



# California State University

## GRIP Master Plan

January 9, 2001

**California State University  
GRIP Master Plan**

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## Report Organization

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*Section I: Executive Summary* presents a summary of the GRIP project, a high level categorization of the recommended implementation plans, and the potential impact of GASB Statements Nos. 34 and 35 on the California State University (“CSU”), including:

- *Background*
- *Objectives and Scope*
- *Approach*
- *Results*
- *Why Implementation and the Risks*
- *Acknowledgements*

*Section II: Implementation Categories* provides a summary of the seven implementation categories (which are applicable to the CSU and an overall discussion of why each category is pertinent. It does not provide detailed steps for each implementation plan, which is presented in Appendix A.

*Section III: Overall Phase I Results* is an overall summary of the Phase I project results. There are three main segments of this Section:

- *Readiness/Criticality Report*  
For CSU, this report identifies and plots specific implementation plans (projects) and tasks, prioritized according to their expected contribution relative to attaining compliance and the project’s progress. This report provides information, approved by the CSU in determining which implementation plans should be completed by CSU to assist in their compilation of financial statements in accordance with GASBs Nos. 34 and 35.
- *High Level Implementation Plan Summary*  
This section includes a high level summary of the projects CSU plans to complete to assist them in preparing financial statements in accordance with GASBs Nos. 34 and 35. This summary consists of project descriptions and/or the preliminary estimates of costs, resources, and pre-requisites. More detailed High Level Implementation Plans are presented in Appendix A. Those plans not included in the Master Plan are presented in Appendix C.

### *Section IV: Program Management*

This section provides guidance for ongoing management of the overall implementation program. It is the beginning of the “Road Map” for undertaking the projects planned for compliant reporting.

### *Section V: Appendices*

- *Appendix A: GRIP High Level Implementation Plans*
- *Appendix B: Project Teams*

## Section I: Executive Summary

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### Background

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 (GASB No. 34), *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. This standard redefines accounting and reporting procedures for state and local governments, and other special purpose governments. GASB’s objective of the new model is to enhance the clarity and usefulness of government financial statements to the citizenry, oversight bodies, investors, and creditors.

In November 1999, the GASB issued Statement No. 35 (GASB No. 35), *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* extending the requirements of GASB No. 34 to public colleges and universities.

GASBs Nos. 34 and 35 will cause sweeping changes in the presentation of California State Universities’s financial statements as well as the nature of the information reported therein. The CSU’s financial statements must be prepared under the new standards as of June 30, 2002. However, the CSU must have the necessary policies and procedures in place by July 1, 2001 in order to capture the necessary financial and operational data for the June 30, 2002 financial statements.

The CSU’s management recognized the importance of beginning the process to assess the University’s readiness to implement GASBs Nos. 34 and 35. As a result, the CSU engaged KPMG and our Government Reporting Implementation Process (GRIP). GRIP was developed by KPMG to help entities, such as the CSU, address the requirements of the new GASB statements.

KPMG’s role in this engagement is to assist the CSU in the assessment of their readiness to conform with the new requirements and to help the CSU develop a “road map” to follow in order to facilitate the transition to the new requirements.

### Objectives and Scope of GRIP

This section describes the objectives and outlines how KPMG assisted and will continue to assist the CSU during the two phases of the GRIP project. The phases, including their objectives, are described below:

#### ❖ Phase 1 – Readiness Assessment

- ◆ **Module 1A – Initiated GRIP Readiness Assessment** – Gather pertinent CSU information, obtain a mutual understanding of project scope and objectives, conduct kickoff meetings, identify interviewees, and develop time charts.
- ◆ **Module 1B – Conduct GRIP Readiness Assessment** – Conduct a GRIP readiness assessment to help assess CSU readiness to prepare the newly required financial statements. Assist CSU in determining the impact the requirement to prepare the statements might have on the CSU.
- ◆ **Module 1C –Development of the GRIP Master Plan** – Facilitate the development of the the CSU’s GRIP Master Plan, to help identify changes needed to allow the CSU to generate financial statements in compliance with GASBs Nos. 34 and 35. Included in the CSU’s plan is 1) a list of specific projects and tasks, prioritized according to their

expected contribution relative to attaining compliance, and 2) high-level implementation plans for the key areas. Present the results of the GRIP Readiness Assessment and a GRIP Master Plan.

❖ Phase II – Program Management

- ◆ **Module 2A – Assist the CSU in initiating the GRIP Master Plan** – Provide a program management framework for CSU’s initiation of the GRIP Master Plan.
- ◆ **Module 2B – Facilitate the CSU’s Implementation of the GRIP Master Plan** – Provide facilitation and coordination to the CSU during implementation of the GRIP Master Plan.

## **GRIP Approach and Results**

In order to accomplish the readiness assessment objectives, KPMG utilized the GRIP Readiness Assessment Questionnaire (Questionnaire). This Questionnaire is a series of strategic questions in a computerized format designed to ascertain the CSU’s ability to implement GASBs Nos. 34 and 35. The questions, which were used to gather basic information about the CSU, focused on the policies and practices that will most likely need to be established and/or revised in light of the new standards.

KPMG, utilizing the Questionnaire, interviewed a team of campus, Chancellor’s office and Auxiliary Organization personnel. The information obtained from the interviews assisted KPMG in identifying the steps that may need to be undertaken to achieve compliance. These steps were then summarized into various projects and reviewed with the CSU’s Financial Standards Advisory Committee for validation. Based upon this information, KPMG developed a Readiness/Criticality Report (Report).

The Report identifies each project that may need to be undertaken. KPMG plotted the projects on the Report based on the significance of each project to compliance with the standard and the CSU’s progress in addressing this area. The Report for the CSU is illustrated in **Section III** of this report and has been discussed with and agreed to by the Financial Standards Advisory Committee on the prioritization of projects (deferrable, medium or immediate) to be undertaken.

Once the projects were plotted and agreed to by the Financial Standards Advisory Committee, the next phase was to determine the necessary projects and steps required to implement the policies, procedures and processes to assist the CSU in preparing financial statements in accordance with GASBs Nos. 34 and 35. In all, 18 projects were identified which were then grouped into the following 7 categories:

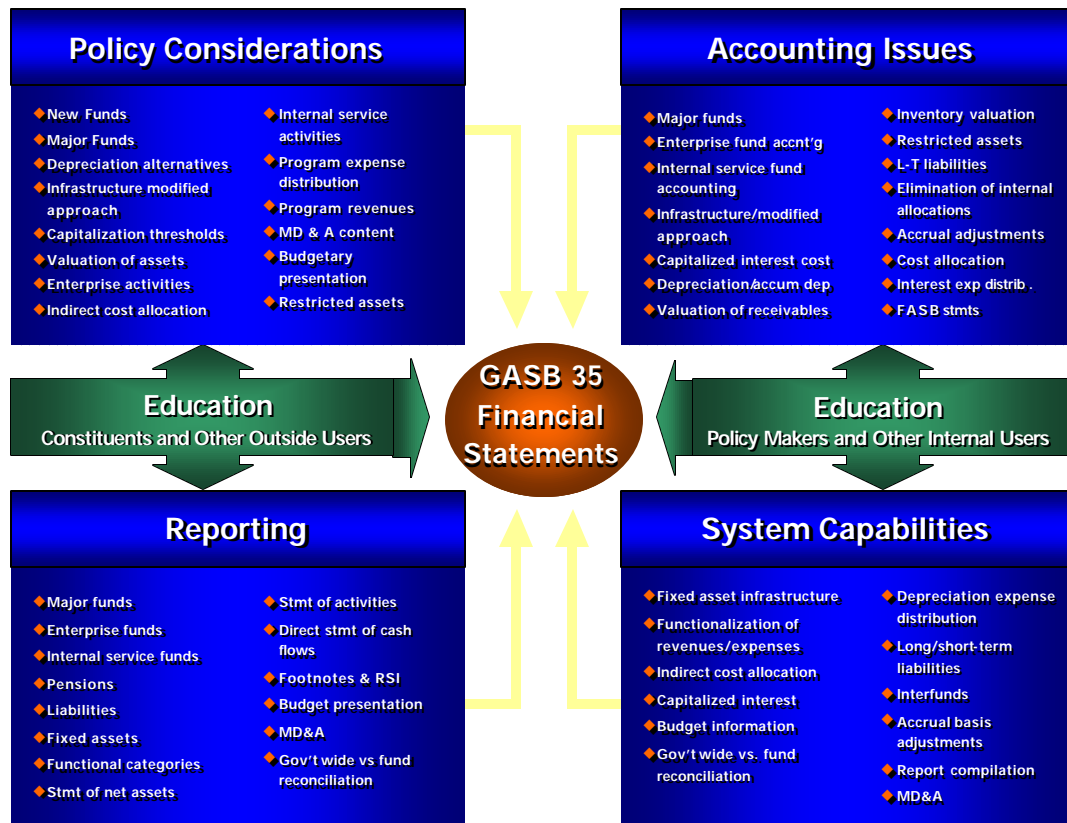
- **Training**
- **Management Discussion and Analysis**
- **Financial Reporting Model**
- **Auxiliary Organization Reporting**
- **Segment Reporting**
- **Capital Assets**
- **Infrastructure**

