FOOTHILL-DE ANZA
Community College District

FILED
SEP 15 2009
DAVID H. YAMASAKI
Chief Executive Officer/Clerk
Superior Court of CA County of Santa Clara
BY D. ALDYCKI

September 2, 2009

CERTIFIED MAIL

Honorable Jamie Jacobs-May
Presiding Judge
Santa Clara County Superior Court
191 North First Street
San Jose, CA 95113

Re: **Response to Santa Clara County Grand Jury Inventory Practices by Santa Clara County Schools**

Background:

On June 17, 2009, a report from the Santa Clara County Grand Jury, dated June 9, 2009, addressing inventory practices was received by the Foothill-De Anza Community College District (FHDA). This report addresses inventory practices for the 33 school districts, four community College districts and one County Office of Education within Santa Clara County as well as purchase approvals for the Chancellors of the four Community College Districts.

The report makes eleven findings and recommendations; six of which make reference to and require a response from FHDA. Specifically, FHDA is asked to respond to items 1, 2, 3, 9, 10 and 11. The report requests a response, not later than September 10, 2009, addressed to your office in the Santa Clara County Superior Court.

Summary of subject Findings and Recommendations:

The findings and recommendations in this Grand Jury report can be grouped into several distinct areas including training and awareness of inventory control practices, inventory activities and reporting and chancellor expense/approval processes.

The Findings and Recommendations relevant to FHDA are excerpted below with accompanying responses:

Finding 1:

Community colleges and K-12 boards of trustees are responsible for inventory control. However, after interviewing *ALL* board of trustee presidents it was evident they were unaware of their obligations under the law.

Recommendation 1:

Trustees should review and be knowledgeable of Education Code §35168 for K–12 and Education Code §81600 for community colleges to ensure complete implementation.

Response 1:

The district disagrees with Finding #1. FHDA has a comprehensive set of Board Policies that govern inventory, inventory control and capitalization and appropriate means of disposal of equipment that is not required for school purposes

Through Board policy 3140, the Board delegates to one or more officers or employees of the District the authority to purchase supplies, materials, apparatus, equipment and services, subject to any restrictions and requirements of Education Code section 81656. These delegation resolutions are presented to the Board annually for adoption.

Inventory Control is governed by Board Policy 3142 which ensures that appropriate records of capital outlay items are maintained as required by the California Community Colleges Budget and Accounting Manual.

Capitalization of District Property occurs for any real or personal property acquired by gift or purchase with an estimated useful life greater than one fiscal year and is governed by Board Policy 3210. This policy is implemented through Administrative Procedure 3210 which includes a capitalization threshold based on asset types.

Personal property belonging to the District that is found to be unsatisfactory or unsuitable for school use may be disposed of following the requirements of Board Policy 3211.

In the event a need arises to utilize district owned equipment in an off-campus capacity such activity is governed by Board Policy 3212 and generally prohibits such use absent express approval by chancellor or designee.

Recommendation #1 will not be implemented as the Board Policies and accompanying Administrative Procedures outlined above provide a thorough framework for the governing board to manage and control school property within the district as required under Education Code Section 81600

Finding 2

No trustees or superintendents/chancellors have been trained in inventory control. Inventory control training for board members and superintendents is not mandated by the State, resulting in a lack of familiarity and inconsistent application of inventory requirements by many districts.

Recommendation 2

All Santa Clara County school board trustees and superintendents/chancellors should be required to review and understand Education Code §35168 and §81600 and BAM requirements for inventory control. For community colleges, the CC Board should investigate additional training in the area of inventory control offered through organizations such as the American Association of Community Colleges and the Community College League of California.

Response 2:

The district disagrees with Finding #2. FHDA has a comprehensive set of Board Policies that govern inventory, inventory control and capitalization and appropriate means of disposal of equipment that is not required for school purposes.

Recommendation #2 will not be implemented as the Board Policies and accompanying Administrative Procedures outlined in Response #1 provide a thorough framework for the governing board to manage and control school property within the district as required under Education Code Section 81600

Finding 3

All district superintendents, chancellors and district staff report incomplete inventory information to their boards. This results in lack of knowledge about the value and size of their inventory.

Recommendation 3

All Boards of Trustees should require a presentation on the results of their districts' biennial inventory, including total value, variances resulting from reconciliation between past and current inventories and a proposed plan to resolve discrepancies.

