University of California

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*

Issues Resolution Memo No. 51.1

OVERVIEW OF GASB STATEMENT NO. 51 AND THE UNIVERSITY'S APPROACH FOR IMPLEMENTATION

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1. INTRODUCTION

GASB Statement No. 51 requires intangible assets to be classified and reported as capital assets. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally-generated. The University must implement the requirements of the Statement for the fiscal year beginning July 1, 2009, with restatement of the previous fiscal year.

2. GASB STATEMENT NO. 51—OVERVIEW

a. What are intangible assets?

Statement No. 51 defines intangible assets as assets that possess <u>all</u> of the following characteristics:

- *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. (Paragraph 2a)

- *Non-financial nature.* An asset that is not in a monetary form similar to cash and investment securities, and represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services. (Paragraph 2b)

- *Initial useful life extending beyond a single reporting period.* (Paragraph 2c)

Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. (Copyrights are also included as examples of internally-generated intangible assets in Paragraph 45.) Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally-generated. (Paragraph 1)

UC classifies intangible assets as a category of capital assets. The University's policy for capitalization of property is contained in the University Accounting Manual, Chapter P-415-10, *Capitalization of Property, Plant and Equipment.* Additional guidance for the capitalization and amortization of intangible assets were established in the Issues Resolution Memorandum (IRM) No. 18, *Approach to Intangible Assets* as part of the University's implementation of GASB Statements No. 34 and 35. The IRM provided examples of intangible assets including goodwill, covenants not to compete, trademarks, and purchased patents. The University also established computer software as a separate class of capital assets. The chart below compares the examples of intangible assets in Statement No. 51 and in IRM No. 18.

Examples of Intangible Assets

GASB Statement No. 51	University of California (IRM 18—Current Practice)
Easements	
Water rights	
Timber rights	
Copyrights[1]	
Patents	Patents Purchased[2]
Trademarks	Trademarks
Computer software	Computer software[3]
	Goodwill[4]
	Covenants not to compete

[1] Copyrights are not included among the examples provided in the summary or in the introduction (paragraph 1) of the Statement, but is listed as an example of internally-generated intangible assets in paragraph 45.

[2] The discussion of patents in IRM 18 was limited to purchased patents. Statement No. 51 includes internally-generated patents as well as purchased patents.

[3] The University currently classifies computer software as a separate class of capital assets, not as Intangible Assets.

[4] GASB specifically excludes goodwill from the provisions of the Statement.

In general, the University is already compliant with the requirements of the Statement; however, UC must adjust its policy and procedures to reconcile the relatively minor differences between existing University policy and the requirements of Statement No. 51, including the following:

- Revise its definition of intangible assets to include assets that have not been included in the past, such as easements, water rights, timber rights and internally-generated patents.

- Implement new capitalization procedures and conduct reviews of historical data to establish the beginning balances for these newly defined intangible assets.

b. What intangible assets are excluded from the provisions of this Statement?

The following intangible assets are excluded from the provision of the Statement:

- Assets that are acquired or created primarily for the purpose of directly obtaining income or profit; for example, a copyright used primarily to generate royalty income. The accounting and financial reporting for these assets generally should follow authoritative guidance for investments. (Paragraphs 3a)

  This exclusion applies to cases in which the primary present service capacity of an asset is limited to economic benefit and is not used in operations to improve the quality or efficiency of operational services. Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* defines an investment as "a security or other asset acquired primarily for the purpose of obtaining income or profit." Statement No. 51 concludes that intangible assets, such as copyrights (also patents and trademarks) acquired or created primarily for the purpose of directly obtaining income or profit should not be classified as capital assets; instead they should be classified as investments. (Paragraph 44)

This distinction for copyrights, patents and trademarks is analyzed and discussed further in IRM 51.3, *Intangible Assets—Copyright, Patent and Trademark Issues.*

- Assets resulting from capital lease transactions reported by lessees, which are addressed in National Council of Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, as amended, are also excluded from the provision of this Statement. (Paragraph 3b)

- Goodwill created through the combination of the University and another entity is also excluded from the provision of this statement. GASB has specifically excluded goodwill from the scope of this Statement since the discussion of accounting and reporting requirements for combination transactions would extend beyond issues related to intangible assets (Paragraphs 3c & 37). However, while goodwill is excluded from the provision of this Statement, UC will continue to report goodwill as intangible assets.

c. What are the accounting and financial reporting requirements of the Statement?