KPMG then presented tailored high-level implementation plans for each project outlining suggested steps. These plans were based on discussions with the Financial Standards Advisory Committee members and our background with the CSU. The implementation plans are located in Appendix A.

## Why Implement and the Risks

According to GASB Chairman, Tom Allen: “[GASBs Nos. 34 and 35 are] the most significant change in the history of government accounting. It represents a dramatic shift in the way state and local governments present financial information to the public.” [GASBs Nos. 34 and 35] will affect such areas as policies, systems capabilities, accounting, budgeting and reporting issues. As a result, establishing and implementing the new policies and procedures will demand time and resources that most government organizations do not have.”

Presented on the following page is a high-level diagram of some of the far reaching consequences of the new GASB statements. While it is not meant to educate you on all of the provisions of the Statement, it should help to increase the appreciation of the magnitude of the changes.



By acting now and carrying out the implementation plans, the CSU should be able to effectively generate the information necessary to address the new GASB pronouncements.

### **Acknowledgements**

The successful assessment phase of the project would not have been possible without the efforts of many individuals. We would like to extend a special thanks to the Financial Standards Advisory Committee and the rest of the CSU and Auxiliary employees who assisted us in this project. We appreciate each participant's willingness to provide good candor information, which made it possible to present this report.

## **Section II: Implementation Categories**

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As discussed in Section I, KPMG has helped the CSU identify the projects and steps required to implement policies, procedures and processes necessary to assist the CSU in generating financial statements in accordance with GASBs Nos. 34 and 35. These projects were then grouped into the following 7 categories:

<b>Training</b>	<b>Segment Reporting</b>
<b>Management Discussion and Analysis</b>	<b>Capital Assets</b>
<b>Financial Reporting Model</b>	<b>Infrastructure</b>
<b>Auxiliary Organization Reporting</b>	

The remaining part of this section walks through each of the categories and explains why it is important for the CSU to complete the related implementation plans.

### **Training**

The content and scope of changes in GASBs Nos. 34 and 35 will create new information and will restructure much of the information that the CSU has presented in previous financial statements. The objective of the new GASB statements was to provide the readers and users of financial statements, including the CSU's, with a financial statement that is more comprehensive, easier to understand and use. By providing meaningful information about transactions, events and conditions the new financial statements will also provide readers and users with useful insight into the CSU's financial condition. To fully understand the purpose of the changes in the financial statements, users will require training and education on the meaning and use of the new financial statements. The following users may require training:

- Board Members and other CSU Officials
- Finance and Budget Staff

### **Management Discussion and Analysis**

Under GASBs Nos. 34 and 35 the Management's Discussion and Analysis (MD&A) will precede the financial statements of the CSU. MD&A is intended to provide the users of the financial statement with an objective, easily readable, and detailed analysis of the CSU's financial activities based on known facts, decisions and conditions. Given this requirement the CSU should have procedures in place to capture the information necessary to complete the required sections of the MD&A. Also the top level management of the CSU should be prepared to provide an accurate, detailed, and timely analysis of the CSU's financial results and activities.

## Financial Reporting Model

Financial reporting is the process of preparing the CSU's financial statements according to the standards of GASBs Nos. 34 and 35. Under current accounting standards the CSU's financial statements must, at a minimum, contain the fund financial statements and related notes to those financial statements. The new standards have expanded and enhanced the components of the financial statements. Under GASBs Nos. 34 and 35, the CSU's financial statements will need to contain the following:

*Management's Discussion and Analysis (MD&A)* - The MD&A will introduce the basic financial statements and provide a detailed analytical overview of the CSU's financial activities. (See further discussion below)

*Entity-wide Financial Statements* - The entity-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the CSU. These financial statements will more closely resemble the financial statements of non-governmental entity.

*Notes To The Financial Statements* - These are the notes that provide information that is essential to a user's understanding of the basic financial statements.

In order to prepare the required components of the financial statements mentioned above, the CSU should have policies, procedures and processes in place to properly accumulate the necessary financial data and report that data in the financial statements. However, before the financial data can be accumulated for the financial statements the CSU should have the systems in place to capture the data required by the new standards.

Two significant components of the financial reporting model issues will be specifically addressing the **Auxiliary Organization Reporting** and **Segment Reporting** issues.

## Capital Assets, Including Depreciation Expense

When most officials think about the changes required under the new GASB pronouncements, the changes in accounting for and recording Capital Assets, **Infrastructure Assets** and Depreciation Expense immediately come to mind. Once implemented, the pronouncements will require the CSU to completely account for all capital assets as part of the university's activities. This new requirement differs from current accounting standards that require the isolation of capital assets into a separate column in the combined balance sheet. Less-sophisticated users of the financial statements, in particular, tend to be confused by the presentation of the plant fund, and the usefulness and completeness of the information in the plant fund is sometimes less than required or needed. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, and all other tangible or intangible assets that are used in the CSU's operations and that have initial useful lives extending beyond a single fiscal year.

GASB Nos. 34 and 35 also add requirements for reporting infrastructure assets e.g., utility networks, roads, bridges, and other public works. For most entities, counting, valuing and recording their investment in infrastructure assets will be a major undertaking.

Recording depreciation expense on both capital and infrastructure assets is also required by the new pronouncements. The requirement to record depreciation expense increases the importance of having a complete and accurate inventory listing of all capital assets.

