CHAPTER 13

CAPITAL ASSETS GUIDE

The Capital Assets Guide provides guidance for campuses on establishing useful lives, categorizing assets into asset types, methods for depreciation/amortization, and componentization. This guide has been established as a parameter and is recommended for use by all campuses.

CALIFORNIA STATE UNIVERSITY
CAPITAL ASSETS GUIDE

CAPITAL ASSETS GUIDE

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1. INTRODUCTION

Effective July 1, 2001, the California State University (CSU) was required to implement Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities*. Among the implementation challenges the new reporting model presented were infrastructure reporting and depreciation/amortization accounting. This document discusses accounting and reporting requirements related to GASB Statements Nos. 34 and 35 and other technical pronouncements that have subsequently been issued.

This Capital Assets Guide identifies standards used in the initial implementation of GASB Statements Nos. 34 and 35 as well as ongoing compliance with new reporting requirements. Included in this guide are asset category definitions, capitalization thresholds, depreciation/amortization methodologies, and examples of expenditures for each class of assets. Additionally, guidelines for leasehold improvements and construction work in progress have been included.

These guidelines have been reviewed and approved by the CSU Financial Standards Advisory Committee (FSAC).

2. CAPITAL ASSET DEFINITIONS AND GUIDELINES

A capital asset is defined as real or personal property that has a unit acquisition cost equal to or greater than $5,000 and an estimated life greater than one year. For capital assets that are acquired as a group whose individual acquisition cost is less than the $5,000 threshold, it may be appropriate to capitalize them if they are considered material collectively.

Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. However, capitalization policies adopted should find an appropriate balance between ensuring that all material capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. Computers, classroom furniture, and library books are assets that may be immaterial for capitalization on an individual basis, yet might be considered material collectively.

Capitalization threshold should appropriately rebalance the goals of (1) ensuring that all material capital assets, collectively, are capitalized and (2) minimizing the cost of record keeping for capital assets (GASB Staff implementation Guidance 7.9.8). Capital assets must be capitalized, which means to record the property in the accounting records as assets at original/historical cost. Capital assets must also be depreciated/amortized except indefinite or inexhaustible life capital assets.

The CSU has invested in a broad range of capital assets that are used in the CSU's operations, which include:

- Real Property
  - Land and land improvements

- Buildings and building improvements
- Improvements other than buildings
- Infrastructure
- Leasehold improvements
- Construction work in progress

- Personal Property
  - Equipment, including furniture, vehicles, boats and aircraft
  - Library books and reference materials
  - Works of art and historical treasures
- Intangible Assets
  - Computer Software (Include websites)
  - Easements and Rights
  - Licenses and Permits
  - Patents, Copyrights and Trademarks

2.1 CAPITAL ASSET CLASSIFICATION

Assets purchased, constructed, or donated that meet the CSU's capitalization definition (or threshold) must be uniformly classified. Campuses are encouraged, but not required, to report their buildings on a component level.

2.2 STANDARD ASSET LIVES

For estimated useful lives, (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information can be used. In determining estimated useful life, an asset's present condition and how long it is expected to meet service demands should also be considered (GASB Statement No. 34, par 161).

Standard asset lives have been established as a general guideline only for each major class of assets and are shown on the following table. Campuses should consider the above paragraph from the GASB to determine the best estimated useful lives for various types of capital assets. Asset classes are defined in *Section 3 - Capital Asset Categories*.

Class of Asset	Standard Life*
Land and non-depreciable land improvements	Infinite
Buildings/building improvements	30 years
Buildings – Componentized	
A. Shell	45 years

B. Service Systems C. Fixed Equipment Temporary buildings, modular units or similar structures Improvements, other than buildings - Signage, sprinkler systems, TV tower, radio tower, swimming pools, paved parking lots, walkways and courtyards, fencing, bleachers, retaining walls, fountains	20 years 20 years The lesser of 10 years or estimated useful life 10-30 years or estimated useful life
Infrastructure - Roads and bridges Telecommunications networks between buildings	 40 years 5-10 years
Leasehold improvements	The lesser of 10 years or remaining term of lease
Construction work in progress	Not depreciated
Personal Property:	
Equipment, including alarms and telecommunications equipment within buildings, and taggable equipment	5 or 10 years (depending on the type of equipment)
Library books/materials (periodicals and subscriptions should be expensed as purchased)	10 years
Works of art/historical treasures	Infinite or estimated useful life if exhaustible
Intangibles – Software Other intangible assets Assets with Indefinite Lives	 3-5 years Various Infinite

* Federal guidelines require that asset lives and depreciation methodology used to calculate indirect cost rates for federally sponsored projects be consistent with those used for campus financial reporting purposes. Campuses and auxiliary organizations that currently use rates that differ from those presented herein as part of their existing indirect cost rate calculation may continue to use the current approved indirect cost rate for sponsored projects. When a new indirect cost rate is negotiated, the asset lives and depreciation/amortization methodologies adopted by the campus must be used.

For example, when an institution elects to depreciate its buildings by components, the same depreciation methods must be used for indirect cost allocations used for federal awards (Facilities & Administrative) purposes and financial statements purposes. Reference: OMB Circular A21 section J.12.B.(4).

2.3 CAPITAL ASSET ACQUISITION COST

2.3.1 CAPITAL ASSET DONATIONS

Capital asset donations should be recorded at the fair market value (FMV) on the date of donation and should be depreciated/amortized using the suggested useful lives in this guide. Effective July 1, 2015, GASB Statement No. 72, *Fair Value Measurement and Application* requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. The acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

2.3.2 CAPITAL ASSETS PURCHASED WITH FEDERAL AND STATE FUNDS

Capital assets purchased with federal or state grant funds should be capitalized and depreciated/amortized by the entity that owns the asset (as stipulated in the grant agreement). For the CSU, if a campus foundation administers the purchase of a piece of equipment for the campus's use, the campus should capitalize and depreciate the asset. Documentation should accompany the transfer of ownership from the foundation to the campus. If the asset is purchased by the foundation, the campus should record the asset similar to a donated asset or contribution. This will require good communication between campuses and its auxiliary organizations. Assets purchased with grant funds must be capitalized and depreciated/amortized on one of the entity's financial statements.

2.3.3 LEASED PROPERTY AND EQUIPMENT

A lease agreement is classified as a capital lease when substantially all of the risks and benefits of ownership are assumed by the lessee. A capital lease can be viewed as an installment purchase of property rather than the rental of property. Leased assets should be capitalized if the related lease agreement meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.

2. The lease contains a bargain purchase option. A bargain purchase option gives the lessee the right to acquire the leased property at the end of the lease at a price so favorable that the option is likely to be exercised.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executor costs, equals at least 90 percent of the fair market value of the leased property.

If criterion 1 or 2 is met, the asset shall be depreciated in accordance with the campus' normal depreciation policy and estimated useful lives for capital assets. However, if criterion 3 or 4 is met, the asset shall be depreciated over the lease term.

Leases that do not meet any of the above requirements should be recorded as an operating lease and disclosed in the notes to the financial statements.

2.4 DEPRECIATION/AMORTIZATION OF CAPITAL ASSETS

Depreciation/Amortization is the expensing of an asset's depreciable/amortizable cost to the time periods during which the owner receives benefit from use of the asset. Capital assets should be depreciated/amortized over their estimated useful lives unless they have unlimited lives or are inexhaustible. Land is considered to have an unlimited life. For a definition of an "inexhaustible asset", see the **Works of Art and Historical Treasures** section of this guide.

The straight-line depreciation method (historical cost divided by useful life) will be used by the CSU. Campuses may apply the use of the half-year convention for depreciation/amortization, or the actual date, for indicating when an asset was rendered into service. The half-year convention applies to the 1st and last years of an asset's depreciable/amortizable life and allows for the recording of a half-year of depreciation for assets placed in service any time during the year. Alternatively, depreciation/amortization can be applied from the specific date on which the asset was placed in service. Judgement has to be made on whether to apply the half-year convention or the actual date on which the asset was placed in serivce. Half-year convention is acceptable unless it results in significantly different from recognizing depreciation from the actual date the property is ready for use.

Depreciation/amortization data for the State Controller's records (state legal basis) will be calculated by the State Controller's office and will not be recorded on campus legal basis accounting records. For GAAP purposes, depreciation/ amortization will be calculated and maintained by the campus for each eligible asset, and total depreciation/amortization expense will be reported each year. Accumulated depreciation/amortization will be summarized and reported for GAAP purposes annually.

2.5 DISPOSAL OF CAPITAL ASSETS

When an asset is disposed, a gain or loss must be recognized in the financial statements when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset, or
- Cash is not exchanged and the asset is not fully depreciated or has a residual value.