Classification

The Statement requires intangible assets to be classified as capital assets. As capital assets, intangible assets are subject to existing authoritative guidance for accounting and financial reporting of capital assets, including the appropriate recognition, measurement, amortization, impairment, presentation, and disclosure, as applicable. The provisions of the Statement are to be applied to intangible assets in addition to the existing authoritative guidance for capital assets. References to relevant authoritative guidance for capital assets include, but are not limited to, paragraphs 18-21, 44, 45, 116, 117, and 120 of Statement No. 34 and paragraphs 5-20 of Statement No. 42 (Paragraph 5). These paragraphs in Statements 34 and 42 are provided as reference in Attachment 1

Recognition

An intangible asset should be recognized in the statement of net assets only if it is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:

- The asset is separable. The asset is capable of being separated or divided from the University and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability. (Paragraph 6a)

- The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the University or from other rights and obligations. (Paragraph 6b)

Measurement

In accordance with existing authoritative guidance for capital assets, intangible assets received in a non-exchange transaction should be recorded at their estimated fair value at the time of acquisition plus ancillary charges, if any.

In the case of a donated right-of-way easement, the outlay the University would have incurred to acquire the easement in an exchange transaction can be used to estimate the fair value of the easement. (Paragraph 74)

Amortization Issues

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 University 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. (Paragraph 16)

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 with 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. (Paragraph 17)

Impairment Indicator

The provisions for accounting and financial reporting for impairment of capital assets contained in Statement No. 42 are applicable to intangible assets. In addition to the indicators included in Paragraph 9 of Statement No. 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. (Paragraph 18)

Disclosure

No special disclosures are required for intangible assets other than that already required for capital assets. Disclosures beyond existing capital asset disclosures required under Statement No. 34 and other existing disclosures that may relate to intangible assets, including those required under APB Opinion No. 22, Disclosure of Accounting Policies, are not required. (Paragraph 80)

d. What are internally-generated intangible assets, and when should they be capitalized?

Intangible assets are considered internally-generated if they are created or produced by the University, or if they are acquired from a third party but require more than minimal incremental effort on the part of the University to begin to achieve their expected level of service capacity. Examples of internally-generated intangible assets include patents, trademarks, and computer software. (Paragraph 7 & 45)

Outlays incurred for the development of an internally-generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

- 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 (Paragraph 8a)

- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity (Paragraph 8b)

- 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. Evidence of intention, ability, and presence of effort to complete the intangible asset may include budgetary commitments for funding the project, reference to the project in strategic planning documents, commitments with external parties to assist in the creation of the intangible asset, and efforts to secure the University's legal rights to the projects.(Paragraphs 8c & 54)

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

e. Should internally-generated computer software be classified as intangible assets?

Yes. The Statement identifies computer software as a common type of intangible asset that is often internally-generated. Computer software is considered internally-generated if it is developed in-house by University employees or by a third-party contractor on behalf of the University. Commercially available software that is purchased or licensed by the University and modified using more than minimal incremental effort before being put into operation also should be considered internally-generated for purposes of Statement No. 51. For example, licensed financial accounting software that the University modifies to add special reporting capabilities would be considered internally-generated. (Paragraph 9)

The Statement provides the following additional guidance specific to internally-generated software.

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

- *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 (Paragraph 10a). The cost of this stage should be expensed.

- *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 (Paragraph 10b). The cost of this stage should be capitalized.

- *Post-Implementation/Operation Stage.* Activities in this stage include application training and software maintenance (Paragraph 10c). The cost of this stage should be expensed.

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

Outlays incurred related to the development of internally-generated computer software should be capitalized when <u>both</u> of the following occur:

a. The activities noted in the *Preliminary Project Stage* are completed (Paragraph 11a); and
b. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project. (Paragraph 11b)

Outlays associated with activities in the preliminary project state 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 University’s commitment to purchase or license the computer software.