Response 3:

The District disagrees in part with Finding #3. The district is in the midst of implementing a new Financial Operating System and this system will include a Fixed Asset Module that is scheduled to go on-line by the end of the 2009-10 fiscal year. With this system in place we will be able to implement a biennial inventory process and report this to the board.

Recommendation #3 has not been implemented but we will be able to do so in the 2010-11 fiscal year.

Finding 9

Three (3) of four (4) community college districts failed to conduct inventory as is specified by CSAM 410 (California School Accounting Manual) Procedures and the California Community College Budget and Accounting Manual (BAM). Districts only included items at or above $5000 in their inventory, where the requirements in CSAM and the BAM state that any items greater than $1000 should be included.

Recommendation 9

The Board of Trustees for Foothill/De Anza, Gavilan, and West Valley/Mission College Districts should ensure compliance with the CSAM 410 procedures and BAM guidelines by tracking inventory items greater than $1000. These districts should provide training for staff responsible for inventory.

Response 9:

The district disagrees with Finding #9. Inventory tracking at FHDA is governed by several sources. We are using the BAM Section 5.12 as a guide for our asset tracking policy for Economic Development equipment with a purchase price of $1000 or more for each individual item. For assets purchased with federal funds we used EDGAR (Education Department General Administrative Regulations) 34 CFR 80.32 to help us establish procedures to value and track capital assets purchased with federal grants. Our policy includes identifying and valuing assets at $5000 or more per individual item, tagging the asset, maintaining a list of assets, performing an inventory every two years, and disposing of the assets.

The requirements of the California Community Colleges Budget and Accounting Manual (BAM) are from time to time modified through certain Accounting Advisories.

Accounting Advisory No. 2001-01, dated June 18, 2001, is excerpted below and notes the following:

> "Based on federal guidelines, the State of California has adopted a $5,000 capitalization threshold for capital assets (formerly called fixed assets). The Fiscal Standards and Accountability Committee unanimously recommended raising the threshold for community colleges to the same level. Districts retain authority to inventory assets at a lower level if there is local need to do so, but the $5,000 level is the uniform system level for capitalization and depreciation. The committee also unanimously recommended tying the capitalization threshold for community colleges to the federal guidelines."
> "In further support of this position, the committee noted that raising the threshold will usually eliminate about 80% of the inventory line items, while retaining about 80% of the total value of the inventory. "
>
> "This Accounting Advisory supersedes the Budget and Accounting Manual, pages 2.47, 2.48, 4.64, 4.65, and 5.12 as it relates to inventory, capitalization, and depreciation."
>
> The content of these pages is summarized below:
>
> Pages 2.47 and 2.48, noted the General Fixed Assets Account Group should account for all assets associated with the Governmental Fund Group having cost which exceed the minimum threshold for maintaining a trace inventory system ($1,000) and have a useful life of one year or longer. Pages 4.64 and 4.65, required Districts to maintain an historical inventory, audit trace inventory system, or any other acceptable inventory system that contains the description, name, identification numbers, original cost, date of acquisition, location, and time and mode of disposal for all items of equipment that cost or had a market value at time of acquisition in excess of one thousand dollars ($1,000). Items of

equipment in the inventory system, as well as any additions, should be accounted for in the General Fixed Assets Account Group. Lastly, page 5.12 defined equipment as having a purchase price of $200 or more and a useful life of one year or longer. The threshold for maintaining equipment in a trace inventory system and for recording the asset in the General Fixed Assets Account Group is $1,000 and a useful life of one year or longer.

Research indicates the following procurement patterns for FHDA equipment purchases with a valuation between $1000 and $4999 during the past two years:

Fiscal Year 2008-09

A total of 1629 items were purchased at a cost of $2,744,999. Of the total acquisition amount, approximately 79.4% of the items were technology or computer related.

Fiscal Year 2007-08

A total of 1621_items were purchased at a cost of $2,844,889. Of the total acquisition amount, approximately 75.6% % of the items were technology or computer related.

As noted above, most of the equipment procured with a value between $1,000 and $5,000 is technology related. Our Educational Technology Services Division (ETS) uses the following established procedure for tracking and tagging such equipment:

All district purchased desktop and laptop computers are received through District Receiving. Then Plant Services delivers the equipment to the corresponding ETS Technical Services team for each Campus.

