

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. 7

Approach to Special Collections (Art, Museum, Scientific)

Define Issues

The University must establish a process to value and report special collections consistently throughout the institution (campuses and medical centers). Special collections include art, museum, and scientific collections.

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. 34

GASB Statement 34, Paragraph 27—Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions. The collection is:

- a. Held for public exhibition, education or research in furtherance of public service, rather than financial gain
- b. Protected, kept unencumbered, cared for, and preserved
- c. Subject to an organizational policy that required the proceeds from sales of collection items to be used to acquire other items for collections.

(SUPPLEMENTARY INFORMATION: Generally accepted accounting principles permit collections maintained in this manner to be charged to operations (expensed) at time of purchase rather than capitalized.)

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 special library collections in the development of F&A proposals.

F.8.a. ...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

The UC Accounting Manual chapter, Libraries and Collections: Capitalization (L-316-11) is dedicated to outlining the accounting policies and procedures for the valuation and capitalization of library materials only. The chapter does not include policies and procedures related to special collections.

Current UC Practice

Most campuses do capitalize their special collections in account number 101888—Libraries and Collections and include their special collections in their campus equipment inventory files. In general, campuses believe that they are reporting all of their special collections.

Recommended Approach

Special collections, including individual items of art, museum pieces, and scientific items generally have indefinite useful lives. They should be capitalized, but not depreciated.

Capitalize Special Collections

- Special collections, as well as individual items of art, museum pieces, or scientific items with acquisition value equal to or greater than \$1,500 will continue to be capitalized. Purchased items will be capitalized at acquisition value; donated items will be capitalized at fair market value.
- OP will assign an account for special collections.
- Campuses must establish the new account for special collections and reclassify the value of special collections, including individual items of art, museum pieces, or scientific pieces to the new account by June 30, 2000.
- Extremely significant special collection items that have been expensed in prior years may have to be researched, booked and added to the special collections inventory. Campuses should contact the Vice President for Financial Management to discuss the appropriate treatment of these collections.
- Campuses will be required to include special collections in the equipment inventory systems and include them in the EFA100 file under equipment class code H50.

Advantages

- No change to current practices.
- No directed training effort involved to ensure special collections are inventoried.
- In general, most campuses already capitalize substantially all their collections.

Disadvantages

- If campuses have not capitalized all of their special collections, they will be required to research and book the value of extremely significant special collection items that have been expensed in prior years.

Next Steps—Required Actions

- OP must assign new account for special collections by June 1, 2000.
- Campuses must establish new account for special collections and reclassify the balance of their special collections to the new account by June 30, 2000.
- The H50 section of the EFA100 file must be reconciled to the general ledger at June 30, 2000.
- OP must develop policies and procedures to tag and inventory special collection items.
- Campuses must implement procedures to inventory special collections.
- OP to develop a new Accounting Manual chapter to reflect policies and procedures regarding special collections.

Alternative Considered and Rejected—Expense Special Collections

- Special collections, including individual items of art, museum pieces, or scientific items at all campuses will be expensed.
- The University will write off the value of current special collections.
- Collections shall be tagged and inventoried.

Issues/Questions

- This approach is a change to current practices and will require training sessions to ensure campuses inventory special collections even though they will be expensed.

Advantages

- In general, campuses currently capitalize some portion of their special collections. However, there may be a portion that was expensed rather than capitalized. The effort involved in researching and booking the value of those special collection items that have been expensed will be greater than the effort to write off the currently capitalized values.

Disadvantages

- There will be a sizeable write off in the first year of implementation.
- In general, campuses currently capitalize their special collections.
- Need to ensure that campuses inventory special collections even though they will not be capitalized (training).