Once the criteria in (a) and (b) above have been met, outlays related to activities in the *Application Development Stage* should be capitalized. The capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational. (Paragraph 12)

Outlays associated with activities in the *Post-Implementation/Operation Stage* should be expensed as incurred. (Paragraph 13)

The activities within the stages of development (*Preliminary Project Stage, Application Development Stage, Post-Implementation/Operation Stage*) may occur in sequence different from that listed above. 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. (Paragraph 14)

Outlays associated with an internally-generated modification of computer software that is already in operation should be capitalized in accordance with the criteria in (a) and (b) if they qualify as Application Development Stage activities and results in any of the following:

- 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 (Paragraph 15a)
- 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 (Paragraph 15b)
- An extension of the estimated useful life of the software. (Paragraph 15c)

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

In general, Statement No. 51 is consistent with the guidance provided in the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use,* issued in 1998, and in the Federal Accounting Standards Advisory Board (FASAB) Statement No. 10, *Accounting for Internal Use Software*. These references were previously used by the University to develop current procedures described in IRM No. 11 *Approach to Software,* which was developed during the implementation of GASB Statements 34 and 35. Specific differences between the Statement and current UC procedures will require reconciliation, including the $10 million threshold currently used by the University to define software requiring capitalization of internal development costs. A separate IRM No. 51.4, *Software Issues,* provides further discussion of software related issues.

f. Should internally-generated patents be classified as intangible assets?

The Statement does not provide specific guidance on patents and trademarks; however, Example 2, Appendix C, of the Statement describes the recognition of internally-generated patents. The example describes a research university that authorizes a research and development project to create a new medical stitch material from a combination of microfibers that has initially been found to be significantly more durable than existing stitches. The goal of the project is to acquire a patent for the new stitch material in order <u>to improve the quality of services provided to</u>

patients of the university hospital. The example requires the capitalization of research and development costs related to the development of this new medical stitch material. (See Attachment 2 for the full text of this example contained in Statement No. 51.)

The University currently capitalizes the cost of purchased patents, but does not capitalize the cost of internally-generated patents. The Financial Accounting Standards Board (FASB) in its Statement of Financial Standard (FAS) No. 2, *Accounting for Research and Development Costs*, issued in 1974, requires the cost of research and development to be expensed as incurred. The GASB has not issued guidance contrary to FAS No. 2, except as provided in Example 2 in Statement No. 51.

To capitalize internally-generated patents consistent with Example 2 of the Statement, the University must develop procedures to identify projects that are undertaken with the specific purpose of developing a patent or other intellectual property that will be used to improve the quality of services provided by the University in the future. IRM No. 51.5, *Copyright, Patent and Trademark Issues*, discusses the various possible treatments of these assets.

g. What is the effective date of this Statement?

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. For the University, the Statement is effective for the fiscal year beginning July 1, 2009, with restatement required for the previous year beginning July 1, 2008. (Paragraph 20)

h. What are the transition requirements? Is the Statement required to be implemented prospectively or retroactively?

The provision of Statement No. 51 must be applied retroactively by restating financial statements, if practical, for all prior periods presented. If restatement is not practical, the cumulative effect of applying Statement No. 51, if any, should be reported as a restatement of beginning net assets, fund balances, or fund net assets as appropriate, for the earliest period restated. In the period 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. (Paragraph 20)

If determining the actual historical cost of intangible assets is not practical due to the lack of sufficient records, the University should report the estimated historical cost for these intangible assets that were acquired in fiscal years ending after June 30, 1980 (Paragraph 21). This assumes that any assets acquired prior to 1980, with a finite useful life would be fully depreciated by the time the Statement is implemented.