A gain or loss is not reported when:

- Cash exchanged equals the net book value and the asset does not have a residual value, or
- Cash is not exchanged and the asset is fully depreciated/amortized and has no residual value.

2.5.1 COMPUTATION OF GAIN OR LOSS FROM SALE OF ASSETS

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value. Net book value is the asset's historical cost less the accumulated depreciation/amortizaion recorded for that asset.

Example:

	Gain on Sale	Loss On Sale
Asset's historical cost	$ 10,000	10,000
Less Accumulated depreciation	(7,000)	(7,000)
Net book value	3,000	3,000
Less: Proceeds received	(4,000)	(2,000)
Gain from sale of asset (credit to other nonoperating revenues (expenses) account)	$ (1,000)	
Loss from sale of asset (debit to other nonoperating revenues (expenses) account)		$ 1,000

If the asset has been fully depreciated/amortizated and has a residual value, then the proceeds must be subtracted from the residual value to compute the gain or loss.

NOTE: When accounting for the transfer of capital assets within the same financial reporting entity, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. For example, in an intra-entity sale of receivables, the transferee should recognize the receivables

acquired at the carrying value of the transferor. The difference between the amount paid (exclusive of amounts that may be refundable) and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately-issued statements, but reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity. It should be the same for both discretely presented and blended component units (GASB Statement No. 48 par. 15). Therefore, when an asset is sold or transferred between campuses and/or auxiliary organizations/discretely presented component units, the selling entity has no reported carrying value for the rights sold because the asset recognition criteria has not been met. Therefore, the transferee campus/transferee organization should not recognize an asset and related revenue until recognition criteria appropriate to that type of revenue are met. Instead, the transferee should report the amount paid as a deferred charge to be amortized over the duration of the transfer agreement. The transferor should defer the recognition of revenue from the sale in its government-wide and fund financial statements and recognize it over the duration of the sale agreement. Furthermore, deferred revenues and charges resulting from intra-entity sales of future revenues and the periodic amortization of those balances should be accounted for similarly to internal balances and intra-entity activity within the financial reporting entity.

If the asset transferred between campuses and/or auxiliary organizations/discretely presented component units is fully depreciated and the carrying value of the asset to the transferee is zero, the transfer does not need to be recorded as part of the Transfer Report because there is no impact on the NBV of the assets. However, the capital asset should be included in the transferee's fixed asset listing for purposes of a physical count with a NBV as zero.

2.6 Assets Acquired by the Exchange of Other Assets

2.6.1 Similar Assets

When recording an exchange of similar assets, campuses must use a book value basis for the assets surrendered or acquired.

- When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the book value of the asset surrendered.
- When monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

2.6.2 Dissimilar Assets

When recording an exchange of dissimilar assets, campuses must:

- Record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded.
- If cash is used to purchase the asset, agencies must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered.

2.7 IMPAIRMENT OF CAPITAL ASSETS

The effects of capital asset impairments are to be reported when they occur rather than as part of ongoing depreciation/amortization expense or upon disposal of the capital asset.

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Additionally, prominent events or changes in circumstances affecting capital assets must also be considered to determine whether impairment of a capital asset has occurred. Such events include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental facts or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down. Impaired capital assets that are idle should be disclosed, regardless of whether the impairment is considered permanent or temporary.

Refer to GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, for further discussion and guidance.

Example: Physically Damaged Building

Assumption

A flood damaged an office building in Sacramento State University. The event was considered to be both unusual in nature and infrequent in occurrence. The office building was constructed in 2006 at a cost of $30 million and was expected to provide service for thirty years. In 2010, after 4 years of use, the flood damaged the office building. Repairs costing $3 million was made to restore the office building to a usable condition. Only $2 million of the restoration costs are capitalizable costs in accordance with the capitalization policies. Insurance is carried for property damage after $1 million deductible. Building construction cost index have been flat over the past 4 years (no inflation).

Evaluation of Impairment

The evidence of physical damage indicates impairment. The magnitude of the physical damage would be considered significant. Flood damage would not be part of the normal life cycle of a building. Impairment loss using the restoration cost approach is determined as follows:

a	Historical cost, 2006	$30,000,000
	Accumulated depreciation (*a* / 30 × 4)	4,000,000
b	Carrying value, 2010	$26,000,000
c	Restoration cost (No inflation / deflation)	$3,000,000
d	Restoration cost ratio *(c / a)*	10%
	Impairment loss *(b × d)*	$2,600,000
	Insurance recovery	2,000,000
	Net Impairment loss	$600,000

Accounting entries:

Debit	Impairment Loss	$2,600,000	
	Credit Capital Asset		$2,600,000

To record the impairment of the building.

Debit	Operation, Plant and Maintenance Expense	$1,000,000	

Debit	Capital Asset	$2,000,000	
	Credit Cash		$3,000,000

To record the restoration cost ($2 million is capitalizable).

Debit	Cash	$2,000,000	
	Credit Impairment Loss		$2,000,000

To record the insurance recovery (net of impairment loss).

2.8 INSURANCE RECOVERIES

Insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss unless the recovery happened in subsequent year or no impairment loss to offset. Then it should be reported as a program revenue, non-operating revenue, or extraordinary item, as appropriate. Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction (GASB Statement No. 42 par. 21) as shown above.

2.9 CAPITALIZATION OF POLLUTION REMEDIATION OUTLAYS AND REBATES

Pollution Remediation Outlays

Except as indicated in GASB Statement No. 49 paragraph 22, pollution remediation outlays, including outlays for property, plant, and equipment, should be reported as an expense when a liability is recognized. However, paragraph 22 provides examples were capitalization is appropriate. See *Section 5 - Excerpts from Relevant Pronouncements* of this chapter for a full quote of paragraph 22. Also, see GASB Statement No. 49, paragraph 106, which is a flowchart and GAAP Manual Chapter 4.12 *Pollution Remediation Obligations* for further guidance.

Rebates

Treatment of rebates is different between exchange and nonexchange transactions.

Exchange Transactions

Rebates (trade discounts) should be netted against the cost of the asset as the historical cost actually spent for the asset is net of the rebates.

Example 1

A campus has entered a binding contract to purchase equipment from a company. In the agreement, the company has agreed to give a manufacturer's rebate of 5% of the

equipment cost paid by the campus after 3 months of purchase and registration, the campus paid a total of $200,000 for the equipment.

Debit	Capital asset (net of $10,000 rebate)	$190,000
Debit	Receivables	$10,000
Credit	Cash	$200,000

To record the equipment at historical cost

Non-exchange Transactions

Rebates offered by 3rd party (other than the vendor) are considered as "reimbursement-type" or "expenditure-driven" non-exchange transactions. As a result, rebates to be received will be recorded as revenue when all eligibility requirements have met. The rebate is considered as a separated non-exchange transaction from the acquisition of the asset. Acquisition cost incurred will be capitalized at its full amount.

Example 2

A campus has entered a binding agreement with a utility company. In the agreement, the utility company pays the campus for certain costs the campus paid to a construction company for major renovations or new construction of an energy efficient building which is owned and recorded by the campus**.** Upon completion of construction, the building satisfied the energy efficiency test but is required to maintain the agreed upon energy efficiency equipment for the next 5 years. The building was completed and satisfied the energy efficiency test in year 1 and the total cost of the building is $2,000,000. In year 1, the campus received a rebate of $500,000 from the utility company. Assume the campus maintained the agreed upon energy efficiency equipment for the required 5 years.

Debit	Capital Asset	$2,000,000	
	Credit Cash		$2,000,000

To record the building.

Debit Cash		$500,000	
Credit	Other nonoperating revenue		$100,000
Credit	Deferred Revenue		$400,000

Year 1: To record the rebate and deferred revenue received from the utility company

Debit	Deferred Revenue	$100,000

Credit	Other nonoperating revenue	$100,000

Years 2 – 5: Annual entry to recognize revenue from the utility company as the 5 year contingency requirement is satisfied.

3. Capital Asset Categories

3.1 Land and Land Improvements

3.1.1 Land Definition

Land is the surface of the earth, which can be used to support structures, or may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite).

3.1.2 Land Improvement Definition

Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use. Land improvements do not include roads, bridges, pipelines, etc. These are classified as infrastructure.

3.1.3 Depreciation Methodology

Land is an inexhaustible asset and does not depreciate over time.

3.1.4 Examples of Expenditures to be Capitalized as Land and Land Improvements

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land Right-of-way
- Land excavation, fill, grading, drainage
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines) to facilitate construction

3.2 Buildings and Building Improvements

3.2.1 Building Definition

A building is a structure that is permanently attached to the land, is not infrastructure, and is not intended to be transportable or moveable.

