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. 8

Approach to Infrastructure Assets and General Improvements

Define Issues

The University must establish a definition and appropriate useful lives for infrastructure assets and general improvements to be applied consistently throughout the institution (campuses and medical centers).

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 and 35

> *GASB 34, Paragraph 19*—Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this Statement.
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> *GASB 34, Paragraph 23*—Infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated as long as two requirements are met. First, the government manages the eligible infrastructure assets using an asset management system that has the characteristics set forth below; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. To meet the first requirement, the asset management system should:
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> a. Have an up-to-date inventory of eligible infrastructure assets
> b. Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale

c. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

GASB 34, Paragraph 24—Determining what constitutes adequate documentary evidence to meet the second requirement in paragraph 23 for using the modified approach requires professional judgement because of variations among governments' asset management systems and condition assessment methods. These factors also may vary within governments for different eligible infrastructure assets. However, governments should document that:

a. Complete condition assessments of eligible infrastructure assets are performed in a consistent manner at least every three years.
b. The results of the three most recent complete condition assessments provide reasonable assurance that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government.

GASB 34, Paragraph 25—If eligible infrastructure assets meet the requirements of paragraphs 23 and 24 and are not depreciated, all expenditures made for those assets (except for additions and improvements) should be expensed in the period incurred. Additions and improvements to eligible infrastructure assets should be capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

GASB 34, Paragraph 149—If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, governments should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

GASB 34, Paragraph 158—A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown). There are a number of price-level indexes that may be used, both private- and public-sector, to remove the effects of price-level changes from current prices. Accumulated depreciation would be calculated based on the deflated amount, except for general infrastructure assets reported according the modified approach.

GASB 35, Paragraph 10—Prospective reporting of general infrastructure assets in the statement of net assets is required at the effective dates of this Statement. Retroactive reporting of all major general infrastructure assets is encouraged at that date. Public institutions that report as special-purpose governments either engaged only in governmental activities or engaged in both governmental and business-type activities should report infrastructure using the provisions of Statement 24 as follows:

- Phase 1 public institutions as described in paragraph 7 should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005.

If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, public institutions should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Current UC Policy

The UC Accounting Manual chapter, Investment in Plant (P-415-3) provides the following definition of General Improvements (Account Number 101802):

> *II. C.*—General Improvements include landscape and road improvements; external utility systems; and special facilities, such as outdoor water fountains. The external utility systems on a campus are the utility lines constructed outside the buildings and structures. (Costs of all utilities constructed within a building are capitalized as part of the building.) On a campus, the utility lines ordinarily consist of such items as the telephone system, electrical system, water distribution system, sewer and drainage system, steam supply and heating system, irrigation system, fire alarm system, service tunnels, and gas service lines.
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> General improvements also include preliminary costs and architects' and engineers' fees.

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 capital improvements.

> *F.2.b (4) Depreciation and use allowances*—Depreciation or use allowances on certain capital improvements to land, such as paved parking areas, fences, sidewalks, and the like, not included in the cost of buildings, shall be allocated to user categories of students and employees on a full-time equivalent basis. The amount allocated to the student category shall be assigned to the instruction function of the institution. The amount allocated to the employee category shall be further allocated to the major functions of the institution in proportion to the salaries and wages of all employees applicable to those functions.

<u>Recommended Approach</u>

Capitalize and Depreciate Infrastructure Assets and General Improvements

- The University will continue to capitalize Infrastructure Assets and General Improvements.
- The University will begin to depreciate Infrastructure Assets and General Improvements.
- The University will establish a threshold of $35,000 for capitalizing infrastructure assets and general improvements. Items below $35,000 should be expensed.
- The University will establish a new General Improvements account for medical centers and two new Infrastructure Assets accounts (one for campuses and one for medical centers).
- In accordance with GASB 34, infrastructure assets will include:
  - Roads and Pathways
  - Bridges and Tunnels
  - Drainage Systems
  - Water and Sewer Systems
  - Lighting Systems (campus road and pathway lighting systems)

All infrastructure assets will be depreciated over a 25 year life.

- General Improvements will be redefined in the Accounting Manual and will include the following:
  - Utilities Systems (gas, electric, heat, steam, oxygen, chilled water, compressed air, microwave, fuel oil, fire protection)
  - Communications Systems (telephone, networking, cabling)
  - Landscaping
  - Irrigation
  - Parking Lots
  - Other General Improvements (including signage, fences, decks, fountains, etc.)

  All general improvements will be depreciated over a 15 year life.

- Campuses must review the items currently classified as General Improvements in their Plant Asset data files and assign each item (CAAN number) to either Infrastructure Assets or General Improvements accounts. Assets that do not meet the definitions of infrastructure assets or general improvements should be reclassified to the appropriate account (e.g., Buildings & Structures, Fixed Equipment, Equipment). Also, if infrastructure assets or general improvements costs are less than $35,000, the expenditures must be written off.
- Campuses will continue to include infrastructure assets and general improvements information in the CFS AST data files (see IRM No. 2—*Data Quality and Reconciliation Issues* for data quality and OP submission details); however, Infrastructure Assets will be recorded under the new accounts.
- OP will calculate the June 30, 2000 accumulated depreciation balance using the approach outlined in IRM No. 3—*Establishing the Balance of Accumulated Depreciation at June 30, 2000*.
- OP will calculate the annual accumulated depreciation balance using the data files (CFS AST) submitted annually by the campuses (refer to IRM No. 2—*Data Quality and Reconciliation Issues* and IRM No. 5—*Half Year Conventions* for submission requirements and deadlines).

Financial Reporting Assumptions

Infrastructure Assets and General Improvements

- Infrastructure assets and general improvements capitalized as of December 31 will be depreciated for the entire year (12 months).
- Total infrastructure assets and general improvements value will be reported on the balance sheet based on balance as of June 30.

<u>Next Steps—Required Actions</u>

- OP will establish a new account for Infrastructure Assets.
- Campuses will review assets currently assigned to the General Improvements account and reassign to the appropriate account (e.g., Infrastructure Assets, General Improvements, Buildings & Structures, Fixed Equipment, or Equipment), as necessary.
- Campuses will write off expenditures less than $35,000 that are currently included in the General Improvements file.