Retroactive reporting of intangible assets considered to have indefinite useful lives as of the effective date of Statement No. 51 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 Statement No. 51) also is not required but is permitted to the extent that the capitalization approach described in Statement No. 51 can be effectively applied to determine the appropriate historical cost of an internally-generated intangible asset as of the effective date of the Statement. (Paragraph 22)

3. University's Implementation Approach

The implementation approach described below has been reviewed by and discussed with PricewaterhouseCoopers (PwC). It reflects the comments and advice provided by PwC during our discussions. Additional information and discussion regarding the treatment of software, copyrights, patents and trademarks are also contained in IRMs No. 51.4, *Software Issues* and in 51.5. *Copyrights, Patents and Trademark Issues*.

a. UC definition of intangible assets.

The University will define intangible assets to include items with all of the following characteristics:

- Unit acquisition value of $5,000 or more
- Normal (useful) life of greater than one year
- Lack of physical substance
- Assets of non-financial nature

Intangible assets shall include:

- Easements
- Land rights, including water, mineral and timber rights
- Copyrights (as qualified below)
- Patents (as qualified below)
- Trademarks (as qualified below)
- Computer software
- Goodwill
- Covenants not to compete

Copyrights, patents and trademarks will be classified and recorded as intangible assets only if they are acquired for the primary purpose of enhancing the quality of operational services of the University. Copyrights, patents and trademarks not meeting this definition will not be classified as intangible assets. Also refer to IRM 51.3, *Copyrights, Patents and Trademark Issues*, for additional information on the classification of copyrights, patents and trademarks.

The following is a brief description and characteristics of each type of intangible assets listed above:

- *Easements* are currently not capitalized as intangible assets by the University. Easement is the right to use the land of another for a special purpose. While easements may have termination or sunset dates, most easements owned by UC appear to be permanent, with no termination dates. UC will retroactively identify and record easements <u>with limited lives</u>, owned at July 1, 2008. Easements with indefinite lives are not required to be recorded retroactively. <u>All easements</u> acquired on or after July 1, 2008 will be identified and recorded in accordance with our implementation approach.

- *Land rights, including water, mineral and timber rights* are currently not capitalized by the University. Land rights are the rights to use or remove certain land related assets. UC has accumulated numerous mineral rights because it generally retains mineral rights to any real property it sells. Water or timber rights are not commonly owned by UC. Most land rights owned by UC appear to be permanent, without termination dates. UC must retroactively identify and record land rights <u>with limited lives</u>, owned at July 1, 2008. Land rights with indefinite lives are not required to be recorded retroactively. All easements acquired on or after July 1, 2008 will be identified and recorded in accordance with our implementation approach.

- *Patents* may be classified as intangible assets only if the patents are acquired specifically to improve the quality of the University's future operating services. Most patents owned by UC are internally-generated, and are the by-product of research conducted by the University to expand the basic and fundamental knowledge of the sciences. It is UC policy to routinely seek patents to protect the intellectual property created by the University's research activities; however, research is normally not conducted for the primary purpose of obtaining the patents for operational use or for passive income generating purposes.

  UC will review newly acquired patents to determine if they are being acquired primarily for income or for use in future operations to enhance the quality of its services. UC will classify and record the acquisition cost of these patents as follows:

  - If patents are acquired for the <u>primary purpose of generating passive income, the Statement prescribes the recognition of these patents as INVESTMENTS</u>. Patents classified as INVESTMENTS should be recorded at the lower of cost or fair value. In most cases, purchased or gifted patents classified as INVESTMENTS should be recorded at cost or at the donor value. Internally-generated patents classified as INVESTMENTS should be recorded at zero fair value since it is impossible to determine the patent's ability to generate income until actual income has been generated.

  - The University will capitalize and report the acquisition and internal development cost of copyrights, patents and trademarks that are purchased or internally-generated <u>specifically to improve the quality of its future services as INTANGIBLE ASSETS</u>. Internally-generated costs shall include the internal development costs as well as the administrative costs required to obtain the copyright, patent or trademark. These instances should be very rare at UC.

- The University will record and report the costs associated with the acquisition or development of copyrights, patents and trademarks that are not recognized as Intangible Assets or Investments as CURRENT OPERATING EXPENSE of the period as incurred.