Once received by Tech Services, the equipment is inventoried and compared to the Purchase Order to ensure all items and the correct items have been received.

The equipment is tagged, engraved and entered into the inventory database prior to deployment to the classroom or staff / faculty personnel.

If equipment moves to a different staff person or department, the inventory database is updated.

For equipment that is surplused, the inventory database is updated as to its disposition prior to being moved to the District holding location.

For computer servers under the $5,000 dollar limit, they are inventoried and tagged by Tech Services similar to the desktop and laptop computers.

Our current practices allow us to track the vast majority of equipment that is purchased within this $1,000 to $5,000 range. The district is in the midst of implementing a new Financial Operating System and this system will include a Fixed Asset Module that is scheduled to go on-line by the end of the 2009-10 fiscal year.

Recommendation #9 will not be implemented for two key reasons; first, Accounting Advisory No. 2001-01, dated June 18, 2001, modifies the BAM and no longer mandates this requirement and; second, our current inventory practices cover the vast majority of equipment acquisitions between $1,000 and $5,000.

Finding 10

The following community college districts are not conducting inventories annually or reconciling to verify the existence, current utilization, and continued need for the equipment on a biennial basis, according to procedures specified in CSAM 410 (California School Accounting Manual).

Recommendation 10

The Boards of Trustees for Foothill/De Anza and Gavilan Joint Community College Districts should ensure inventories are conducted as specified in CSAM 410.

Response 10:

The District disagrees in part with Finding #10. The district is in the midst of implementing a new Financial Operating System and this system will include a Fixed Asset Module that is scheduled to go on-line by the end of the 2009-10 fiscal year. With this system in place we will be able to implement a biennial inventory process and report this to the board.

Recommendation #10 has not been implemented but we will be able to do so in the 2010-11 fiscal year.

Finding 11

Chancellors' purchases (both credit card and purchase orders) are approved by subordinates, mainly direct reports. While the vast majority of these direct reports expressed that their chancellors are very conservative with regard to spending, there is a potential for abuse.

Recommendation 11

To strengthen internal controls and ensure fiscal accountability, purchases made by chancellors should be approved by the Board of Trustees. In the event an immediate purchase is required, post-approval by the Board would ensure no conflicts of interest or abuses occur. Credit card statements and a listing of disbursements should be provided to the Board for approval. Expenditures should be presented separately from the Board's consent calendar to ensure proper scrutiny.

Response 11:

The district agrees with Finding #11 even though each expense claim has been found to be procedurally correct, the inherent conflict is obvious.

Recommendation #11 will not be implemented as written. All expenses of the Chancellor are reviewed and counter signed by a second party. We do agree that one aspect of this procedure can be changed; that is, we will have the Board President review and sign all credit card purchases (Pro-Card) and all expense reimbursements that in some instances in the past the Vice Chancellor has done.

Please feel free to call at 650.949.6200 or write with any further questions.

Sincerely,

W. Andrew Dunn, Vice Chancellor
Business Services

C: Betsey Bechtel, President, Board of Trustees
Mike Brandy, Interim Chancellor

Attachments

Accounting Advisory No. 2001-01
Board Policy 3140, 3142, 3210, 3211, 3212
Administrative Procedure 3210

Purchasing Policy 3140

To the full extent authorized by law the Board shall from time to time (but not less than each four years) by written resolution or resolutions delegate to one or more officers or employees of the District the authority to purchase supplies, materials, apparatus, equipment and services, subject to any restrictions and requirements of Education Code section 81656.

Such purchases shall be at the lowest reasonable available competitive price consistent with the highest quality and highest level of service desired and written District specifications, and in the best interest of the District. Provided, however:

a. No officer or employees authorized to make any purchase involving an expenditure by the District in excess of the amount specified by section 20651 of the Public Contract Code.

b. The delegation shall prescribe the limits of the delegation as to time, money and subject matter.

c. All transactions entered into by the officer or employee shall be in writing, and shall be reviewed by the Board within sixty days, or as otherwise provided by law.

d. In the event of malfeasance in office, the District officer or employee who entered into the contract shall be personally liable for any and all monies that the District paid out as a result of his or her malfeasance.

See Administrative Procedures 3140

Education Code Section 81656

Approved 8/16/99

Inventory Control 3142

The Chancellor or designee shall ensure that appropriate records of capital outlay items are maintained as required by the California Community Colleges Budget and Accounting Manual.