3.2.2 BUILDING IMPROVEMENT DEFINITION

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold, and the expenditure increases the life or value of the building.

3.2.3 DEPRECIATION METHODOLOGY

The straight-line depreciation (historical cost divided by useful life) will be used for buildings, building improvements and their components. Subsequent improvements that change the use or function of the building shall also be depreciated. This may be accomplished by:

- depreciating the addition separately over its useful life, not to exceed the useful life of the primary asset, or
- adding the value of the improvement to the net asset value of the original asset and assigning a new useful life.

3.2.4 EXAMPLES OF EXPENDITURES TO BE CAPITALIZED AS BUILDINGS

3.2.4.1 PURCHASED BUILDINGS

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Professional fees (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the buildings to date of purchase
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation

3.2.4.2 CONSTRUCTED BUILDINGS

- Completed project costs
- Cost of excavation, grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)

- Internal costs directly attributable to a construction project (i.e. labor costs related to project management activities)
- Construction project claims premiums
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extension, or enlargements)
- Tiered parking structures
- Net interest cost incurred (i.e. interest expense in excess of interest income) during construction period (see GAAP Manual Chapter 4.1.5 section 4.11 *Capitalized Interest* and GASB Statements No. 34 and 62 for discussion)
- Demolition costs of existing structures should be capitalized as part of the cost of the new asset if the structure exists on newly acquired land and is demolished promptly after acquiring the land. Demolition costs of existing assets that have been operating assets should be charged to expense, even if the demolition is necessary to construct a new asset.
- Additional costs generated during construction stoppage (e.g. security cost to safeguard the site and construction materials), which usually do not add value or useful life to the fixed asset, cannot be included and should be expensed.

3.2.4.3 COMPONENTIZATION OF BUILDINGS

- SHELL-Same as constructed buildings above
- SERVICE SYSTEMS- Electrical and lighting systems, heating, ventilation, and air conditioning (HVAC), plumbing, fire protection systems and elevator systems
- FIXED EQUIPMENT- sterilizers, casework, fume hoods, cold rooms

3.2.5 EXAMPLES OF EXPENDITURES TO BE CAPITALIZED AS IMPROVEMENTS TO BUILDINGS

NOTE: For the replacement of part of a building to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value and/or useful life of the building, such as renovation of a student center. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not be capitalized. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc. to usable office, research, or classroom space
- Structures **attached** to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation/upgrade of floor, wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc. that extends the life of the building
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
- Other costs associated with the above improvements

3.2.5.1 BUILDING MAINTENANCE EXPENSE

Examples of expenditures **not** to capitalize as improvements to buildings are listed below. Instead, these items should be recorded as maintenance expense.

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building

- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Maintenance-type interior renovations, such as repainting, touch-up plastering, replacement of carpet, tile or panel sections; sink and fixture refurnishing, etc.
- Maintenance-type exterior renovations, such as repainting; replacement of sections of deteriorated siding, roof, or masonry sections that does not extend the useful life of the building
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building

3.3 INFRASTRUCTURE

3.3.1 INFRASTRUCTURE DEFINITION

Assets that are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature (e.g. electric, water and gas lines).

3.3.2 INFRASTRUCTURE IMPROVEMENTS

Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as betterments and recorded as an addition of value to the infrastructure if the improvement or addition of value meets the capitalization threshold and materially increases the life or value of the asset relative to the original cost or life period.

3.3.3 JOINTLY FUNDED INFRASTRUCTURE

Infrastructure paid for jointly by the state and other governmental entities should be capitalized by the entity responsible for future maintenance.

3.3.4 MODIFIED APPROACH VS. DEPRECIATION

The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system.
- It is documented that the assets are being preserved at or above a condition level established by the government.

The CSU does not use the modified approach in lieu of recording depreciation.

3.3.5 MAINTENANCE COSTS

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

3.3.6 ADDITIONS AND IMPROVEMENTS

Additions and improvements are those capital outlays that increase the capacity or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost. The cost of additions and improvements should be capitalized under both the modified and depreciation approaches to reporting infrastructure.

3.3.7 DEPRECIATION METHODOLOGY

The straight-line depreciation method (historical cost divided by useful life) will be used for infrastructure assets.

3.3.8 EXAMPLES OF EXPENDITURES TO BE CAPITALIZED AS INFRASTRUCTURE

- Highway and rest areas
- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges, railroads, trestles
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks
- Dam, drainage facility
- Water wells (includes initial cost of drilling, the pump and its casing)
- Light system (traffic, outdoor, street, etc.)
- Airport runway/strip/taxiway/apron

- Electric, water and gas (main lines and distribution lines, tunnels)

3.4 LEASEHOLD IMPROVEMENTS

3.4.1 LEASEHOLD IMPROVEMENTS DEFINITION

Construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements ***will revert to the lessor*** at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value.

3.4.2 DEPRECIATION METHODOLOGY

Leasehold improvements are capitalized by the lessee and are depreciated over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent should be recorded in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be depreciated over the life of the initial lease term or useful life of the improvement, whichever is shorter.

3.5 CONSTRUCTION WORK IN PROGRESS

3.5.1 CONSTRUCTION WORK IN PROGRESS DEFINITION

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, and reconstructions that are substantially incomplete. Software developed in progress that has not yet been placed in service should be reported as internally generated intangible assets in progress. Please see section 3.9.1 *Computer Software* in this chapter for more details.

3.5.2 DEPRECIATION METHODOLOGY

Depreciation is not recorded while assets are accounted for as construction work in progress.

3.5.3 CAPITALIZATION THRESHOLD

Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of filing of Notice of Completion documents, occupancy, or when the asset is placed into service.

At that time, the assets should start being depreciated in accordance with the standard lives of the related capital assets categories.

3.5.4 CAPITALIZATION OF INTEREST COSTS

Interest costs related to Construction Work in Progress may need to be capitalized see Chapter 4.1.5 section 4.11 *Capitalized Interest* for further details.

3.6 PERSONAL PROPERTY

3.6.1 PERSONAL PROPERTY DEFINITION

Fixed or movable tangible assets to be used for operations, the benefits of which extend at least one year from date of acquisition and placement into service. Improvements or additions to existing personal property that exceed the capitalization threshold and materially increase the value or life of the asset relative to the original cost or life should be capitalized as a betterment and recorded as an addition of value to the existing asset.

NOTE: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should be capitalized as a part of prepaid assets (i.e. prepaid expenses) and amortized over the term (life) of the related warranty or maintenance agreements.

3.6.2 JOINTLY FUNDED PERSONAL PROPERTY

Personal property paid for jointly by the state and other governmental entities should be capitalized by the entity responsible for future maintenance.

3.6.3 DEPRECIATION METHODOLOGY

The straight-line depreciation method (historical cost divided by useful life) will be used for personal property.

3.6.4 CAPITALIZATION THRESHOLD

The capitalization threshold for personal property is a unit acquisition cost of at least $5,000 and an estimated life of greater than one year. For personal property acquired as a group, such as refrigerators for student housing, refer to guide in Section 2 *Capital Asset Definition and Guidelines*.

3.6.5 EXAMPLES OF EXPENDITURES TO BE CAPITALIZED AS PERSONAL PROPERTY

- Original contract or invoice price
- Freight charges

- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

3.7 LIBRARY BOOKS AND REFERENCE MATERIALS

3.7.1 LIBRARY BOOKS AND MATERIALS DEFINITION

A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis.

3.7.2 LIBRARY CHARACTERISTICS

A professional, academic, or research library normally has one or more of the following characteristics:

- Internal controls are in place in lieu of central property management.
- Information is housed in a centralized location.
- Physical security measures are in place to protect the assets.
- Checkout procedures and policies exist and are used.
- Individual item costs and supplemental information is generally contained in a supplemental database.
- Volumes assigned to libraries are typically available to employees, students, and other individuals for checkout or use.
- Existence of the library helps the entity fulfill its mission.
- The value is material to the organization.
- Equipment assigned to libraries typically remains under central security for on-premises use.

A library may be reported on a composite basis by making net adjustments to total value to reflect an increase or decrease in total value. Net adjustments must be made at least once annually by the close of the fiscal year.

3.7.3 DEPRECIATION METHODOLOGY

Library books should be capitalized at their purchase price and depreciated over their estimated useful life (10 years is suggested). Purchases of library books can be grouped by year and depreciated on an aggregate basis.