Additional discussion of copyrights, patents and trademarks are contained in IRM 51.3, *Intangible Assets—Copyright, Patent and Trademark Issues*. The University currently capitalizes purchased patents as intangible assets, but does not capitalize internally-generated patents.

- *Trademarks* owned by UC are mostly internally-generated. UC may obtain the license to use the trademark of others, in which case they are usually licensed or purchased. The University currently capitalizes purchased trademarks as intangible assets, but does not capitalize internally-generated trademarks. The University will apply the approach described for patents above to trademarks.

- *Copyrights* owned by UC may be purchased or internally-generated. The University will also apply the approach described for patents above to copyrights.

- *Computer software* is currently categorized into two classes and capitalized as capital assets:

  - *Software with unit or system cost of $10 million or less* is capitalized and amortized over three years. Only the external cost of acquisition is capitalized for this class of software.

  - *Software with unit or system cost greater than $10 million* is capitalized and amortized over seven years. The capitalized cost of this class of software includes internal and external cost of acquisition and development.

The University intentionally limited the capitalization of internal development costs to large computer software systems to reduce the burden of tracking and recording these costs. The impact on the annual consolidated financial statements due to this limited approach is immaterial. If the total amounts spent for internal development of software remain relatively constant from year to year, the annual amount expensed would not differ materially regardless of this variation in treatment. However, to address the additional guidance provided by GASB 51, UC will change the definitions and treatment of the two classes of software as follows.

  - *Software with unit or system cost of $5 million or less* (Software <= $5M): Capitalize external acquisition costs only. Amortized over three years.

  - *Software with unit or system cost of over $5 million* (Software > $5M): Capitalize external acquisition costs as well as internal development costs. Amortized over seven years.

By changing the threshold to $5 million, the amount of internal development costs that are not capitalized will be further minimized. This is a realistic and manageable compromise in implementing this GASB requirement. PwC has concurred with this approach. Additional discussion and analysis on the treatment of software is also presented in IRM No. 51.4, *Software Issues*.

- *Goodwill* and *covenants not to compete* are currently capitalized as intangible assets by the University. They will continue to be capitalized as intangible assets.

b. Effective date

The requirements of Statement No. 51 will be reflected in the University's financial statements for the year beginning July 1, 2009, with restatement of the previous year. UC policies and procedures will also be updated effective July 1, 2009 as described in this IRM.

c. Establishing the balance of original cost and accumulated amortization at July 1, 2008

The requirements of the Statement must be applied retroactively; however retroactive reporting of internally-generated assets or assets with indefinite useful lives is not required but is permitted (paragraph 21). <u>The University will apply the requirements of the Statement retroactively except for internally-generated assets and assets with indefinite lives.</u>

Using the definitions established in this document, UC will identify individual units of intangible assets and establish historical costs and useful lives in order to determine their carrying (book) values at July 1, 2008 (beginning of the restatement year). Itemized historical data back to July 1, 1980 (as allowed by paragraph 21) will be required for the following classification of intangible assets that were not previously capitalized.

- *Intangible Assets Requiring Historical Information*
  - Easements with <u>limited life</u>
  - Land rights, including water, timber, mineral rights with <u>limited life</u>

  Historical data will not be required for the remaining classes of intangible assets because the Statement does not require retroactive reporting for these classes, or because the assets were already recorded in previous years in accordance with existing UC policy.

- *Intangible Assets Not Requiring Historical Information*
  - Easements with indefinite life: <u>not required</u> by Statement
  - Land rights, including water, timber, mineral rights with indefinite life: <u>not required</u> by Statement
  - Patents, purchased: previously recorded
  - Patents, internally-generated: <u>not required</u> by the Statement

- Trademarks, purchased: previously recorded
- Trademarks, internally-generated: not required by the Statement
- Software > $~~10~~ 5 million, purchased: previously recorded since 2002
- Software > $~~10~~ 5 million, internally-generated: not required by the Statement
- Software $~~10~~ 5 million or less, purchased: previously recorded since 2002
- Software < $~~10~~ 5 million or less, internally-generated: not required by the Statement

- *Special Software Issue*

  The University will not gather historical costs for software. Historical data for internally-generated software is not required. Historical data for purchased software is required by the Statement; however, since UC has been capitalizing software costs since 2002, any software acquired before 2002 will be fully depreciated by July 1, 2009 (based on a maximum life of seven years). While software acquired in 2001 would affect the depreciation expense for 2008 (the restatement year), the impact on the consolidated statements should be immaterial.