Approved 1/23/63
Amended 8/16/99

Capitalization of District Property 3210

The administration is directed to capitalize and depreciate any real or personal property acquired by gift or purchase with an estimated useful life greater than one fiscal year according to audit standards and administrative procedures established and maintained by Business Services.

See Administrative Procedure 3210

Approved 7/25/94
Amended 8/16/99, 3/18/02

Capitalization of District Property — AP 3210

1. Real or personal property acquired by gift or purchase with an estimated useful life greater than one fiscal year shall be capitalized and depreciated according to the capitalization thresholds and estimated useful lives assigned to each category of capital assets. Property, plant and equipment will be categorized by the following broad asset types and depreciated using straight line depreciation in accordance with the following established capitalization thresholds and estimated useful lives:

Asset Type	Capitalization Threshold	Useful Life
Land	$150,000.00	N/A
Land Improvements	150,000.00	10 yrs
Buildings	150,000.00	50 yrs
Building Improvements	150,000.00	10 yrs
Construction in Progress	150,000.00	N/A
Machinery and Equipment	5,000.00	8 yrs
Furniture, Fixtures and Office Equipment	5,000.00	8 yrs
Computer Equipment	5,000.00	3 yrs

   The capitalization thresholds listed above will apply to all District assets with the exception of assets acquired through State Economic Development Funds. The capitalization threshold for machinery and equipment, furniture, fixtures and office equipment, and computer equipment is $1,000.00 for assets acquired using State Economic Development Funds.

   Expenditures incurred in construction such as materials, labor, engineering, supervision, legal, insurance, and overhead will be capitalized as "construction in progress" until the project is completed and placed in service. No depreciation will be taken on construction in progress.

2. Accurate records will be maintained of the location, cost and accumulated depreciation of capital assets. Cost includes the acquisition cost as well as any ancillary costs, such as freight, installation and setup costs, associated with preparing the asset for its intended use. Detailed capital asset ledgers will be maintained to include the following asset information:

   Asset Type
   Description
   Tag Number
   Serial Number
   Location
   Account Code
   Cost (Original/Historical)
   Useful Life
   Depreciation Expense
   Accumulated Depreciation

The physical existence of capital assets will be verified and reconciled to the fixed assets records. An inventory of assets will be performed on a periodic basis based on a random selection of assets listed on the capital asset ledgers. If an asset is moved from one location to another, management approval will be required on the "Property Transfer Form." Property Transfer Forms need to be mailed to District Accounting whenever an asset is moved in order to enter the appropriate information in the capital asset ledgers.

3. The cost (less salvage value) of all capitalizable assets, with the exceptions of land and construction in progress, will be allocated (depreciated) over the estimated useful lives in a rational and systematic manner. The District will use the straight line method and the half-year convention to allocate depreciation. The straight line method allows for an equal amount of the cost of an asset to be allocated to each accounting period in its useful life. The half-year convention allows for a half year of depreciation expense in the first year and a half year of depreciation expense in the final year of an assets useful life, without regard to the actual date that the asset was acquired or placed in service during the fiscal year.

4. Control over the disposition of property will be maintained not only to preserve the accuracy of the capital assets records but also to ensure that assets are safeguarded, improper disposal is avoided, and the best possible terms are received for disposal. If a department wants to dispose of a capital asset, they must prepare a "Surplus Disposal Form" and submit it to the Director of Purchasing. Purchasing will ensure that the asset is picked up and disposed of in accordance with Board Policy 3211. Purchasing will send a copy of the Surplus Disposal Form to District Accounting in order that the capital asset records may be updated to reflect the retirement and disposition of the specified capital assets.

Disposal of District Property 3211

The Board of Trustees may sell any personal property belonging to the District if the property is not required for school purposes, or if it should be disposed of for replacement, or if it is unsatisfactory or unsuitable for school use. The Board shall adhere to Education Code requirements for advertising such property and shall either sell to the highest responsible bidder or reject all bids. The Board may choose to conduct such sales by public auction and may delegate responsibility to a designated employee.

If the Board determines, by unanimous vote of those present, that the property does not exceed $5,000 in value, or if the property was offered for sale and no qualified bid was received, the Board may empower an employee to sell the property at private sale without advertising.

If the Board determines, by unanimous vote of those present, that the value of the property will not defray the costs of a sale, the property may be donated to an appropriate charitable organization or disposed of in the local dump.