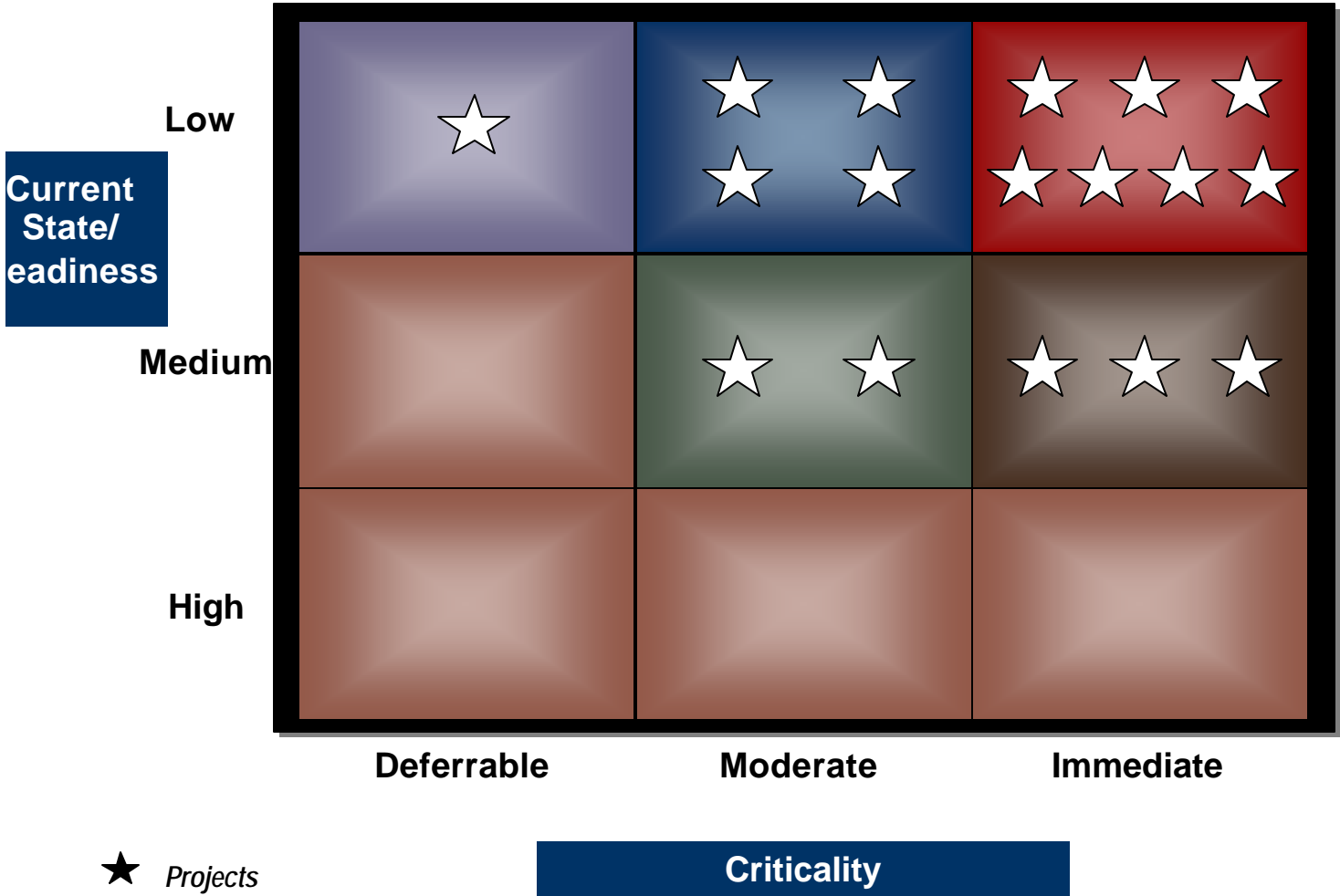
## Section III: Overall Results

### **Readiness/Criticality Report**

The Readiness Assessment Questionnaire process was designed to accumulate information regarding the CSU's ability to produce financial statements in accordance with GASBs Nos. 34 and 35. A deliverable from this process is the Readiness/Criticality Report. The attached Readiness/Criticality Report identifies and plots specific implementation plans (projects) and tasks, prioritized according to their expected contribution relative to attaining compliance and the project's progress.

Therefore, a project for which the CSU is already in compliance with GASBs Nos. 34 and 35 would require fewer, if any, resources than a project for which the CSU's readiness is low. Further, items identified in the deferrable column are not presently required to be completed in order to produce financial statements in accordance with the new GASB pronouncements. However, the future of your systems will necessitate that these projects ultimately be completed.

# Readiness/Criticality Matrix



## Initial Identification of Projects

### ***Projects Identified to be Low and Immediate:***

- A-1 - Education of Campus Personnel including VPs and Presidents
- A-2 - Financial Reporting Model (Direct Statement of Cash Flows)
- A-3 - Segment Reporting - Revenue bonds
- A-4 - Depreciation - Methods/Useful Lives
- A-5 - Depreciation Expense Allocation
- A-6 - Determination of Accumulated Depreciation
- A-7 - Reporting of Expenses (Selection of Functional Categories)

### ***Projects Identified to be Medium and Immediate***

- B-1 - Component Unit Reporting (Guidance and Awareness to Auxiliaries)
- B-2 - Fixed Assets - Accumulation of Fixed Asset Information including Infrastructure
- B-3 - Tracking of Information for Functional Reporting of Expenses

### ***Projects Identified to be Low and Moderate:***

- C-1 - Identification and Tracking of Special and Extraordinary Items
- C-2 - Financial Reporting Assistance - Preparation of the Financial Statement Templates and updating of the GAAP Reporting Manual
- C-3 - Preparation of Management's Discussion and Analysis Template and Systemwide Reporting
- C-4 - Capital Asset Titles (Ownership Issues)

### ***Projects Identified to be Medium and Moderate:***

- D-1 - Tracking of Capitalized Interest
- D-2 - Balance Sheet Classifications - System Modifications

### ***Projects Identified to be Low and Deferrable:***

- GASB 34/35 and Peoplesoft

## High Level Implementation Plan Summary

This section includes a high level summary of the implementation plans for each project, previously approved by the Financial Standards Advisory Committee, to be completed in order to assist the university in preparing financial statements in accordance with GASBs Nos. 34 and 35. This summary is presented by project and consists of a description of each project along with the project's priority. More detailed high level implementation plans are presented in Appendix A.

	High Level Implementation Plan (Project)	Description	Priority
<b><i>Training</i></b>			
A-1	Education	This project will provide education to the personnel of the CSU to explain the new reporting model and its overall high level impact on accounting policies, procedures and methodology.	Immediate
<b><i>Management Discussion and Analysis</i></b>			
C-3a	Development of MD&A checklist/outline	This project will help the CSU develop a structure and plan for preparing management's discussion and analysis (MD&A).	Moderate
C-3b	MD&A policy, procedures, and development	This project will help the CSU develop the plan for preparing management's discussion and analysis (MD&A). Further, this project prepares a draft MD&A.	Moderate
<b><i>Financial Reporting Model</i></b>			
C-2	Organization and people	This project guides the CSU in planning and coordinating the preparation of the basic financial statements.	Moderate
A-2	Financial Reporting Assistance (direct statement of cash flows)	Planning and coordinating the development of the statement of cash flows using the direct method.	Immediate

***Financial Reporting Model (Continued)***

D-2	Systems development	This project entails an evaluation of the capabilities of the CSU's accounting and financial reporting systems to generate the information necessary to prepare the financial statements in accordance with the new reporting model, and the ease with which the systems could be modified if it cannot provide the information.	Moderate
A-7	Functional categories selection	This project selects the functional categories to be used to report expenses in the statement of activities	Immediate
B-3	Functional categories reporting	This project develops a mechanism for capturing expenditure information at the functional level, consistent with the level of detail desired for reporting expenses.	Immediate
C-1	Accounting for special and extraordinary items	This project establishes the general ledger accounts and a procedure to capture the special and extraordinary items, a review process to identify the items, and a mechanism to accumulate the information that will be needed for disclosure in the financial statements.	Moderate

***Auxiliary Organization Reporting***

B-1	Auxiliary Organizations (guidance)	Preparation of guidance materials for how the Auxiliary Organizations implement the new reporting model.	Immediate
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***Segment Reporting***

A-3	Reporting Segment Information	Establishment of a system and process to report segment information for activities that are considered segments.	Immediate
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***Capital Assets***

B-2	Fixed assets information	This project identifies the fixed assets that will need to be reported in accordance with the new model, establishes the system for maintaining the information needed to report the fixed assets, and establishes a reliable baseline for future reporting.	Immediate
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***Capital Assets (Continued)***

C-4	Capital asset titles	This project ensures that all fixed assets recorded in the CSU's fixed assets information system are the rightful property of the CSU.	Immediate
A-4 & A-6	Depreciation accounting and determination of accumulated depreciation	This project establishes the policies, account structure, and systems to obtain and record the necessary depreciation information.	Immediate
A-5	Depreciation expense distribution	This project develop the policies, methodology, and systems to distribute depreciation expenses to the various programs and activities.	Immediate
D-1	Fixed assets system (capitalizable interest)	Development of a system to calculate and record capitalizable interest costs.	Moderate

***Infrastructure***

B-2	Fixed assets system (infrastructure information)	Addition of infrastructure data to the fixed assets management system.	Immediate
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## Section IV. Program Management

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### GRIP Organization and Management

The Financial Standards Advisory Committee was established to, among other things, facilitate the implementation of the new financial reporting standards.