- *Assignment of CAAN Numbers*

  A unique Capital Asset Account Number (CAAN) will be assigned and used to record each item of intangible asset unless otherwise noted. UC will inventory software with unit or system cost of $5 million or less, in aggregate and not on an itemized basis. Software greater than $5 million will be inventoried either in aggregate or on an itemized basis as appropriate, to be determined by the campus. However, each campus must, at a minimum, establish separate CAANs for each classification of software.

  The following chart summarizes the use of CAANs and the requirements for gathering historical information.

Summary of the Need for Historical Analysis and Unique Asset Identification (CAAN) Number

Classification of Intangible Assets	Currently Capitalized by UC	Acquisition Cost History Needed Back to 7/1/1980	Must Assign Unique CAAN per Item /Unit
Easements	No	No, if indefinite life **Yes, if limited life**	No, if indefinite life Yes, if limited life
Land Rights	No	No, if indefinite life **Yes, if limited life**	No, if indefinite life Yes if limited life
Patents—Purchased	Yes	No, always capitalized	Yes
Patents—Internally-generated	No	No, internally-generated	Yes
Trademarks—Purchased	Yes	No, always capitalized	Yes

Classification of Intangible Assets	Currently Capitalized by UC	Acquisition Cost History Needed Back to 7/1/1980	Must Assign Unique CAAN per Item /Unit
Trademarks—Internally-generated	No	No, internally-generated	Yes
Software > $5M ~~10M~~, Purchased	Yes	No, 7 years life	Campus option.
Software > $5M ~~10M~~, Internally-generated	Yes	No, internally-generated	Campus option.
Software < $5M ~~10M~~, Purchased	Yes	No, 3 years life	No, uniform life of 3 years
Software < $5M ~~10M~~, Internally-generated	No	No, internally-generated	No, uniform life of 3 years

d. Gathering and recording transitional data.

During FY 2008–2009, and 2009–2010, campuses will be requested to gather transitional information on existing and newly acquired intangible assets. The data will be gathered and recorded in three phases.

1. **Historical information (July 1, 1980 – June 30, 2008).**

   During FY 2008–2009, each campus will identify **easements, water rights, timber rights and mineral rights <u>with limited useful lives</u>** owned by the University (through June 30, 2008). The identification process should involve various UC personnel from offices such as Facilities Management, Real Estate and other offices as appropriate, using the template provided in Attachment 4 to establish the original acquisition date, acquisition cost, and the estimated useful life at the time of acquisition for each identified item. Assets acquired before July 1, 1980 will be assigned a general acquisition date "acquired before 7/1/80". This information will be used to establish the July 1, 2008 balance of acquisition cost and accumulated amortization for these assets.

   UCOP–FM will work with the campuses to record the beginning balance of acquisition cost and accumulated amortization (as of July 1, 2008) during FY 2009–2010. This will occur before December 31, 2009 in order to affect the CFS AST file for December 31, 2009.

2. **Restatement year information (July 1, 2008 – June 30, 2009).**

   Using the worksheet template (Attachment 5), campuses will identify all intangible asset transactions (new acquisitions, additions, disposals, and impairments) that occur during the restatement year, July 1, 2008 through June 30, 2009. The completed worksheets through June 30, 2009, will be sent by the campuses to UCOP-FM during the closing process for the fiscal year 2008–2009. The information will be used by UCOP to determine the amortization expense and year end balances of acquisition cost and accumulated amortization for intangible assets for the fiscal year ending June 30, 2009, when restated in 2010. UCOP-FM will direct the campuses to formally record the information during the fiscal year 2009–2010.

UCOP-FM will work with the campuses to record the FY 2008–2009 activity during FY 2009–2010. This will occur before December 31, 2009 in order to affect the CFS-AST file for December 31, 2009.