All proceeds from property sales shall be deposited to the general fund of the District unless a petition for compensatory funding is made by the department generating the income.

Education Code Sections 81450-81460

Approved 1/23/63
Amended 10/20/71; 1/15/72; 7/25/94; 8/16/99; 6/5/06

Off-Campus Use of College Equipment 3212

College equipment must be readily available for college use and therefore, will not generally be loaned to individuals not connected to the District or to off-campus organizations unless the Chancellor or designee shall approve such loans or in emergency situations.

Approved 1/23/63
Amended 5/15/78; 8/16/99

STATE OF CALIFORNIA

CALIFORNIA COMMUNITY COLLEGES
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1102 Q STREET
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ACCOUNTING ADVISORY NO. 2001-01
June 18, 2001

TO: District Chief Business Officers

FROM: Frederick E. Harris, Director
College Finance and Facilities Planning

SUBJECT: Implementation of GASB 34/35
Raised Threshold for Inventory of Capital Assets

Synopsis: The Governmental Accounting Standards Board has issued new financial reporting standards that apply to state and local governments and to public colleges and universities. In June of 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments." This new statement makes significant changes in the format and focus of financial statements of state and local governments. In November of 1999, GASB issued Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities, an Amendment of GASB Statement No. 34." Statement No. 35 permits public colleges and universities to adopt a reporting model based on the provisions of Statement No. 34 that apply to special-purpose governments engaged only in business-type activities (BTA), engaged only in governmental activities, or engaged in both governmental and business-type activities.

It appears that all or nearly all public colleges and universities nationwide have selected to implement the provisions of the BTA reporting model. Based on this and other factors discussed below, the consensus of district representatives and the Chancellor's Office is that the California Community Colleges will best benefit from and will therefore implement the BTA reporting model. To this end, the Chancellor's Office through consultation is examining the *Budget and Accounting Manual* (BAM) in order to bring it into compliance with the BTA reporting model and to maintain the integrity of the information provided by community college districts.

In a separate but related effort to update the accounting standards on capital equipment acquisitions, this Accounting Advisory also raises the minimum capitalization threshold for district property and equipment to $5,000. This change is discussed more fully under the Capital Assets heading on page 4.

BTA, Combined Governmental and BTA, or Governmental Reporting Model?

In a teleconference on May 17, 2001, the Fiscal Standards and Accountability Committee consulted with Joseph Blythe, Project Manager for GASB, and with community college leaders from two other states that had already begun implementation of GASB 35 using the BTA reporting model.

According to Joseph Blythe, the guidance contained in GASB Statements 34 and 35 is set up in such a way that there are absolutely no overriding criteria that are defined in the standards to guide an organization to any one of the specified reporting models. Each college and university system is free to choose whether to follow the governmental reporting model, the combined governmental and BTA reporting model, or the BTA reporting model. BTA is an option so long as nominal amounts of enrollment fees are collected. Based on information from Joseph Blythe and other teleconference participants, it appears that all or nearly all public colleges and universities nationwide will be implementing the BTA reporting model and it will be easier to display comparable data if we follow the college and university industry standards.

The Fiscal Standards and Accountability Committee's unanimous recommendation to the Chancellor's Office to adopt the BTA model was based on the following considerations:

- It appears that virtually all of the public colleges and universities in the country will use the BTA reporting model. This presentation will help differentiate us from cities, counties and local school districts; and it will improve comparability with colleges and universities nationwide.

- The new reports will be presented in a format similar to private sector reports, and are easier for outside entities to understand.

- The necessary implementation training for business and fiscal staff will be more readily available for colleges and universities that follow the BTA model.

What Will Continue

- Traditionally, the annual district audit includes fund-based financial statements and supplemental information required to fulfill reporting requirements of Generally Accepted Accounting Principles (GAAP) and outside entities. These statements, schedules and information are presented for the purposes of additional analyses and to ensure compliance with legal requirements. However, these items are not part of the basic financial statements under the BTA model. It is therefore anticipated that these items will become part of the supplemental information section of the annual district audit. As GASB 34/35 is implemented, the information included in the supplemental information section may change through consultation.

- A change in the fund structure will not be necessitated by the implementation of GASB 34/35.