3.7.4 CAPITALIZATION THRESHOLD

Purchases of books and materials for a professional, academic, or research library, should be capitalized, as there is no minimum dollar amount. Periodics, subscriptions, and audiovisual materials should be expensed. Preservation and binding costs should also be expensed, except that if the preservated and binded books are rare and considered as collections like art. Library acquisitions are valued at cost or on another reasonable basis; deletions are valued at annually adjusted average cost. The library maintains records of all books and other library items, which suffice as detailed inventory records. Books, periodicals, subscriptions and other materials purchased but not used in a library should be expensed unless they constitute a capital event.

Refer to Chapter 4.1.5 *Capital Assets, Depreciation and Amortization* of the GAAP Reporting Manual for detailed instructions regarding acquisitions and deletions of library books.

3.7.5 EXAMPLES OF EXPENDITURES TO BE CAPITALIZED AS LIBRARY BOOKS

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries

3.8 WORKS OF ART AND HISTORICAL TREASURES

3.8.1 WORKS OF ART AND HISTORICAL TREASURES DEFINITION

Works of art and historical treasures are defined as collections or individual items of significance that are owned by a state agency which are not held for financial gain, but rather for public exhibition, education, or research in

furtherance of public service; and are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Exhaustible collections or items – items whose useful lives are diminished by display or educational or research applications.

Inexhaustible collection or items – where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

For most of the CSU campuses, works of art and historical treasures are insignificant and thus could be expensed or capitalized. If capitalized, these amounts should be treated as inexhaustible and not be depreciated.

3.9 INTANGIBLE ASSETS

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* was issued in June 2007. Colleges and universities are now required to adopt GASB Statement No. 51, which establishes standards of accounting and financial reporting for intangible assets. Excerpts from this statement have been included in Section 3.9 and Section 5.17-5.24 of this guide. Other reference materials can be found at the Year-End GAAP Training at Year-End Legal and GAAP Accounting Resources, and FAST-ED Training.

Intangible assets are property which lack physical substance and are nonfinancial in nature but give valuable rights to the owner. They are primarily used for operation but not for directly obtaining income or profit, nor intent to resell. An intangible asset will be capitalized if it has an expected useful life of at least one year and a cost of at least $5,000. Section 3.9 contains the applicable guidance to follow.

3.9.1 COMPUTER SOFTWARE

Commercially available computer software that is purchased or licensed and placed into operation without modification requiring more than minimal incremental effort (that is, the computer software is not considered internally generated) and software that is for internal use, meets the description of an intangible asset in paragraph 5 in GASB Statement No. 51 (GASB Implementation Guide Z.51.1).

3.9.1.1 INTERNAL USE SOFTWARE DEFINITION

For software to be considered for internal use, it must meet the following tests:

- The software must be acquired, internally developed, or modified solely to meet the college/university's internal needs, and
- During the software's development or modification, the college/university must not have a substantive plan to market the software externally to other organizations.

Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally used (GASB Statement No. 51 par. 9).

Websites should be considered computer software if the website meets the description of internally generated computer software mentioned above.

3.9.1.2 CAPITALIZATION OF COSTS

The capitalization threshold for capital assets is a unit acquisition cost of at least $5,000 in fair value and an estimated life of greater than one year, therefore, annual fees and maintenance costs are expensed, whether fees are paid monthly or annually. If there is an agreement requiring annual installment payments over the life of the contract, with a life greater than one year, both an intangible asset and a long-term liability representing the obligation should be recorded (e.g., computer software licenses for the right to use) (GASB Implementation Guide Z.51.21).

Outlays incurred related to the development of internally generated software that is identifiable should be capitalized only upon the occurrence of all of the following:

a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the software upon the completion of the project.

b. Demonstration of the technical or technological feasibility for completing the project so that the software will provide its expected service capacity.

c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the software.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred. The above criteria should be considered to be met only when both of the following occur:

a. The activities noted in the preliminary project stage are completed.

b. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Moreover, software development generally involves three phases. These phases and their respective characteristics are as follows:

a. *Preliminary Project Stage*. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

b. *Application Development Stage*. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

c. *Post-Implementation/Operation Stage*. Activities in this stage include application training and software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.

Accordingly, outlays associated with activities in the preliminary project stage should be expensed as incurred. Outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational. Outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.

The recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in any of the following:

a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing.

b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks.

c. An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software. Capitalization should cease when computer software is ready for its intended use after all substantial testing is completed.

Implementation of GASB Statement No. 51 should be applied to modifications of computer software regardless of whether the original software being modified has been reported as an asset in the financial statements (GASB Staff implementation Guide Z.51.35).

3.9.1.3 Discussion of Costs Associated with Campus Management Systems (CMS)/Peoplesoft Implementation

Certain costs associated with CMS projects qualify for capitalization, as discussed above. The challenges of separating certain internal costs on a reasonably cost effective basis, as well as the relatively short amortization period of software costs have driven the CSU's decision to limit the capitalization of Peoplesoft implementation costs to the following items:

- Peoplesoft licensing agreement (capitalized at the Chancellor's Office).
- Fees paid to third parties for services provided to develop the software during the application development phase (capitalized at the Chancellor's Office). If the baseline product pushed out by Software Operation and Support Services (SOSS) is further developed/modified by the campus prior to placing it in service, the related costs may be capitalized by the campus if they meet the capitalization criteria described in Section 3.9.1.2 *Capitalization of Costs*.
- External costs paid to third parties for specific upgrades and enhancements subsequent to July 1, 2002 (capitalized at the Chancellor's Office). If the baseline product pushed out by SOSS is further developed/modified by the campus prior to placing it in service, the related costs may be capitalized by the campus if they

meet the capitalization criteria described in Section 3.9.1.2 *Capitalization of Costs*.

- Payroll and payroll-related costs of central CMS employees directly associated with or devoting time in coding and testing the software.
- Costs associated with external maintenance agreements will be capitalized separately as a part of prepaid assets and amortized over the life of the agreement.

The table below identifies types of campus costs after baseline product delivery and provides guidance on whether they should be capitalized or expensed:

Description of cost	Capitalize	Expense
Some baseline processes or delivered PeopleSoft processes do not meet the needs of the campus, so custom processes are developed and maintained through upgrades, implementations and patches. An example of this is a journal upload process. PeopleSoft has a process that is cumbersome so many campuses have developed their own custom process.	**X** (if these tools provide new functionalities that do not exist in the baseline product)	**X** (if these tools only streamline existing functionalities and do not enhance any functionalities)
Campuses have to maintain connections to any third party software or services (e.g. CashNet or Touch Net) they use in the course of their business. During upgrades, implementations and patches, these connections are usually extensively tested and may require the expertise of consultants to properly maintain.		**X** (does not add functionality, but must be maintained in order to connect to third party software)
PeopleSoft, as delivered to the campuses, does not address any campus reporting needs, such as departmental reports. Campuses have each developed their own	**X** (if developing a new functionality that does not	**X** (if using existing reporting tool to create new

methods utilizing tools available in the software to address this need. Each location must maintain their campus reporting solution through upgrades, patches and implementations. Campuses have used nVision, sqr reports or developed their own homegrown data warehouse to deliver reports to their campus community. Maintenance of these reports may be costly and require campus personnel and consultants to spend many hours reviewing results.	exist in the baseline product (for example, a data warehouse))	reports for campus specific needs)
Inherent to PeopleSoft are many available products and processes (i.e. additional available PeopleSoft functionality) that are not included in the CMS baseline product version pushed out by SOSS. While not supported by SOSS, such products/ processes may present a solution for a campus that negates the need for third party software or services (for example, generating ACH files from PeopleSoft Accounts Payable). Therefore, the campus may elect to further modify (customize) the baseline product version to include certain of these available products/ processes. These modifications result in additional functionality for the campus and are considered an upgrade or enhancement of the baseline product version. Maintenance costs associated with such modifications to the baseline product version are considered ongoing application maintenance activities and should be expenses	**X** (if the costs associated with the upgrade/ enhancement meet the capitalization criteria described in Section 3.9.1.2)	**X** (costs associated with ongoing maintenance activities)

as incurred.		

This policy recognizes that certain other costs may qualify for capitalization. However, the complexity and subjectivity associated with gathering such costs is not considered cost effective. The costs not capitalized are not deemed significant to the financial statements of the CSU or its campuses.

NOTE: As noted in Section 3.5.1 *Construction Work in Progress Definition*, internal developed software not placed into service at 6/30/CY should be reported as internally generated intangible assets in progress rather than as a construction work in progress.

3.9.1.4 AMORTIZATION METHODOLOGY

The straight-line amortization method (historical cost divided by useful life) will be used for software developed or obtained for internal use. Given the history of rapid changes in technology, software will be amortized over a relatively short useful life.

Fully depreciated software that has been either replaced or is no longer in service or is considered obsolete, may be removed from the capital assets inventory and accounting records, even if the campus has not physically disposed of the software.

