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. 6

Approach to Library Collections

Define Issues

The University must establish a process to value and capitalize the cost of library materials consistently throughout the institution (campuses and medical centers). As a point of reference, the University has over 30 million volumes currently in inventory.

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.

GASB Statement No. 35

GASB Statement No. 35 provides an illustration of capital asset activity (Appendix D—Illustrations). In that illustration, library materials are capitalized and depreciated.

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 library costs in the development of F&A proposals.

> F.8.a. The expenses under this heading are those that have been incurred for the operation of the library, including the cost of books and library materials purchased for the library, less any items of library income that qualify as applicable credits under Section C.5. The library expense category should also include the fringe benefits applicable to the salaries and wages included therein, an appropriate share of general administration and general

expense, operation and maintenance expense, and depreciation and use allowances. Costs incurred in the purchases of rare books (museum-type books) with no value to sponsored agreements should not be allocated to them.

UC Policy and Current UC Practice

The UC Accounting Manual, Libraries and Collections: Capitalization (L-316-11) outlines the accounting policy for the valuation and capitalization of library materials. Guidelines are established for the following:

- Library Materials and Acquisitions and Processing Expenditures—The total value for all purchased library materials is the sum of library materials acquisition expenditures plus acquisition and processing expenditures for academic and staff employees, general assistance, employee benefits, and supplies, expense, and equipment.

  Campus libraries provide local accounting offices with actual or estimated expenditures for library materials plus acquisition costs for the fiscal year. If libraries estimate expenditures at year-end, they must provide the accounting office with the actual expenditures for the prior fiscal year by December of the current fiscal year. The accounting office will adjust the prior year capitalization amount by the difference between the estimate and actual expenditures.
- Gifts and Exchanges—The value for gifts and exchanges of library materials will be recorded at fair market value per campus procedures for valuing gifts.
- Withdrawals—Each campus library must determine the value of its withdrawn materials using the best available method:
  - The original capitalized amount, or
  - An estimate based on the following:
    - A reasonable value;
    - The unit values used for insurance of library materials using the actual acquisition date; or
    - The unit values used for insurance of library materials using the average acquisition date.

Each campus records net additions to libraries at the end of each fiscal year:

Debit—101888-XXXXX   Libraries and Collections
    Credit—101999-01990   Investment in Plant

Recommended Approach

Capitalize and Depreciate Library Collections

- Campus library collections will continue to be capitalized at June 30.
- If the June 30 capitalization was based on estimates, campuses must update the June 30 capitalization on December 31.
- The University will use a 15 year useful life as a placeholder for calculating library depreciation expense. The 15-year useful life may be replaced based on our analysis of developing industry standards.
- The University will calculate annual deprecation expense and the accumulated depreciation balance based on the December 31 capitalization.
- The 6/30/00 accumulated depreciation balance will be estimated using the methodology outlined in IRM No. 3—*Establishing the Balance of Accumulated Depreciation as of June 30, 2000*.
- Departmental library materials will not be capitalized, but will continue to be expensed.

Appendix 1 illustrates the relationship and timing among the data elements used to calculate library depreciation expense and accumulated depreciation.

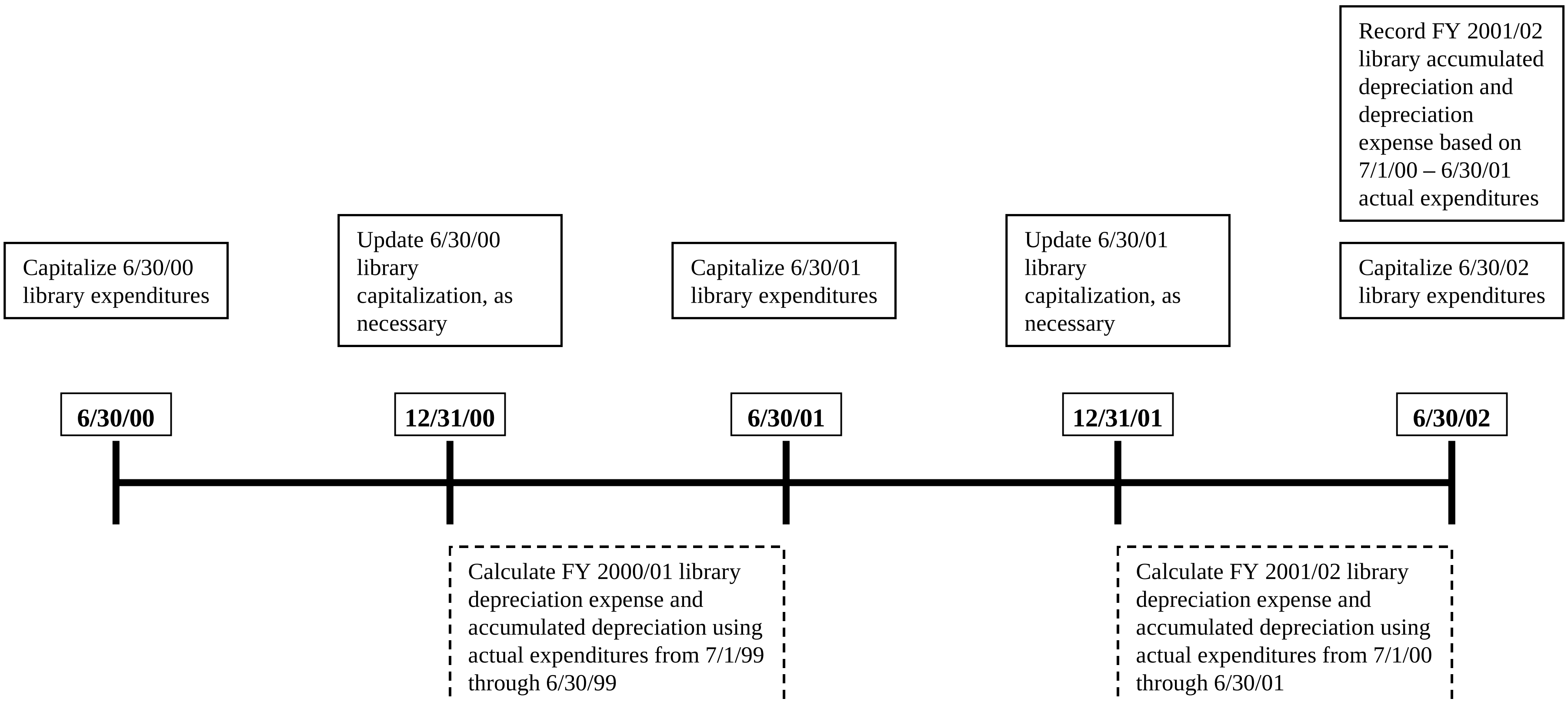
Next Steps—Required Actions

- OP will finalize the useful life for library collections based on developing industry standards.
- OP will update the UC Accounting Manual.

Issues Resolution Memo No. 6

Approach to Library Collections

Appendix 1—Illustration of Data Elements Used to Calculate Depreciation Expense and Accumulated Depreciation



——— Campus Task
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