- At this point, fund information included in the CCFS-311 (Annual Financial and Budget Report) and CCFS-311Q (Quarterly Financial Status Report) will continue. It is anticipated that the Fiscal Standards and Accountability Committee and other consultative groups will have the opportunity to review and provide input on the conversion from modified accrual to full accrual basis, and consideration of any necessary revisions to the BAM, CCFS-311, and CCFS-311Q as a result of the new financial reporting standards.

What Will Change

New District Financial Statements:

Management's Discussion and Analysis (MD&A)
[GASB 34, paragraph 8-11]

- Is required supplementary information (RSI);

- Precedes the basic financial statements;

- Provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, and conditions;

- Discusses positive and negative aspects of the comparison with the prior year;

- May use charts, graphs, and tables to enhance understandability of the information.

Statement of Net Assets
[GASB 34, paragraphs 97-98]

- Uses classified format (current vs. noncurrent [long term] classifications);

- Requires separation of restricted assets (e.g., cash and cash equivalents restricted for repayment of debt);

- Three net asset categories: unrestricted; restricted (distinguishing between major categories of restrictions); and invested in capital assets, net of related debt;

- Can use net assets format (assets less liabilities equal net assets) or a balance sheet format (assets equal liabilities plus net assets), (the process for coming to consensus on our system's selection is not yet complete); and

- Does not display internal designations of unrestricted net assets on the face of the statement of net assets (but may disclose them in the notes to the financial statements). [GASB Statement 34, Paragraph 37]

Statement of Revenues, Expenses, and Changes in Net Assets
[GASB 34, paragraphs 100-101]

- Distinguishes between operating/nonoperating revenues and expenses;

- Considers state appropriations as nonoperating revenues;

- Has an optional natural or functional expense classification (the process for coming to consensus on our system's selection is not yet complete); and

- Provides for separate reporting of revenues from capital contributions, additions to the principal of permanent and term endowments, special and extraordinary items, and transfers.

Statement of Cash Flows
[GASB 34, paragraph 105 and GASB 9]

- Requires the direct method;

- Has four categories:
  - Operating
  - Noncapital financing (e.g., state appropriations and gifts);
  - Capital and related financing, and
  - Investing.

- Requires reconciliation of operating income (loss) to net cash flows from (used In) operating activities; and

- Requires that information concerning significant noncash activities be reported separately.

Capital Assets
[GASB 34, paragraphs 18-22]

Includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

- Must be reported at historical cost or, if donated, at the estimated fair value at the time of acquisition;

- Are depreciated over their estimated useful life—except for—
  - Noncapitalized collections of works of art, historical treasures, and similar assets
  - Inexhaustible assets (e.g., land); and
  - Infrastructure assets reported using the modified approach.
- Include ancillary costs and capitalized interest;
- Use the same depreciation methods to calculate the depreciation amounts for facilities and administrative rate purposes as are used by the institution for its financial statements [OMB Circular A-21, paragraphs 12.b.(2); and
- Are recorded at net book value as of the date of implementation--
  - Prior periods restated, and
  - Net assets cumulatively adjusted.

Raised Capitalization Threshold (*Budget and Accounting Manual*)

Based on federal guidelines, the State of California has recently adopted a $5,000 capitalization threshold for capital assets (formerly called fixed assets). The Fiscal Standards and Accountability Committee unanimously recommended raising the threshold for community colleges to the same level. Districts retain authority to inventory assets at a lower level if there is local need to do so, but the $5,000 level is the uniform system level for capitalization and depreciation. The committee also unanimously recommended tying the capitalization threshold for community colleges to the federal guidelines.

In further support of this position, the committee noted that raising the threshold will usually eliminate about 80% of the inventory line items, while retaining about 80% of the total value of the inventory.

This Accounting Advisory supersedes the Budget and Accounting Manual, pages 2.47, 2.48, 4.64, 4.65, and 5.12 as it relates to inventory, capitalization, and depreciation.

Infrastructure Assets (i.e., long-lived capital assets)
[GASB 34, paragraphs 148-166]

- Must be implemented at the same time as GASB 35 for public institutions that report as BTA;
- 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, (e.g., roads, bridges, tunnels, drainage systems, water and sewer systems, lighting systems, etc.); and

- Parking lots and fencing may be treated as land improvements because they are typically adjacent to the buildings that they service and have a much shorter life than long-lived infrastructure assets as defined by GASB. Furthermore, these assets serve different functions than infrastructure assets and are considered part of the adjacent building. [Questions 25 and 46 of the GASB34/35 Implementation Guide address this issue.]