3.9.2 EASEMENTS AND RIGHTS (E.G. LAND USE, WATER, MINERAL)

3.9.2.1 DEFINITION

An easement or right is a non-possessory interest to use property in possession of another person for a stated purpose. An easement or right is considered as a property right in itself and is still treated as a type of property. An easement or right does not give the holder a right of "possession" of the property, but only gives a holder a personal privilege to use a property of another for a limited purpose.

Individual rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as an intangible asset (at historical cost), subject to the provisions of GASB Statement No. 51, if they meet the description of an intangible asset (GASB Staff Implementation Guidance Z.51.30).

However, individual rights associated with land or property already recorded as capital asset before GASB Statement No. 51 should remain aggregated and reported as the capital assets (land or building) instead of separately as intangible assets, and the reported value of the capital asset (land or building) should not be increased upon

implementation of GASB Statement No. 51 (GASB Staff Implementation Guidance Z.51.30).

3.9.2.2 CAPITALIZATION OF COSTS AND MEASUREMENT

The capitalization threshold for capital assets is a unit acquisition cost of at least $5,000 in fair value and an estimated life of greater one year.

The outlays would have been incurred to acquire an easement or right in an exchange transaction can be used to estimate the fair value of the easement. If the acquisition of the easement or right is a nonexchange transaction, the fair value of the associated property at the time of acquisition generally can be used as a basis to estimate the fair value of the easement or right. The fair value of the associated property may be used to approximate the outlays that would have been incurred assumed that the easement or right is acquired through an exchange transaction (GASB Statement No. 51 par. 72-75).

3.9.2.3 AMORTIZATION METHODOLOGY

An easement or right with an indefinite useful life should *not* be amortized.

If an easement or right has a definite life, the straight-line amortization method (historical cost divided by useful life) will be used.

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such asset may be considered in determining the useful life if there is evidence that the renewal will be reasonable achieved and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal (GASB Statement No. 51 par. 16).

3.9.3 LICENSES AND PERMITS

3.9.3.1 DEFINITION

Licenses or permits refer to that permission as well as to the documents memorializing that permission. Licenses or permits may be granted by a party ("licensor") to another party ("licensee") as an element of an agreement between those parties.

3.9.3.2 Capitalization of Costs and Measurement

The capitalization threshold for capital assets is a unit acquisition cost of at least $5,000 in fair value and an estimated life of greater than one year. Licenses where no period is mentioned (i.e., perpetual licenses) are capitalized if the cost per license meets the threshold previously stated due to meeting the characteristics of an intangible asset, in which its useful ife extends beyond a single reporting period (GASB Statement No. 51. Par. 2).

The outlays would have been incurred to acquire a license or permit in an exchange transaction can be used to estimate the fair value. If the acquisition of the license or permit is a nonexchange transaction, the fair value of the license or permit at the time of acquisition generally can be used as a basis to estimate the fair value. The fair value may be the approximate outlays that would have been incurred assumed that the license or permit is acquired through an exchange transaction.

Outlays spent to successful defense of the legal rights embodied within any of these intangible assets only allows the asset to continue to be used during its originally established useful life assumed that it does not extend the useful life of the intangible asset, nor does it add any capacity to the intangible asset. Therefore, such outlays should be expensed as incurred (GASB Staff implementation Guidance Z.51.20).

3.9.3.3 Amortization Methodology

For a license or permit with a definite life, the straight-line amortization method (historical cost divided by useful life) will be used.

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such asset may be considered in determining the useful life if there is evidence that the renewal will be reasonable achieved and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal (GASB Statement No. 51 par. 16).

3.9.4 PATENTS, COPYRIGHTS AND TRADEMARKS

3.9.4.1 DEFINITION

A patent is a set of exclusive rights granted by the government to an inventor or their assignee for a limited period of time in exchange for a public disclosure of an invention.

A copyright is the set of exclusive rights granted to the author or creator of an original work, including the right to copy, distribute and adapt the work. These rights can be licensed, transferred and/or assigned.

A trademark is a distinctive sign or indicator used to identify that the products or services to consumers with which the trademark appears originate from a unique source, and to distinguish its products or services from those of other parties. A trademark is a type of intellectual property, and typically a name, word, phrase, logo, symbol, design, image, or a combination of these elements.

3.9.4.2 CAPITALIZATION OF COSTS & MEASUREMENT

The capitalization threshold for capital assets is a unit acquisition cost of at least $5,000 in fair value and an estimated life of greater than one year.

Outlays incurred to initially register an intangible asset similar to a patent, copyright or trademark generally should be capitalized (GASB Staff implementation Guidance Z.51.20). If the acquisition of the patent, copyright or trademark is a nonexchange transaction, the fair value of the patent, copyright or trademark at the time of acquisition generally can be used as a basis to estimate the fair value. The fair value may be the approximate outlays that would have been incurred assumed that the patent, copyright or trademark is acquired through an exchange transaction.

Outlays spent to successful defense of the legal rights embodied within any of these intangible assets only allows the asset to continue to be used during its originally established useful life assumed that it does not extend the useful life of the intangible asset, nor does it add any capacity to the intangible asset. Therefore, such outlays should be expensed as incurred (GASB Staff implementation Guidance Z.51.20).

3.9.4.3 AMORTIZATION METHODOLOGY

For a license or permit with a definite life, the straight-line amortization method (historical cost divided by useful life) will be used.

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such asset may be considered in determining the useful life if there is evidence that the renewal will be reasonable achieved and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal (GASB Statement No. 51 par. 16).

3.9.5 INTANGIBLE ASSETS WITH INDEFINITE LIVES

3.9.5.1 DEFINITION

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (GASB Statement No. 51 par. 17).

An intangible asset should not be considered to have an indefinite useful life solely because the precise length of the period over which it will provide service (that is, its useful life) is unknown. For example, the precise length of the useful life of computer software may not be known; however, it is known that the software will become obsolete and need to be replaced at some future point—in other words, its useful life is limited or finite. This also is the case for most tangible capital assets because they eventually will become physically deteriorated, although the exact point at which they will cease providing service is unknown. A capital asset of this nature, whether tangible or intangible, should be depreciated or amortized over an estimate of its useful life (GASB Staff Implementation Guidance Z.51.24).

3.9.5.2 AMORTIZATION METHODOLOGY

Intangible assets with indefinite useful lives should ***not*** be amortized.

If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, follow ing the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.

3.9.6 RETROACTIVE REPORTING AND DISCLOURSE (IMPLEMENTATION FOR FY 2009-2010)

Accounting changes adopted to conform to the provisions of GASB Statement No. 51 should be applied retroactively by restating financial statements, if practical, for all prior periods presented. If restatement is not practical, the cumulative effect of applying GASB Statement No. 51, if any, should be reported as a restatement of beginning net position, fund balances, or fund net position as appropriate, for the earliest period restated. In the period GASB Statement No. 51 is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained (GASB Statement No. 51 par. 20).

Retroactive reporting is **required** for intangible assets **except** for those considered to have **1) indefinite useful lives as of June 30, 2009** and **2)** those that would be considered **internally generated**. If determining the actual historical cost of these intangible assets is not practical due to the lack of sufficient records, these governments should report the estimated historical cost for these intangible assets that were acquired in fiscal years ending after June 30, 1980 (GASB Statement No. 51 par. 21).

For intangible assets previously subjected to amortization that have indefinite useful lives as of June 30, 2009, accumulated amortization related to these assets reported prior to the implementation of GASB Statement No. 51 should be restated to reflect the fact that these assets are not to be amortized (GASB Statement No. 51 par. 23).

Implementation of GASB Statement No. 51 should be applied to modifications of intangible assets regardless of whether the original intangible assets being modified have been retroactively reported as an asset in the financial statements (GASB Staff implementation Guide Z.51.35).

3.9.6.1 CSU SYSTEMWIDE POLICY ON RETROACTIVE REPORTING OF INDEFINITE OR INTERNALLY GENERATED INTANGIBLE ASSETS (APPLICABLE ONLY TO FY2009/10. ANY RETROACTIVE REPORTING OF INDEFINITE OR INTERNALLY GENERATED INTANGIBLE ASSETS IN FY2010/11 AND FORWARD IS CONSIDERED AS AN PRIOR PERIOD ADJUSTMENT)

Retroactive reporting is **not required but permitted** for intangible assets that are considered to have **1) indefinite useful lives** and **2)** those that would be considered **internally generated** as of June 30, 2009 (GASB Statement No. 51 par. 21).