Each of the projects identified will be assigned a Project Manager. The Project Manager is responsible for leading the project team, facilitating the GRIP process, monitoring progress of the implementation, serving as an advisor to the Financial Standards Advisory Committee, providing progress reports to the Committee and for preparing/updating the project deliverables.

In order to ensure the successful implementation of the GRIP Master Plan, a KPMG Program Manager will assist the project managers in defining the level of tracking, managing, and reporting that will be appropriate for the project. The initial level of tracking, managing and reporting has been identified in the pages that follow.

### Program Schedule/Quality Monitoring and Reporting System

To help the implementation of the GRIP Master Plan progress according to the schedule identified, it is important to establish a system that allows for the monitoring and evaluation of the individual projects that comprise the overall program. To help determine whether individual projects are progressing according to schedule and whether the Financial Standards Advisory Committee is kept informed of project status, it is important to have a system for monitoring and reporting project process. Accordingly, we have established the following:

1. **Frequency:** A bi-weekly status report is required for **all** projects, commencing January 31<sup>st</sup>, 2001.
2. **Format:** Project status reporting should take the following format:

- **Figure 4** contains a project progress report template which calls for the following information:
  - Significant tasks that have been performed since the prior status report,
  - Important issues and challenges that the project is facing, including discussion of the necessary steps to address and resolve the issues and challenges,
  - Activities/tasks to be performed between now and the next status report, and
  - A project timeline containing significant milestones and their percentage of completion.

**Figure 4 – Sample Status Report**

**Bi-Weekly Program Status Report: MM/DD/YY**

Timeline

Start Date MM/DD/YY	Program/Project Opportunities	Completion Date MM/DD/YY
<ul style="list-style-type: none"> <li>■ List those opportunities/items identified that could lead to improved program or project productivity/quality.</li> </ul>		

**Issues and Challenges**

- Identify and list the issues, concerns, challenges that have arisen or are expected. Note potential remedies for each item listed.

**Projects Scheduled to Begin**

- List those projects that are scheduled to begin during the coming period

**At-Risk Projects**

- List those projects currently in process and experiencing difficulties that could adversely affect overall program objectives.

**Projects Completed**

- List those projects that were successfully completed during this period.

3. **Submission and Review:** The project status report should be provided to the Program Manager on the last Friday of the bi-weekly period in both electronic and hardcopy format. The Project Manager should be available to address any comments or follow-up questions that the Program Manager may have.

KPMG's Program Manager is: Kristan Livingston  
Fax: (714) 850-4488  
Phone: (714) 850-4443  
Email: klivingston@kpmg.com

## **Issue Resolution Procedure**

The objective of the Issue Resolution Procedure is to provide the Program with an effective method of identifying and resolving program and project-related issues. The scope includes both issues raised by the project teams and by the Financial Standards Advisory Committee.

An issue is a situation, action, problem or question arising during a project which demands action to resolve it, over and above the tasks identified in the plan, and cannot be resolved by the individual or work-team raising the issue. Left unresolved, an issue will impede or prevent project progress by delaying or suspending work effort and potentially delaying the overall program schedule as a result.

In order to ensure issues do not adversely affect the program or project schedule, a mechanism has been established to: identify issues; assign responsibility for issue resolution; track issue resolution/progress; and identify the level of authority to whom issues should be reported.

**Figure 6** – Issue Identification Form, and **Figure 7** – Issue Tracking Log, provide a structured mechanism for documenting project issues, assigning them for analysis, identifying and agreeing on a solution, implementing the solution to resolve the issue, and tracking issue progress.

**Figure 6 – Issue Identification Form**

<b>Maintained by Project Office:</b>			
<i>Issue No:</i>		Date cleared:	
<i>Status:</i>	(Raised / Assigned / Withdrawn / Action planned / Cleared)		

<b>To be completed by Originator:</b>			
<i>Originator (proj. team):</i>		<i>On behalf of (e.g. person outside project team):</i>	
<i>Date raised:</i>		Reqd completion date:	
<i>Issue Title:</i>			
<i>Op Co:</i>		<i>Workstream:</i>	
<i>Issue Type:</i>			
Issue Description:			
<i>Potential impact:</i>			
<i>Priority:</i>	(1 = Very Urgent; 2= High; 3=Medium/Low)		

<b>To be completed by Project Manager:</b> (review priority - above)			
Assigned to:		Date due:	

<b>To be completed by person(s) as signed:</b>	
Proposed solution:	
Agreed solution:	



## Communications Plan

In order to ensure the Financial Standards Advisory Committee is kept informed of project status it is important to have a system for reporting program process and communicating special circumstances.

Bi-weekly status reports, summarizing the progress of all projects will be prepared by the Program Manager and presented to the Chancellor's Office. The reports will include a high level evaluation of the progress made since the last update and any major milestones. The reports will also include a power point presentation summarizing:

- Issues and challenges
- At risk projects
- Projects scheduled to begin, and
- Projects completed.

On the last Thursday of every month, there will be a status/update meeting. At these meetings, the Financial Standards Advisory Committee will be brought up to date on the program timeline, any major milestones completed or coming up, and any other significant issues or challenges that have come up since the last status/update meeting.

## **Section V: Appendices**

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### **Appendix A: Detailed High Level Implementation Plans by Project**

Appendix A contains the implementation plans for each individual project to be completed to assist the CSU in preparing financial statements that are in accordance with GASBs Nos. 34 and 35.

### **Appendix B: Project Teams**

Appendix B contains a preliminary list of the project teams.

## Training

### Project Number: A-1

*Project Title: Education*

Description: This project will provide education to explain the new reporting model and its impact on the financial statements of CSU.

*High Level Implementation Steps:*

1. Evaluate the cost and benefit of purchasing versus developing training to explain the new reporting model and its impact on the financial statements. Consider also training for management and Board members.
2. Define training needs or, if the University chooses to purchase training, consider the necessity to supplement the purchased training to meet specific needs of the CSU and Auxiliary Organizations. Ensure training will explain the following major changes in the reporting model:
  - The financial statements consist of entity-wide financial statements and notes to the financial statements.
  - The fixed assets category will be expanded to include infrastructure assets and works of art and the amount that the fixed assets have depreciated will be reported. For works of art, depreciation is required only for items or collections deemed exhaustible.
  - A Management's Discussion and Analysis (MD & A) is required to analyze and present financial information in narrative form.
  - Other matters for which the change in accounting standards or reporting format is likely to cause misunderstanding or negative reactions.
3. Consider the benefits of developing pro-forma statements specific to the University for use in the training, and develop them if appropriate.
4. Decide the appropriate delivery mechanism for the training, e. g., lecture, interactive, follow-up arrangements.
5. Develop the content and structure for the training such as handouts, presentations, overhead slides, interactive projects, advance preparation materials, follow-up materials, etc.

6. Decide logistical aspects, i. e., location, length of program, targeted attendees, size of classes, frequency of classes, timing of classes during off-peak work loads.
7. Select and obtain instructors (internal, external consultants, combination of the two). Prepare instructors' bios.
8. Schedule the training and make the necessary logistical arrangements, such as scheduling the facilities and making the arrangements for any audio/visual aids required.
9. Develop and send the invitation for the training.
10. Prepare a course evaluation to obtain feedback regarding the:
  - Depth of the presentation content
  - Quality and usefulness of the materials
  - How the information is likely to affect the participants' performance.
11. Hold the training.
12. Develop an after the training follow-up mechanism to determine if additional action is needed.

