided by UCOP by June 30.
- At June 30, campuses will formally capitalize all equipment and special collection acquisitions.
- Campuses will not reverse the entries in the July ledger.

Procedures for June 30 Closing—Software

- Effective July 1, 2001, the University will capitalize and depreciate software costs (refer to IRM No. 11).
- Campuses will record the journal entries (depreciation, accumulated depreciation, and write-off of accumulated depreciation of fully depreciated software) provided by UCOP by June 30. In addition, UCOP will provide the entries to write-off the software that has been fully depreciated.
- The half-year convention does not apply to Software. The University will use the previous June 30 balance to calculate depreciation expense to report in the financial statements of the following June.
- At June 30, campuses will capitalize software costs (refer to IRM No. 11).
- Campuses will not reverse the entries in the July ledger.

Procedures for Library Materials and Collections

- Campuses will capitalize library books and materials at June 30. If the June 30 capitalization is based on estimates, campuses must update the June 30 capitalization at December 31 (refer to IRM 6, Addendum C).
- This approach does not incorporate the half-year convention. For Library Materials and Collections, the University financial statements will report depreciation calculated from prior year expenditures (see Appendix 1 in IRM No. 6 for an illustration).
- The University will calculate library depreciation expense using the June 30 values. Updates for actual expenditures at December 31 will be used in the subsequent depreciation calculation.

Exhibit 1 provides an illustration of the half-year convention.

Issues Resolution Memo No. 5, Addendum A

Half Year Convention

Exhibit 1—Illustration of the Half Year Convention