GASB Implementation Guide Z.51.31 and Z.51.32 states that a government may retroactively report those intangible assets considered to have indefinite useful lives or internally generated as of the

effective date of GASB Statement No. 51 for which it has adequate records to determine or estimate the historical cost and the recognition criteria can be effectively applied; however, it would not be required to retroactively report all such intangible assets. Moreover, it should not retroactively report internally generated intangible assets to which the recognition criteria cannot be applied.

After considered the GASB Statement No. 51 and the appropriate GASB Staff Implementation Guide about accounting and reporting for intangible assets, CSU has decided not to retroactively report all indefinite or internally generated intangible assets except only those have adequate records to determine or estimate the historical cost and the recognition criteria can be effectively applied, or have already reported as of June 30, 2009. The followings are systemwide retroactive reporting instructions for each type of these intangible assets:

Computer Software: CSU has capitalized and reported internally generated software in the past and will continue to do so according to GASB Statement No. 51. Campuses should refer to section 3.9.1 *Computer Software* of this chapter for reporting instructions of internally generated software.

Websites: CSU does not plan to retroactively report internally generated websites which were created and in use on or before June 30, 2009.

Rights (Including Water and Mineral): CSU does not plan to retroactively report rights with indefinite lives, which were obtained on or before June 30, 2009.

Patents, Copyrights, & Trademarks: CSU does not plan to retroactively report patents, copyrights or trademarks which have indefinite lives or were internally generated, and were obtained on or before June 30, 2009, except those were already reported as of June 30, 2009.

Licenses & Permits: CSU does not plan to retroactively report licenses or permits which have indefinite lives or were internally generated, and were obtained on or before June 30, 2009, except those were already reported as of June 30, 2009. See below paragraph for the retroactive reporting instruction for the FCC licenses.

Federal Communications Commission (FCC) Licenses: The FCC has given licenses to the CSU at no cost in early 1980 primarily for the use of education purpose at that time. These licenses allow CSU to use spectrums for running radio channels and renewable every 10 years. The renewal of the FCC licenses is a perfunctory exercise.

There is a remote likelihood that the licenses will not be renewed upon expiration. Lately, there are 14 campuses reported holding this license. As of now, since majority of the spectrums or radio channels under these licenses are leased to outside parties but not in use for operation by the campuses, CSU does not plan to retroactively report FCC licenses. Moreover, the FCC licenses' lives are considered as indefinite and therefore not required to be retroactively reported according to the GASB Statement 51 No. paragraph 22.

3.10 IMPROVEMENTS OTHER THAN BUILDINGS (DEPRECIABLE)

Improvements other than buildings are non-structural improvements of a permanent nature and include such assets as:

- Paved parking lots (not parking structures)
- Walkways and courtyards (in between buildings)
- Fencing
- Bleachers
- Retaining walls
- Fountains
- Swimming pools (outdoor)
- Major landscaping
- Signage
- TV and radio towers

4. CAPITAL ASSET IDENTIFICATION AND RECORDING

Campuses have already, as a part of the June 30, 2002 GAAP audit, undergone an analysis of capital assets. This analysis was performed to ensure that asset values were accurately reflected on the June 30, 2002 audited financial statements. Guidance was provided in AD 96-04. Additional analysis may be required by the campuses to identify values for campus infrastructure and segregate those values where infrastructure was previously recorded in another capital assets category, such as buildings. A derivation of the Engineering News Record (ENR) calculation described in AD 96-04 is one method that campuses may employ to estimate infrastructure costs. GASB Statement No. 34 par. 158 also provides guidance in this area.

Capital Asset Category	FIRMS Object	STATE GL	State GL Account Title
Land & land improvements	110001	2310	Land
Buildings &	110002	2321	Buildings

building improvements			
Accumulated depreciation – Buildings & bldg improvements	110003	2329	Accumulated depreciation – Buildings
Improvements other than buildings	110004	2331	Improvements other than Buildings
Accumulated depreciation – Improvements other than buildings	110005	2339	Accumulated depreciation – Improvements other than buildings
Infrastructure	110009	2331	Improvements other than buildings
Accumulated depreciation – Infrastructure	110010	2339	Accumulated depreciation – Improvements other than buildings
Leasehold improvements	110011	2331	Improvements other than buildings
Accumulated depreciation – Leasehold improvements	110012	2339	Accumulated depreciation – Improvements other than buildings
Construction work in progress	110008	2350	Construction work in progress
Personal property including:			
Capital Asset Category	**FIRMS Object**	**STATE GL**	**State GL Account Title**
■ Equipment	110006	2341	Equipment
■ Accumulated depreciation – Equipment	110007	2349	Accumulated depreciation – Equipment
■ Library books & materials	190020	2341	Equipment
■ Accumulated depreciation – Library books and materials	190021	2349	Accumulated depreciation – Equipment
■ Works of art and historical treasures	190030	2341	Equipment
Computer Software & Websites	110021	2411	Computer Software - Amortizable
Accumulated amortization –	110022	2491	Accumulated Amortization -

Computer Software & Websites			Computer Software
Land Use Rights - Amortizable	110023	2412	Land Use Rights - Amortizable
Accumulated Amortization - Land Use Rights	110024	2492	Accumulated Amortization - Land Use Rights
Land Use Rights - Non-Amortizable	110025	2422	Land Use Rights - Non-Amortizable
Patents, Copyrights & Trademarks - Amortizable	110026	2413	Patents, Copyrights & Trademarks - Amortizable
Accumulated Amortization - Patents, Copyrights & Trademarks	110027	2493	Accumulated Amortization - Patents, Copyrights & Trademarks
Patents, Copyrights & Trademarks - Non-Amortizable	110028	2423	Patents, Copyrights & Trademarks - Non-Amortizable
Licenses & Permits - Amortizable	110029	2414	Other Intangible Assets - Amortizable
Accumulated Amortization - Licenses & Permits	110030	2494	Accumulated Amortization - Other Intangible Assets
Licenses & Permits - Non-Amortizable	110031	2424	Other Intangible Assets - Non-Amortizable
Capital Asset Category	**FIRMS Object**	**STATE GL**	**State GL Account Title**
Other Intangible Assets - Amortizable	110032	2414	Other Intangible Assets - Amortizable
Accumulated Amortization - Other Intangible Assets	110033	2494	Accumulated Amortization - Other Intangible Assets
Other Intangible Assets - Non-Amortizable	110034	2424	Other Intangible Assets - Non-Amortizable
Internally Generated Intangible Assets in Progress	110035	2430	Internally Generated Intangible Assets in Progress

5. EXCERPTS FROM RELEVANT PRONOUNCEMENTS

STATEMENT NO. 34 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶18-22:

5.1 REPORTING CAPITAL ASSETS

18. Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

19. As used in this Statement, the term capital assets 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. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this Statement.

20. Capital assets that are being or have been depreciated (paragraph 22) should be reported net of accumulated depreciation in the statement of net position. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land, should be reported separately if the government has a significant amount of these assets. Capital assets also may be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment). Required disclosures are discussed in paragraphs 116 and 117.

21. Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible capital assets such as land and certain land improvements should not be depreciated.

22. Depreciation expense should be reported in the statement of activities as discussed in paragraphs 44 and 45. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets, (c) a subsystem of a network, or (d) individual assets.

STATEMENT NO. 34 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶27-29

5.2 REPORTING WORKS OF ART AND HISTORICAL TREASURES

27. Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions. The collection is:
    a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
    b. Protected, kept unencumbered, cared for, and preserved.
    c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

    Governments should disclose information about their works of art and historical collections as required by paragraph 118.

28. Recipient governments should recognize as revenues donations of works of art, historical treasures, and similar assets, in accordance with Statement No. 33. When donated collection items are added to noncapitalized collections, governments should recognize program expense equal to the amount of revenues recognized.

29. Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

STATEMENT NO. 34 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶116-120

5.3 REQUIRED NOTE DISCLOSURES ABOUT CAPITAL ASSETS AND LONG-TERM LIABILITIES

116. Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net position. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. (See paragraph 20).

117. Information presented about major classes of capital assets should include:
    a. Beginning and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial

statements), with accumulated depreciation presented separately from historical cost.

b. Capital acquisitions.

c. Sales or other dispositions.

d. Current-period depreciation expense, with the disclosure of the amounts charged to each of the functions in the statement of activities.

118. For collections not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, governments should make the disclosures required by paragraphs 116 - 117.