Priority: Immediate. Education for elected and appointed officials should be provided immediately to impress upon them the magnitude of the changes in government reporting and to facilitate implementation of the new reporting model.

# Management Discussion and Analysis

## Project Number: C-3a

**Project Title:** Management's Discussion and Analysis (process)

**Description:** . This project helps the CSU develop a structure and plan for preparing management's discussion and analysis (MD&A).

1. Management identifies a single management level person who will be responsible for coordinating the development of the MD&A. This person should have sufficient stature within the organization to be able to gather the resources and delegate responsibility for completion of the assigned tasks.
2. MD&A coordinator identifies the departments which must provide information needed to complete the MD&A, recognizing that no single person is likely to have sufficient knowledge of all aspects of the University's operations to be able to prepare the MD&A completely.
3. MD&A coordinator sponsors a kickoff meeting with a team established to execute the MD&A process and develops an outline for the MD&A, assigns responsibilities for its development, and defines a production timetable. All members of the team must understand the timetable and related time commitments needed to ensure the efficient and timely completion of the MD&A.
4. MD&A coordinator circulates the outline, team responsibilities, and timetable for development of the MD&A to all team members and their supervisors to ensure that everyone has agreed to the time commitments and deadlines.
5. MD&A coordinator contacts the Executive Vice Chancellor to discuss timetable for developing the MD&A and confirms that he will be available for review of the MD&A.
6. Team members submit initial drafts of their MD&A sections to MD&A coordinator.
7. MD&A coordinator meets with finance and budget departments to ensure accuracy of data presented in the MD&A and consistency of the data with data that will be in the financial statements.
8. MD&A coordinator edits pieces submitted by team members to ensure consistent format and message.
9. MD&A coordinator circulates edited MD&A to project team for comments.

10. MD&A coordinator receives comments from team members and prepares final edited document.
11. MD&A coordinator provides final edited document to the Executive Vice Chancellor for comment and feedback.
12. MD&A coordinator incorporates senior executive comments, edits them, and prepares a “blue line” version.
13. MD&A coordinator circulates “blue line” version of the MD&A to project team.  
Only editorial errors are corrected at this point; no content changes should be made.
14. MD&A coordinator submits final copy of MD&A for print.

**Priority::** Moderate.

# Management Discussion and Analysis

## Project Number: C-3b

**Project Title:** Management's Discussion and Analysis (information)

**Description:** . This project helps the CSU compile the information required for Management's Discussion and Analysis (MD&A).

### High Level Implementation Steps:

1. The individual that management has identified as the person responsible for coordinating the development of the MD&A (MD&A Coordinator) identifies the departments that must provide the information needed to prepare the MD&A and advises them of the information that will be needed and the date it should be forwarded.
2. The MD&A Coordinator obtains the information needed to prepare a brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in information they provide.
3. The MD&A Coordinator obtains the information needed to prepare condensed, comparative financial information derived from the entity-wide financial statements. This information should include at least the following:
  - Total assets
  - Total liabilities
  - Total net assets
  - Program revenues
  - General revenues
  - Total revenues
  - Program expenses
  - Total expenses
  - Contributions
  - Special and extraordinary items
  - Transfers
  - Changes in net assets
  - Ending net assets
4. The MD&A Coordinator obtains the information needed to prepare an analysis of the University's overall financial position and results of operations that can assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations.

5. The MD&A Coordinator obtains the information needed to prepare an analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in net assets.
6. The MD&A Coordinator obtains the information needed to prepare a description of significant capital asset and long-term debt activity during the year.
7. The MD&A Coordinator prepares a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

**Priority:** Moderate.

# Financial Reporting Model

## Project Number: C-2

**Project Title:** Financial Reporting Assistance (organization and people)

**Description:** This project guides the CSU in planning and coordinating the preparation of the basic financial statements. It assumes the University has the systems in place to develop and provide the data and that the data now need to be compiled into the statements.

### High Level Implementation Steps:

1. Senior management identifies a single management-level person to be responsible for developing the basic financial statements. This person (hereinafter titled the Coordinator) should have sufficient stature within the organization to be able to gather the resources and delegate responsibility for completion of the assigned tasks.
2. Coordinator identifies the departments that will provide the information needed to complete the basic financial statements, recognizing that no single person is likely to have sufficient knowledge of all aspects of the University's operations to be able to prepare the basic financial statements completely.
3. Coordinator conducts a kickoff meeting with a basic financial statements implementation team established to develop the new financial statements and defines their content, assigns responsibilities, and develops a production timetable. All members of the team must understand the timetable and related time commitments needed to ensure the efficient and timely completion of the basic financial statements (although the inclusion of contingency plans for late or inadequate submissions would be appropriate).
4. Coordinator circulates the outline, team responsibilities, and timetable for development of the basic financial statements to all team members and their supervisors to ensure that everyone has agreed to time commitments and deadlines.
5. Team members obtain the necessary data and prepare and submit initial draft of their sections to the Coordinator.
6. Coordinator meets with finance and budget departments to ensure accuracy of data presented in basic financial statements.
7. Coordinator edits pieces submitted by team members to ensure consistent format and message.

8. Coordinator circulates the edited basic financial statements to team members for comments.
9. Coordinator receives comments from team members and prepares final edited document.
10. Coordinator provides final edited document to senior management for comment and feedback.
11. Coordinator incorporates senior management's comments, edits them, and prepares "blue line" version of basic financial statements.
12. Coordinator circulates "blue line" version to team. Only editorial errors are corrected at this point; no content changes should be made.
13. Coordinator submits final copy of the basic financial statements for print.

**Priority::** Moderate. Many of the concepts and elements associated with developing the financial statements are similar to the concepts and elements associated with developing the traditional financial statements and thus will have been mastered by the CSU's officials.

# Financial Reporting Model

## Project Number: A-2

**Project Title:** Financial Reporting Assistance (direct statement of cash flows)

**Description:** This project entails planning and coordinating the development of the statement of cash flows (SOCF) required to be prepared on the direct method.

### High Level Implementation Steps:

1. Determine the appropriate captions to be used to report the cash flows from

- Operating activities. Such captions may include:
  - Cash received from customers/students
  - Cash received from tenants for rent
  - Cash received from passengers and service contracts
  - Other operating cash receipts
  - Cash payments to suppliers of goods and services
  - Cash payments to employees for services
  - Other operating cash payments
- Non-capital and related financing activities.
- Capital and related financing activities. Such captions may include:
  - Proceeds from capital debt
  - Purchases of capital assets
  - Principal paid on capital debt
  - Interest paid on capital debt
- Investing activities. Such captions may include:
  - Purchases of investments
  - Proceeds from sales and maturities of investments
  - Interest and dividends received

2. Develop a template to be used in preparing the statement of cash flows using the direct method. The use of a standard template will ensure that the information is uniformly presented. The template should include sections for cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital & related financing activities, and cash flows from investing activities, which incorporates captions such as identified above. The template should also serve as a tool that can be used to compute the changes in the assets, liabilities and equity accounts between the current and previous year, and allocate those changes to the appropriate classification within the statement of cash flows.
3. Based upon the captions and required sections identified above, identify the information necessary to report the required data using the direct method of presentation.
4. Input the asset, liability & equity balances of the current and previous year into the template developed in step No. 2, and allocate the change in those balances to the appropriate classification within the cash flow statement template.
5. Prepare a reconciliation of operating income to net cash provided by (used in) operating activities as reported in the statement of cash flow under the direct method. The elements would include:
  - Non-cash adjusting items such as depreciation expense and amortization expense
  - Changes in assets and liabilities such as receivables, inventory, accounts payable and accrued expenses.
6. Prepare a reconciliation of cash and cash equivalents (as reported in the statements of cash flow) to the statement of net assets.
7. Quantify and prepare a listing of all non-cash investing, capital and financing activities.