Note Disclosures about Capital Assets and Long-Term Liabilities [GASB 34, paragraphs 116-120]:

- Should provide detail in the notes to the financial statements about capital assets and long-term liabilities reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated; and

- Should provide disclosures about capital assets and long-term liabilities of discretely presented component units if deemed necessary for fair presentation.

<u>IMPLEMENTATION ISSUES:</u>

The effective date of implementation is based on total revenues as of the 1998-99 Fiscal Year:

Phase I:	**7-1-2001**	**Districts with total revenues ≥ $100,000,000**
Phase II:	**7-1-2002**	**Districts with total revenues ≥ $10,000,000 < $100,000,000**
Phase III:	**7-1-2003**	**Districts with total revenues < $10,000,000**

Obtaining Fixed Asset Information:

Districts will need to restate the beginning fund balances during the year of implementation to properly present the ending net asset balance. This means that districts will need to establish the original cost basis (or fair market value at the time of donation, if donated), for land, building, furniture, equipment, etc. These capital assets will then need to be depreciated from the date purchased or placed into service through the end of the year prior to implementation.

Depreciation can be calculated using various generally accepted methods such as straight-line or an accelerated calculation. Assets can be depreciated on an individual basis or like items can be grouped and depreciated on a composite basis. GASB 34 also provides guidance for calculating depreciation.

In addition, please note that GASB 34 makes a distinction about which capital assets are infrastructure assets such as roads, bridges, water system, etc. Most districts will have few, if any, infrastructure assets. Capital assets, that are not infrastructure assets, must be capitalized and depreciated as of the date of implementation of GASB 34.

Converting Modified Accrual Accounting Basis to Full Accrual Accounting Basis:

Individual funds under the modified accrual basis of accounting will need to generate journal entries to convert the financial statements to the full accrual basis of accounting in order to complete the BTA model financial statements. An example of such entries would be:

- Reduce capital outlay expense for fixed assets purchased and to be capitalized under GASB 34
- Increase expenses by reporting depreciation expense on capital assets
- Reduce proceeds from long-term debt for new debt entered into during the fiscal year, such as capital leases, COPs, GO Bonds, etc.
- Record long-term debt as a liability on the Statement of Net Assets (Balance Sheet)
- Reduce long-term debt expense for principal payments on debt and apply this against the long-term debt reported on the Statement of Net Assets
- Record accounts receivable as outlined in GASB 33 – criteria for revenue recognition
- Record liabilities for obligations incurred during the reporting period but not paid within the standard 60 to 90 day period. Such obligations would include those covered under GASB 16 – Accounting for Compensated Absences and debt service interest.

In order to properly complete the financial statements under the BTA model, districts will need to restate their beginning fund and net asset balances for the year of implementation using the full accrual method.

Resources Available for Districts

The Fiscal Standards and Accountability Committee has named a subcommittee to coordinate the implementation activities and to arrange for training for district staff on all the aspects of implementing this nationwide change. The subcommittee is composed of district representatives from the first phase and second phase of implementation.

The Chancellor's Office will conduct workshops in the north and the south this calendar year. The Chancellor's Office will co-host a workshop at the Foothill-DeAnza district this

September, and one in the south at a later date. There will also be audit workshops conducted in the Spring of 2002.

The Chancellor's Office will issue further accounting advisories on various facets of the implementation process as the need arises.

OTHER RECOMMENDATIONS:

- Contact your auditors and discuss GASB 34/35 prior to implementation
- Attend workshops on the topic
- Prepare a GASB 34/35 implementation timeline
- Districts may want to begin drafting a sample MD&A to know what types of information should be included, methods to gather data, how to produce graphs, etc.
- Districts may want to go through a trial run prior to the beginning of their implementation year in order to prepare for the actual implementation

As the implementation date draws closer, and as Phase I districts begin to implement their plans, more and more information will become available. The Chancellor's Office is planning to issue sample financial statements in the revised Contracted District Audit Manual.

Contact: If you have any questions related to the financial statements and audit aspects of GASB 34/35 please contact Steve Nakamura at (916) 327-6818/E-mail snakamur@cccco.edu. For questions related to the Budget and Accounting Manual and the CCFS-311 please contact Patrick Ryan at (916) 327-6223/E-mail pryan@cccco.edu.

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