119. Information about long-term liabilities should include both long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences, and claims and judgments). Information presented about long-term liabilities should include:

a. Beginning and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements).

b. Increases and decreases (separately presented).

c. The portions of each item that are due within one year of the statement date.

d. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

120. Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgment. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

STATEMENT NO. 34 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶154-166

5.4 DETERMINING MAJOR GENERAL INFRASTRUCTURE ASSETS

154. At the applicable general infrastructure transition date, phase 1 and 2 governments are required to capitalize and report major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

155. The approaches in paragraphs 158 through 160 may be used to estimate the costs of existing general infrastructure assets when actual historical cost data are not available. These approaches are examples only; governments may use any approach that complies with the intent of this Statement. General infrastructure assets acquired after the effective dates of this Statement should be reported using historical costs.

156. The determination of major general infrastructure assets should be at the network or subsystem level and should be based on these criteria:

a. The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999 *or*

b. The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

Reporting of non-major networks is encouraged but not required.

5.5 ESTABLISHING CAPITALIZATION AT TRANSITION

157. The initial capitalization amount should be based on historical cost. If determining historical cost is not practical because of inadequate records, estimated historical cost may be used.

5.6 ESTIMATED HISTORICAL COST – CURRENT REPLACEMENT COST

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

159. The following example illustrates the calculation of estimated historical cost. In 1998, a government has sixty-five lane-miles of roads in a secondary road subsystem, and the current construction cost of similar roads is $1 million per

lane per mile. The estimated total current replacement cost of the secondary road subsystem of a highway network, therefore, is $65 million ($1 million x 65). The roads have an estimated weighted-average age of fifteen years; therefore, 1983 is considered to be the acquisition year. Based on the U.S. Department of Transportation, Federal Highway Administration's Price Trend Information for Federal-Aid Highway Construction for 1983 and 1998, 1983 construction costs were 69.03 percent of 1998 costs. The estimated historical cost of the subsystem, therefore, is $44,869,500 ($65 million x 0.6903). In 1998, the government would have reported the subsystem in its financial statements at an estimated historical cost of $44,869,500 less accumulated depreciation for fifteen years based on that deflated amount.

5.7 ESTIMATED HISTORICAL COST FROM EXISTING INFORMATION

160. Other information may provide sufficient support for establishing initial capitalization. This information includes bond documents used to obtain financing for construction or acquisition of infrastructure assets, expenditures reported in capital project funds or capital outlays in governmental funds, and engineering documents.

5.8 METHODS FOR CALCULATING DEPRECIATION

161. Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. In determining estimated useful life, a government also should consider an asset's present condition and how long it is expected to meet service demands.

162. Continuing the example from paragraph 159, assume that in 1998, the road subsystem had a total estimated useful life of twenty-five years from 1983 and therefore has an estimated remaining useful life of ten years. Assuming no residual value at the end of that time, straight-line depreciation expense would be $1,794,780 per year ($44,869,500 / 25) and accumulated depreciation in 1998 would be $26,921,700 ($1,794,780 x 15).

5.9 COMPOSITE METHODS

163. Governments also may use composite methods to calculate depreciation expense. Composite methods refer to depreciating a grouping of similar assets (for example, interstate highways in a state) or dissimilar assets of the same class (for example, all the roads and bridges of a state) using the same depreciation rate. Initially, a depreciation rate for the composite is determined.

Annually, the determined rate is multiplied by the cost of the grouping of assets to calculate depreciation expense.

164. A composite depreciation rate can be calculated in different ways. The rate could be calculated based on a weighted average or on an unweighted average estimate of useful lives of assets in the composite. For example, the composite depreciation rate of three interstate highways with estimated remaining useful lives of sixteen, twenty, and twenty-four years could be calculated using an unweighted average estimate as follows:

(1 / (16 + 20 + 24) / 3) = 5% annual depreciation rate

A composite depreciation rate may also be calculated based on an assessment of the useful lives of the grouping of assets. This assessment could be based on condition assessments or experience with the useful lives of the grouping of assets. For example, based on experience, engineers may determine that interstate highways generally have estimated remaining useful lives of approximately twenty years. In this case, the annual depreciation rate would be 5 percent.

165. The composite depreciation rate is generally used throughout the life of the grouping of assets. However, it should be recalculated if the composition of the assets or the estimate of average useful lives changes significantly. The average useful lives of assets may change as assets are capitalized or taken out of service.

166. The annual depreciation expense is calculated by multiplying the annual depreciation rate by the cost of the assets. For example, if the interstate highway subsystem cost $100 million then the annual depreciation charge would be $10 million. Accumulated depreciation should not exceed the reported cost of the assets.

STATEMENT NO. 42 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶5-18 AND ¶21-22

5.10 DEFINITION OF IMPAIRMENT

5. Asset impairment is a significant, unexpected decline in the service utility of a capital asset. Governments generally hold capital assets because of the services the capital assets provide; consequently, capital asset impairments affect the service utility of the assets. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. That is, at the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the capital asset.

6. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. The current usable capacity of a capital asset may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws or regulations or other changes in environmental factors, or change in manner or duration of use. Usable service capacity may be different from maximum service capacity in circumstances in which surplus capacity is needed for safety, economic, or other reasons. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairment.

5.11 ASSESSMENT OF IMPAIRMENT

7. The determination of whether a capital asset is impaired as described in paragraph 5 is a two-step process of (a) identifying potential impairments and (b) testing for impairment. Capital assets that have potential for meeting the definition of impairment are identified through events or changes in circumstances that are prominent and that denote the presence of indicators of impairment, such as those described in paragraphs 9 and 10. For capital assets so identified, a test of impairment as described in paragraph 11 should be performed to determine whether the circumstance or change in condition results in an impairment as defined in paragraph 5.

IDENTIFICATION OF EVENTS OR CHANGES IN CIRCUMSTANCES THAT MAY INDICATE IMPAIRMENT

8. The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent—that is, conspicuous or known to the government. Absent any such events or changes in circumstances,

governments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations. The events or circumstances that may indicate impairment generally are expected to have prompted discussion by the governing board, management, or the media.

INDICATORS OF IMPAIRMENT

5 Impairment is indicated when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Common indicators of impairment include:

a. Evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility.

b. Enactment or approval of laws or regulations or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet).

c. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment (for example, a magnetic resonance imaging machine or a scanning electron microscope) that is rarely used because newer equipment provides better service.

d. A change in the manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.

e. Construction stoppage, such as stoppage of construction of a building due to lack of funding.

10. A change in demand for the services of a capital asset is not considered a separate indicator of impairment. However, changes in demand may be caused by or associated with the indicators listed in paragraph 9, and capital assets in these circumstances should be tested for impairment. For example, decreased demand for the processing services of a mainframe computer because former users of the mainframe have transitioned to PC- and server-based systems should be considered a change in demand associated with an indicator of impairment—evidence of obsolescence—and the mainframe should be tested for impairment. However, a decrease in demand resulting from the conclusion of a special project requiring large amounts of processing time on a mainframe computer that runs other applications should not be considered a change in demand associated with an indicator of impairment, and a test of impairment is not required. A decrease in school enrollment is another example of a change in demand. If this decrease in enrollment prompts management to close a school, a change in manner or duration of use has also resulted and a test for impairment should be performed. If, however, the

decrease in enrollment results in the school's changing from an overcrowded condition to one in which classroom sizes are now below the state-required maximum and is not associated with another indicator of impairment, a test for impairment is not required.

IMPAIRMENT TEST

9. A capital asset identified through the processes described in paragraphs 7 through 10 should be tested for impairment by determining whether both of the following two factors are present:
   a. The magnitude of the decline in service utility is significant. The expenses associated with continued operation and maintenance (including depreciation) or costs associated with restoration of the capital asset are significant in relationship to the current service utility. In circumstances other than those involving physical damage, management's action to address the situation is an indication that the expenses are too high in relation to the benefit.
   b. The decline in service utility is unexpected. The restoration cost or other impairment circumstance is not a part of the normal life cycle of the capital asset. Management is not expected to foresee with precision the useful life of a capital asset or the service utility throughout its useful life. However, there is a reasonable range of expectations about the service utility and useful life at the time of acquisition.

5.12 MEASUREMENT OF IMPAIRMENT

CAPITAL ASSETS THAT WILL CONTINUE TO BE USED BY THE GOVERNMENT

12. For impaired capital assets that will continue to be used by the government, the amount of impairment—the portion of historical cost that should be written off—should be measured by the method described below that most appropriately reflects the decline in service utility of the capital asset. The methods for measuring impairment are:
   a. Restoration cost approach. Under this approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.
   b. Service units approach. This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the capital asset—

either maximum estimated service units or total estimated service units throughout the life of the capital asset—before and after the event or change in circumstance.

c. Deflated depreciated replacement cost approach. This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

13. Impairments resulting from physical damage generally should be measured using a restoration cost approach.

14. Impairments resulting from enactment or approval of laws or regulations or other changes in environmental factors or from technological development or obsolescence generally should be measured using a service units approach.