**Priority:** Immediate. Because the statements of cash flow must now be prepared on the direct method, the CSU may not have systems established to readily capture this data.

# Financial Reporting Model

## Project Number: D-2

**Project Title:** Systems Development

**Description:** This project entails development of new or modification of existing systems to generate the information necessary to present a classified balance sheet (i.e., current and long-term assets and liabilities).

### High Level Implementation Steps:

1. Prepare a written definition for each asset and liability and specify what constitutes the short term and long term portions of the item.
2. Perform a needs assessment and identify the modifications necessary to support the new reporting requirements, such as the ability to distinguish between current and long term liabilities, the ability to account for the amortization of bond premiums and discounts, etc. (A systems information specialist should be involved to ensure that sufficient expertise is used in the performance of this project.)
3. Ascertain the level and extent of external resources necessary to accomplish this project.
4. Provide guidance on both the definition of and methodology for segregating current and long-term assets and liabilities. Provide guideline on how to navigate internal information sources in order to obtain the necessary information.

**Priority:** Moderate. The need to distinguish in the statement of net assets between current and long term assets and liabilities necessitates that the relevant information be available. This will require a systematic method to accumulate the information.

# Financial Reporting Model

**Project Number: A-7**

**Project Title:** Functional Categories (Selection)

**Description:** This project entails selecting the functional categories to be used to report expenses in the statement of activities.

## **High Level Implementation Steps:**

1. Using the prior year's financial statements and the current year's budget document, review a list of the entity's activities and identify programs, functions, or activities 1) that are significant and 2) that the University might want to consider reporting separately from other programs, functions, or activities in the statement of activities.
2. Discuss with appointed officials, senior management, statement preparers, and selected users 1) the programs or functions they believe should be displayed and 2) the appropriate level of detail in which to report expenses in the statement of activities, giving consideration to political factors, internal needs and capabilities, and the needs of external users of the financial statements.
3. If the currently used functional categories do not adequately meet the governing body's or internal or external users of the financial statements needs for financial information, establish an expanded or alternative list of functional categories with which to report the expenses.
4. Review the financial statements and budgets of peer universities and publications of NACUBO to seek out suggested presentations.
5. Initially decide the level of functions and programs that will be displayed in the new financial statements; then determine the availability of the necessary data.
6. Make a final decision of the functional categories; then revise the policies and procedures for capturing the information at that level.
7. Identify any system reconfigurations necessary to generate the financial statements in the new format.

**Priority:** Immediate. Considerable coordination is likely to be required among preparers and users to decide the desired level of detail for the financial statements.

# Financial Reporting Model

## Project Number: B-3

**Project Title:** Functional Categories (Reporting)

**Description:** This project entails developing a mechanism for capturing expenditure information at the functional level, consistent with the level of detail desired for reporting expenses.

### High Level Implementation Steps:

1. Identify the data needed for the functional categories that are not available from the existing financial accounting and reporting systems.
2. Identify the modifications to the financial accounting and reporting systems needed to obtain the unavailable data.
3. Determine whether the expertise necessary to perform the required modifications is available internally or external assistance will be required.
4. If the modifications are to be performed internally, develop a systems implementation/modification plan.
5. Initiate the necessary modifications to the financial accounting and reporting systems to capture the financial data for the newly adopted functional categories.
6. If the necessary modifications cannot be completed before the annual financial statements are to be issued, prepare an automated or manual spreadsheet to convert the existing expense data to the newly adopted functional categories and use for financial reporting purposes

**Priority:** Immediate. Under the new reporting model, expenses must be reported at the functional level, and the existence of a financial system that identifies and records expenditures by functions is ideal. Such a system is not essential, however, as long as expenses are manually classified to conform to the required financial statement presentation, inconsistencies among campuses will likely occur.

# Financial Reporting Model

## Project Number: C-1

**Project Title:** Special and Extraordinary Items

**Description:** This project establishes the general ledger accounts and a procedure to capture the special and extraordinary items, a review process to identify the items, and a mechanism to accumulate the information that will be needed for disclosure in the financial statements.

### High Level Implementation Steps:

1. Determine the amount and number of accounts believed necessary to track meaningful data for special and extraordinary items.
2. Create these accounts, consistent with the applicable protocol of the university's financial systems.
3. Provide education as to the types of transactions that should be reviewed to determine whether the items are special or extraordinary and should be recorded within the newly created accounts.
4. Review the organization-wide budget to determine if any transactions are planned that meet the definition of special or extraordinary items.
5. Establish a process:
  - to review general ledger activity at the end of the year and identify special and extraordinary items.
  - to review the minutes of the Board and CABO at the end of the year and identify special and extraordinary items.
  - for senior management to review for any other items that meet the definition of a special or extraordinary as defined in FASB 34.
6. Prepare journal entries to classify the transactions that have been identified as special or extraordinary revenues
7. Include in the journal entry recording process for special and extraordinary revenue transactions, a requirement that the facts and circumstances associated with the items be recorded and maintained for subsequent disclosure in the financial statements.

8. Obtain copies of minutes and other reports that pertain to special and extraordinary revenue items, abstract the information needed for year-end disclosures, and file with the journal entry information.
9. Develop footnote disclosure to describe special or extraordinary items, including the nature of the transaction(s) in enough detail to allow the reader to understand the accounting treatment.
10. Revise internal policies and procedures (including budgetary procedures) to require separate identification of special or extraordinary items that meet the GASB No. 34 definition.

Priority: Moderate. Special and extraordinary items must be reported separately at the bottom of the statement of activities. Thus, while these items must be determined prior to issuing the annual financial statements, the work could be performed close to the date of issuance.

# Auxiliary Organization Reporting

## Project Number: B-1

**Project Title:** Auxiliary Organizations (guidance)

**Description:** This project entails confirming that the Auxiliary Organizations are aware and knowledgeable of the reporting requirements required by GASBs Nos. 34 and 35. It also entails ensuring that any component units not aware of the new requirements will have time to implement the requirements and thus enable the CSU to prepare its financial statements in accordance with generally accepted accounting principles.

### High Level Implementation Steps:

1. Identify the Auxiliary Organizations. Invite them to training programs scheduled to explain the new reporting model.
2. Inform the Auxiliary Organizations of the date that the CSU intends to implement the new GASB pronouncements, and provide additional information regarding the timing of the various aspects of the implementation.
3. Estimate the time frame the Auxiliary Organizations are likely to need for implementing the new reporting model, based on their size and other factors such as the complexity of their activities, number of personnel, expertise of their finance department(s), involvement of their external auditors.
4. Obtain written representation from each Auxiliary Organization's management that it is aware of the new requirements, knows the date the CSU intends to implement the new pronouncements, and has plans in place for the implementation.
5. Determine whether the received representation is consistent with the information obtained in the project's previous steps.
6. Validate and substantiate the confirmation information received from the major Auxiliary Organizations, by analyzing their time lines for implementation, readiness assessments, and project management plans.
7. Obtain representations from Auxiliary Organizations who have stated they do not understand the requirements as to the actions they will take to develop that understanding and implement the requirements.

**Priority:** Immediate. The University's control of the adoption and implementation of the new reporting requirements will not be as great with the Auxiliary Organizations as it would be with the CSU's own financial statements. Thus it is important for the CSU to obtain early assurance as to how the Auxiliary Organizations will be implementing the requirements and thus prevent unnecessary or unanticipated delays caused by the Auxiliaries.

## Segment Reporting

### Project Number: A-3

#### **Project Title:** Reporting Segment Information

**Description:** This project helps the University obtain and disclose the required segment information for those identifiable activities for which one or more revenue bonds or other revenue-backed debt instruments are outstanding, i. e., there is a specific identifiable revenue stream pledged in support of the revenue bonds or other revenue-backed debt and there is related expenses, gains and losses, assets and liabilities that can be identified.