15. Impairments identified from a change in manner or duration of use generally should be measured using deflated depreciated replacement cost or using a service units approach.

CAPITAL ASSETS THAT WILL NO LONGER BE USED BY THE GOVERNMENT AND CONSTRUCTION STOPPAGE

16. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Capital assets impaired from construction stoppage also should be reported at the lower of carrying value or fair value.

5.13 REPORTING IMPAIRMENT LOSSES

17. Unless the impairment is considered temporary as described in paragraph 18, the loss from impairment should be reported in the statement of activities and statement of revenues, expenses, and changes in fund net position, if appropriate, as a program or operating expense, special item, or extraordinary item in accordance with the guidance in paragraphs 41 through 46, 55, 56, 101, and 102 of Statement No. 34 and paragraphs 19 through 24 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Impairment losses appropriately reported as program expense generally should be reported as a direct expense of the program that uses or used the impaired capital asset. Impairment loss should be reported as indicated regardless of whether the capital asset is being depreciated individually or as part of a composite group. If not otherwise apparent from the face of the financial statements, a general description, the amount, and the financial statement classification (for example, public works or instruction) of

the impairment loss should be disclosed in the notes to the financial statements.

5.14 PERMANENT AND TEMPORARY IMPAIRMENTS

18. Generally, an impairment should be considered permanent. In certain circumstances involving capital assets impaired through enactment or approval of laws or regulations or other changes in environmental factors, change in technology or obsolescence, change in manner or duration of use, or construction stoppage, however, evidence may be available to demonstrate that the impairment will be temporary. In such circumstances, the capital asset should not be written down. Impairment losses recognized in accordance with this Statement should not be reversed in future years, even if the events or circumstances causing the impairment have changed.

5.15 INSURANCE RECOVERIES

21. In governmental fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery, which is reported as an other financing source or extraordinary item, as appropriate. In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. The impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years should be reported as a program revenue, nonoperating revenue, or extraordinary item, as appropriate. Insurance recoveries should be recognized only when realized or realizable. For example, if an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable. If the insurer has denied coverage, the insurance recovery generally would not be realizable. If not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed.

22. Insurance recoveries other than those related to impairment of capital assets, such as for theft or embezzlement of cash or other monetary assets, should be accounted for as described in paragraph 21.

STATEMENT NO. 49 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶22

5.16 CAPITALIZATION OF POLLUTION REMEDIATION OUTLAYS

22. Except as provided below, pollution remediation outlays, including outlays for property, plant, and equipment, should be reported as an expense when a liability is recognized as discussed in paragraphs 12–21. For example, a pump-and-treat system to be installed for pollution remediation generally would be reported as an expense at the time a liability is recognized. Some projects (for example, land improvements, remodeling, and periodic dredging of a waterway for shipping), for which the primary objective is other than pollution remediation, may include pollution remediation activities. Except as provided below, incremental outlays attributable to pollution remediation activities (outlays that would not be incurred absent pollution) should be reported as an expense when a pollution remediation liability is recognized. Pollution remediation outlays should be capitalized in the government-wide and proprietary fund statements when goods and services are acquired if acquired for any of the following circumstances:

a. To prepare property in anticipation of a sale. In this circumstance, governments should capitalize only amounts that would result in the carrying amount of the property not exceeding its estimated fair value upon completion of the remediation.

b. To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated. In this circumstance, governments should capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use, as discussed in paragraph 18 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended.

c. To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment. In this circumstance, governments should capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use, as discussed in paragraph 18 of Statement 34, as amended.

d. To acquire property, plant, and equipment that has a future alternative use. In this circumstance, outlays should be capitalized only to the extent of the estimated service utility that will exist after pollution remediation activities uses have ceased.

For outlays under criteria a and b, capitalization is appropriate only if the outlays take place within a reasonable period prior to the expected sale or following acquisition of the property, respectively, or are delayed, but the delay is beyond the government's control.

STATEMENT NO. 51 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD; ¶2-3, ¶5-18 AND ¶21-22

5.17 DEFINITION OF AN INTANGIBLE ASSET

2. An intangible asset is an asset that possesses all of the following characteristics:
   a. *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
   b. *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
   c. *Initial useful life extending beyond a single reporting period.*
3. The provisions of this Statement apply to all intangible assets except for the following:
   a. Assets that meet the description in the preceding paragraph if the assets are acquired or created primarily for the purpose of directly obtaining income or profit. The accounting and financial reporting for these assets generally should follow authoritative guidance for investments.
   b. Assets resulting from capital lease transactions reported by lessees, which are addressed in National Council on Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments,* as amended.
   c. Goodwill created through the combination of a government and another entity.

5.18 CLASSIFICATION OF INTANGIBLE ASSETS

5. All intangible assets subject to the provisions of this Statement should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets, including the areas of recognition, measurement, depreciation (termed *amortization* for intangible assets), impairment, presentation, and disclosures should be applied to intangible assets, as applicable. The provisions in the remainder of this Statement should be applied to intangible assets in addition to the existing authoritative guidance for capital assets.

5.19 RECOGNITION

6. An intangible asset should be recognized in the statement of net position only if it is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:
   a. The asset is separable, that is, the asset is *capable* of being separated or divided from the government and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability.
   b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

5.20 INTERNALLY GENERATED INTANGIBLE ASSETS

7. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.
8. Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:
   a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
   b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
   c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized.

Outlays incurred prior to meeting those criteria should be expensed as incurred.

5.21 INTERNALLY GENERATED COMPUTER SOFTWARE

9. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using

more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement. For example, licensed financial accounting software that the government modifies to add special reporting capabilities would be considered internally generated.

10. The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

    a. *Preliminary Project Stage*. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

    b. *Application Development Stage*. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

    c. *Post-Implementation/Operation Stage*. Activities in this stage include application training and software maintenance.

    Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.

11. For internally generated computer software, the criteria in paragraph 8 should be considered to be met only when both of the following occur:

    a. The activities noted in the preliminary project stage are completed.

    b. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

    Accordingly, outlays associated with activities in the preliminary project stage should be expensed as incurred. For commercially available software that will be modified to the point that it is considered internally generated, (a) and (b) above generally could be considered to have occurred upon the government's commitment to purchase or license the computer software.

10. Once the criteria in paragraph 8 have been met, as described in the preceding paragraph, outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.

13. Outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.

14. The activities within the stages of development described in paragraph 10 may occur in a sequence different from that shown in that paragraph. The

recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

15. Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized in accordance with paragraphs 11 and 12 if the modification results in any of the following:

    a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing.

    b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks.

    c. An extension of the estimated useful life of the software.

    If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

5.22 SPECIFIC AMORTIZATION ISSUES

16. The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable.

17. An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should *not* be amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent

reporting periods over the remaining estimated useful life of the asset. This change should be accounted for as a change in accounting estimate.

5.23 IMPAIRMENT INDICATORS

18. In addition to the indicators included in paragraph 9 of Statement 42, a common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.

5.24 RETROACTIVE REPORTING

20. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Except as noted in paragraphs 21–23, accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position, fund balances, or fund net position as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

21. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34, retroactive reporting is required for intangible assets except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. If determining the actual historical cost of these intangible assets is not practical due to the lack of sufficient records, these governments should report the estimated historical cost for these intangible assets that were acquired in fiscal years ending after June 30, 1980. For governments that were classified as phase 3 governments for the purpose of implementing Statement 34, retroactive reporting of these intangible assets is encouraged but not required. (phase 3 governments have total annual revenues of less than $10 million, phase 2 $10 million or more but less than $100 million, phase 1 governments $100 million or more).

22. Retroactive reporting of intangible assets considered to have indefinite useful lives as of the effective date of this Statement is not required but is permitted. Retroactive reporting of internally generated intangible assets (including ones that are in development as of the effective date of this Statement) also is not required but is permitted to the extent that the approach in paragraph 8 can be

effectively applied to determine the appropriate historical cost of an internally generated intangible asset as of the effective date of the Statement.

23. The provisions related to intangible assets with indefinite useful lives should be applied retroactively only for intangible assets previously subjected to amortization that have indefinite useful lives as of the effective date of this Statement. Accumulated amortization related to these assets reported prior to the implementation of this Statement should be restated to reflect the fact that these assets are not to be amortized.

REVISION CONTROL

Document Title: CHAPTER 13 – CAPITAL ASSETS GUIDE

REVISION AND APPROVAL HISTORY

Section(s) Revised	Summary of Revisions	Revision Date
2.3.1	Updated the basis for measurement of certain capital assets in accordance with GASB Statement No. 72, Fair Value Measurement and Application.	April 2016