#### **High Level Implementation Steps:**

1. Identify the activities for which one or more revenue bonds or other revenue-backed debt instruments are outstanding.
2. Define them as a segment requiring special disclosures.
3. Identify, to be presented in the footnotes, the types of goods or services provided by the segment.
4. Identify, to be presented in the footnotes, the following information which would comprise a condensed statement of net assets for the segment.
  - total assets
  - total liabilities
  - total net assets
5. Identify, to be presented in the footnotes, the following information which would comprise a condensed statement of revenues, expenses, and changes in net assets.
  - operating revenues
  - operating expenses
  - operating income or loss
  - nonoperating revenues/expenses
  - capital contributions and additions to permanent and term endowments
  - special and extraordinary items
  - transfers
  - changes in net assets
  - beginning net assets
  - ending net assets

6. Identify, to be presented in the footnotes, the following information which would comprise a condensed statement of cash flows.

- net cash provided by operating activities, noncapital financing activities, capital and related financing activities and investing activities
- beginning cash and cash equivalent balances
- ending cash and cash equivalent balances

**Priority:** Immediate. The definition of required segment information has been changed in GASBs No. 34 and 35

# Capital Assets

## Project Number: B-2

### **Project Title:** Fixed Assets Information

Description: This project entails identifying the fixed assets that will need to be reported in accordance with the new model, establishing the system for maintaining the information needed to report the fixed assets, and establishing a reliable baseline for going forward.

### **High Level Implementation Steps:**

1. Decide the information that the University wishes to maintain in its fixed assets management information systems, including information for infrastructure assets. At a minimum, the information should include major asset class, description of asset, date of acquisition, method of acquisition, cost or other value, vendor name/address, responsible organizational unit, location of asset, estimated life, estimated salvage value, annual and accumulated depreciation, condition assessment data, maintenance data, fund and account, insured value.
2. Design or purchase a fixed assets management information system, considering such factors as:
  - the extent of the University's fixed assets
  - whether the current financial management system has a fixed assets module
  - the desire to update the system frequently during the year or only at year-end
3. Implement the system, including establishing and testing interfaces with the financial management system.
4. Document the procedures for operating the system, including procedures for ensuring the records are updated timely, and errors are caught timely and corrected.
5. Provide training for operating and interfacing with the system.
6. Populate the database by inputting the information for the University's fixed assets.
7. Plan a physical inspection and count of the fixed assets, addressing such matters as:
  - Items to be counted, e. g., all vs. items over a dollar threshold vs. selected types of assets

- Timing of the count, e. g., day, time of the month, during a slow operational period
  - Make-up of the teams, e. g., management, staff, outside contractors
  - Number of counts , e. g., will each team be double-checked by another team
  - Classes of items to look out for , e. g., obsolete assets, damaged assets, assets that are mobile and/or easily misappropriated and should therefore be secured
8. Hold training/kick off meeting to ensure that the inspection/count procedures are understood.
  9. Prepare a system-generated report denoting the current fixed asset balances.
  10. Conduct the inspection/count and compare to the system-generated reports.
  11. Ascertain the correct titleholder of the assets, e. g., e.g., city owned, component unit owned.
  12. Provide for updating the system records, as necessary.

**Priority:** Immediate. Because accountability for fixed assets is a key element in the new model, substantial information will be needed. If comprehensive fixed assets records do not exist, it will probably take significant effort and time to establish them.

## Capital Assets

### Project Number: C-4

**Project Title:** Capital Asset Titles

Description: This project entails ensuring that all fixed and infrastructure assets recorded in the University's fixed assets/infrastructure information system are the rightful property of the CSU or its component units.

**High Level Implementation Steps:**

1. Identify all fixed assets, including infrastructure assets, owned by the University, its component units, or related entities.
2. Gather and review documentation of ownership of the assets.
3. For those assets for which the documentation is missing or inadequate, perform such procedures as:
  - Hire an outside contractor to perform a title search.
  - Obtain representations from Auxiliary Organizations and other related entities that the entity is the owner; also obtain representations as to whether the University owns any of the other assets the Auxiliary Organizations and related parties either manage or operate.
  - To the extent that steps 1 through 3 are not effective or complete, enlist the aid of legal counsel.
4. Update the fixed asset records based on the results of the title checks.
5. Determine whether title to assets is held by the State of California or the CSU and assess the impact of such findings on the ability of the CSU to record fixed assets in the financial statements.

**Priority:** Immediate.

# Capital Assets

## Project Number: A-4

**Project Title:** Depreciation Accounting

**Project Description:** This project entails establishing the policies, account structure, and systems to obtain and record the necessary depreciation information.

### High Level Implementation Steps:

1. Choose established depreciation methods based on the estimated useful lives of each class of assets, network of assets, or individual assets, using general guidelines obtained from professional or industry organizations, information for comparable assets of other governments, or internal information. CSU can also use composite methods to calculate depreciation by depreciating a group of similar assets or dissimilar assets of the same class using the same depreciation rate.
2. Decide the information to be maintained and processed in the depreciation accounting system, remembering not to neglect information related to infrastructure assets and exhaustible works of art, historical treasures, and similar assets. Examples of the information would be:
  - Date of purchase
  - Historical cost or other acceptable basis.
  - Whether the asset is exhaustible.
  - Estimated useful life, particularly in light of the asset's present condition and how long it is expected to be able to meet service demands.
  - Estimated salvage value
  - Depreciation or related condition assessment and maintenance information
3. Design the system considering such matters as:
  - whether the current financial management system has a module for fixed asset depreciation or a module can be bought
  - the complexity of the system, i.e., can it be a simple spreadsheet or does it have to be integrated with the financial management system

- whether the system has to be capable of multiple data updates or entries need be posted only once a year at year-end
4. Establish the system by performing steps such as:
    - purchasing needed hardware and software
    - testing interfaces with financial management system, if any
  5. Populate the database with the desired information.
  6. Provide for periodic calculation and recording of depreciation in accordance with the University's policies for assets that exceed the capitalization threshold, or that are individual items or part of a collection that is considered exhaustible.
  7. Periodically review the depreciation procedures and ensure that the records are updated timely.

**Priority:** Immediate. Depreciation of fixed assets is a significant requirement of GASBs Nos. 34 and 35, and will require significant time and effort to implement.

# Capital Assets

## Project Number: A-6

**Project Title:** Determination of Accumulated Depreciation

**Description:** This project entails helping the University determine the amount of depreciation that should be accumulated for fixed assets, including infrastructure, works of art, historical treasures, and similar assets for which depreciation has not previously been recorded.

### High Level Implementation Tasks:

1. Identify the assets listed in the fixed assets management information system for which depreciation has not previously been recorded.
2. For the assets identified in step 1, perform the following:
  - Based on the University's depreciation policy, calculate what the accumulated depreciation amount should be as of the beginning of the current fiscal year.
  - If the necessary data are not available:
    - Estimate the purchase date and/or original cost, using such procedures and sources as:
      - calculating the current replacement cost of a similar asset and deflating its cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown)
      - other information like 1) bond documents used to obtain financing for construction or acquisition of infrastructure assets, 2) expenditures reported in capital project funds or capital outlays, and 3) engineering documents
      - independent appraisals, especially as they relate to works of art, historical treasures, and similar assets
    - Calculate the remaining useful life and net book value (i.e., including salvage value)

- Define the remaining useful life, using an independent appraisal firm if necessary, and calculate the net book value
3. Update the fixed assets records for accumulated depreciation and current year depreciation

**Priority:** Immediate. Determining the accumulated depreciation that was previously unrecorded, particularly for previously unrecorded assets, and will probably take significant time and effort.

# Capital Assets

## Project Number: A-5

**Project Title:** Depreciation Expense Distribution

**Description:** This project entails the development of policies, a methodology, and systems to distribute depreciation expenses to the various programs and activities. It also entails a cost benefit analysis to determine whether it would be beneficial to distribute depreciation expenses to programs and activities not associated with a particular function but that serve multiple functions; and then determine whether the existing systems are capable of capturing the appropriate data on an ongoing basis or system modifications will be needed.

### High Level Implementation Steps:

1. Identify the functions with which the entity expects to classify expenses in the financial statements.
2. Print or develop a report that lists assets by function. If that information cannot be readily developed, list the fixed assets by department and determine for each asset the specific programs or functions to which it is attributable.
3. Estimate the amount of annual depreciation expense that would be attributable to the assets associated with specific functions and plan for reporting those amounts as direct expenses of the functions. If the amounts are not material, consider reporting them as an administrative expense.
4. Determine which of the assets serve multiple functions, e. g, an administrative services building.
  - Consider the costs required to allocate depreciation costs to specific functions, including the costs required to allocate the depreciation costs of assets serving multiple functions, and decide whether it would be cost-beneficial to provide for the allocations or to charge depreciation in total to administrative expenses on a separate line in the entity-wide statement of activities.
  - If it is deemed cost-beneficial to make the allocations, determine an appropriate methodology to allocate depreciation expenses to each function using the assets. Allocation methods could include square footage, measured usage, percentage of the asset cost funded by each function, or other reasonable means to approximate the benefit to each function.

5. Determine the system modifications, if any, needed in order to extract the depreciation expense from the existing system and make the necessary allocations, if that is the chosen approach; plan for the necessary modifications.
6. Prepare a policy statement defining the allocation of depreciation to the functional level for accounting purposes. If the entity decided not to allocate depreciation expense to functional categories or allocate depreciation expenses related to assets serving multiple functions, this should be clearly stated in the procedures manual along with the rationale. The policy statement should include a provision for reevaluating this decision periodically, and when new programs are implemented or significant purchases of new fixed assets are made.

**Priority:** Immediate. The project should be done in conjunction with the establishment of depreciation policies, procedures, and systems, which is one of the central changes required by GASBs Nos. 34 and 35.

# Capital Assets

## Project Number: D-1

**Project Title:** Fixed Assets System (capitalizable interest)

**Description:** This project helps the University determine, record, and report prospectively the capitalizable interest applicable to capital assets as required by FASB No. 34, Capitalization of Interest Costs, as amended by FASB 62.

### High Level Implementation Steps:

1. Review existing systems and determine if they have the ability to accumulate capitalizable interest cost data related to borrowings and other obligations incurred during the acquisition periods of assets constructed or otherwise produced for the University's own use; and process additions and amortizations timely and completely.
2. If the existing systems do not have the ability to accumulate capitalizable interest cost, design the system, keeping in mind:
  - the number of transactions currently processed that might include capitalizable interest costs.
  - the number of future transactions that might include capitalizable interest costs.
  - the need to make the calculations automatic versus requiring user preparation and manual journal entry.
3. Accumulate the information needed to calculate the capitalizable interest for already existing fixed assets and the related debt, such as:
  - Issuance documents
  - Underwriter correspondence
  - Previously audited financial statements
4. Input the information into the system.
5. Review the calculated costs for accuracy.
6. Reperform the above procedures for new debt issuances.

**Priority:** Moderate. There could be many assets with associated capitalizable issuance costs, the accumulation and assimilation of data supporting the costs could be unwieldy, and the change in basis of accounting will have different degrees of impact on different entities. Nonetheless, the amount of interest costs should be obtainable from issuance documents and related documentation.

## Infrastructure

### Project Number: B-2

**Project Title:** Fixed Assets System (infrastructure information)

**Project Description:** This project entails identifying the infrastructure assets that will need to be reported in accordance with the new model, establishing the system for maintaining the information needed to report the infrastructure assets, and establishing a reliable baseline for going forward.

#### High Level Implementation Steps:

1. Identify the components of the University's infrastructure, i. e., roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, and similar assets that are long-lived, normally stationary in nature, and normally can be preserved for a significantly greater number of years than most capital assets. Included in this identification should be a determination of whether the assets are part of a 1) class of assets, 2) a network of assets, or 3) individual.
2. Decide the information that the University wishes to maintain for infrastructure assets. At a minimum, the information should include major asset class; description of asset; network identity; date of acquisition (recognizing that for major general infrastructure assets acquired or significantly reconstructed or that received significant improvements in fiscal years ending after June 30, 1980, GASB No. 34 permits the reporting of estimated historical cost—which infers that major general infrastructure assets acquired or significantly reconstructed or that received significant improvements in fiscal years ending before June 30, 1980 can be considered completely depreciated); method of acquisition; cost or other acceptable value; vendor name/address; responsible organizational unit; location of asset; estimated life; estimated salvage value; annual and accumulated depreciation; condition assessment data; maintenance data, including the costs estimated to maintain and preserve the infrastructure at the condition level established and to be disclosed by the University and the actual maintenance costs; fund and account; insured value.
3. Arrange to expand the fixed assets management information system to encompass the desired infrastructure information.
4. Provide training for processing the additional information.

5. Ascertain historical costs for the infrastructure assets keeping in mind that:

- Many have never been valued before
- The age and condition may be old and poor, respectively
- Records from the initial acquisition or construction may be incomplete or non-existent

Techniques that could be used to ascertain the historical costs are:

- calculating the current replacement cost of a similar asset and deflating its cost through the use of price-level indexes to the acquisition year or estimated acquisition year if the actual year is unknown, or
- referring to other information such as 1) bond documents used to obtain financing for construction or acquisition of infrastructure assets, 2) expenditures reported in capital project funds or as capital outlays, and 3) engineering documents.

6. Update the records by:

- Inputting the necessary asset information, including cost or other acceptable values.
- Removing any assets that are not owned by the entity, do not meet the capitalization threshold, or are obsolete.

7. Plan a physical inspection and count of the infrastructure assets, addressing such matters as:

- Items to be counted, e. g., all vs. items over a dollar threshold vs. selected types of assets
- Timing of the count, e. g., day, time of the month, during a slow operational period
- Make-up of the teams, e. g., management, staff, outside contractors
- Number of counts, e. g., will each team be double-checked by another team
- Classes of items to be alert to, e.g., obsolete infrastructure, damaged infrastructure

8. Hold training/kick off meeting to ensure that the inspection/count procedures are understood .
9. Prepare a system-generated report denoting the current infrastructure balances.
10. Conduct the inspection/count and compare to the system-generated reports.
11. Update system records as necessary

**Priority:** Immediate. The addition of infrastructure to the capital assets that must be reported is a significant requirement of GASBs Nos. 34 and 35 that will probably take significant effort and time to address.

## **Appendix B. Project Teams**

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Appendix B is a preliminary listing of the members of the Project Teams.

### **Training**

Project Manager: Ruth Stipp

George Pardon, Ed Bulinsky (not confirmed), Laleh Graylee

### **Management Discussion and Analysis**

Project Manager: Bill Musselman

Brad Wells, Sri Renganathan, Ron Basich, Ken Perry, FOA Representative

### **Financial Reporting Model**

Project Manager: Brian Dahm

Ruth Stipp, Leslie Chase, Sedong John, Cecelia Patz, Laleh Graylee

Bob Dignan, Kathrine Hughes, Ron Basich, Richard Loucks, Michelle Korte

### **Auxiliary Organization Reporting**

Project Manager: Ellene Gibbs

Jim Van Ness, Justin Crosvo, Tom McCarron, Leticia Coate, Ben Figueroa, AOA Representative

### **Segment Reporting**

Project Manager: Cecelia Patz

Ken Perry, Rosa Renaud, Ben Figueroa

### **Capital Assets and Infrastructure**

Project Manager: Brad Wells

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