3. **First year of implementation (for the year beginning July 1, 2009).**

   Campuses will begin to record all intangible asset transactions using the new definitions. Campuses will also include the intangible asset data, including the beginning balances at July 1, 2009 and transactional data from July 1, 2009 through December 31, 2009 in the annual CFS AST file submitted to UCOP in February 2010. The CFS AST will be added to the historical data previously submitted on the templates, and will be used to determine the amortization expense for the fiscal year ending June 30, 2010.

   Note that this first year of implementation will identify new acquisitions for the period July 1, 2009 through December 31, 2009 on the CFS-AST file. Beginning with the following year, the CFS AST file will reflect the transactions for the period January 1 through December 31.

e. Accounting codes for intangible assets.

Account Group Codes (AGCs) for intangible assets were established in 2002 during the implementation of GASB Statements No. 34 and 35. The list of current codes assigned to capital assets is provided in Attachment 3.

Full description of accounting codes applicable to intangible assets and Statement No. 51, including new codes to be used for the implementation of the Statement will be presented in IRM 51.4, *Accounting Entries for Implementation of Statement No. 51*.

f. Amortization of intangible assets by UCOP.

The amortization of intangible assets will be processed within the UCOP DPR system. The amortization process will follow the depreciation procedures currently in place for other CAAN based assets. As with other capital assets, the University will apply the "mid-year convention" to intangible assets to calculate the annual amortization expense once the transition period has been completed. During the transition, the annual amortization will be determined as follows:

Acquisition Year (Fiscal Year)	Acquisition Period	Note
1980 - 2009	July 1 – June 30	Annual amortization will be calculated for all assets acquired during the fiscal year.
2009-2010	July 1 – December 31	Annual amortization will be calculated for all assets acquired during the first six months of the fiscal year
2010-2011 and thereafter	January 1 – December 31	Annual amortization will be calculated for all assets acquired between January 1 and December 31 (mid-year convention)

Attachment 6 provides a brief description and specification on how the UCOP DPR system will handle these intangible assets.

g. Consolidated financial statement presentation and disclosure.

Intangible assets will be disclosed in the financial statement footnotes as a classification of capital assets in the University's consolidated financial statements. Currently, intangible assets including software are reported as equipment.

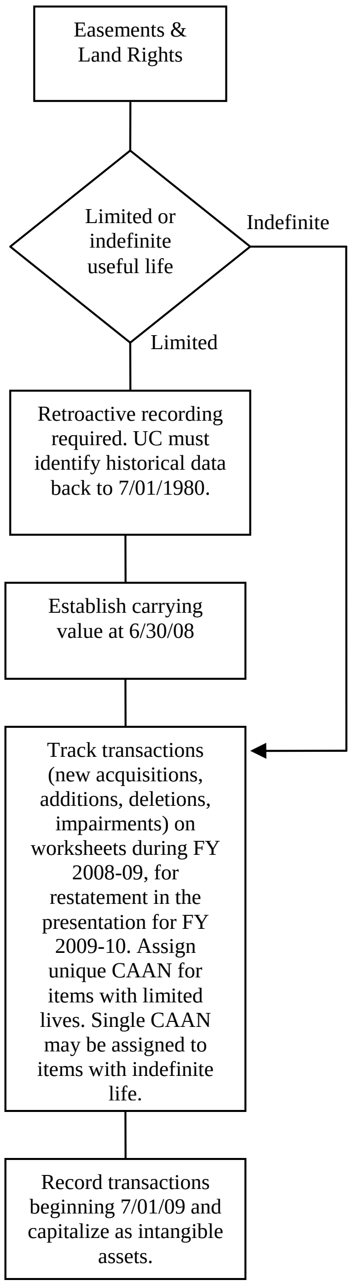
The UCOP CFR and DPR system reports will be modified to present the intangible assets as a separate line, consistent with their presentation required in the consolidated financial statements and footnotes.

h. GASB 51 classification and transition flowcharts

The following flowcharts provide overviews for the classification and transition process for each category of intangible assets.

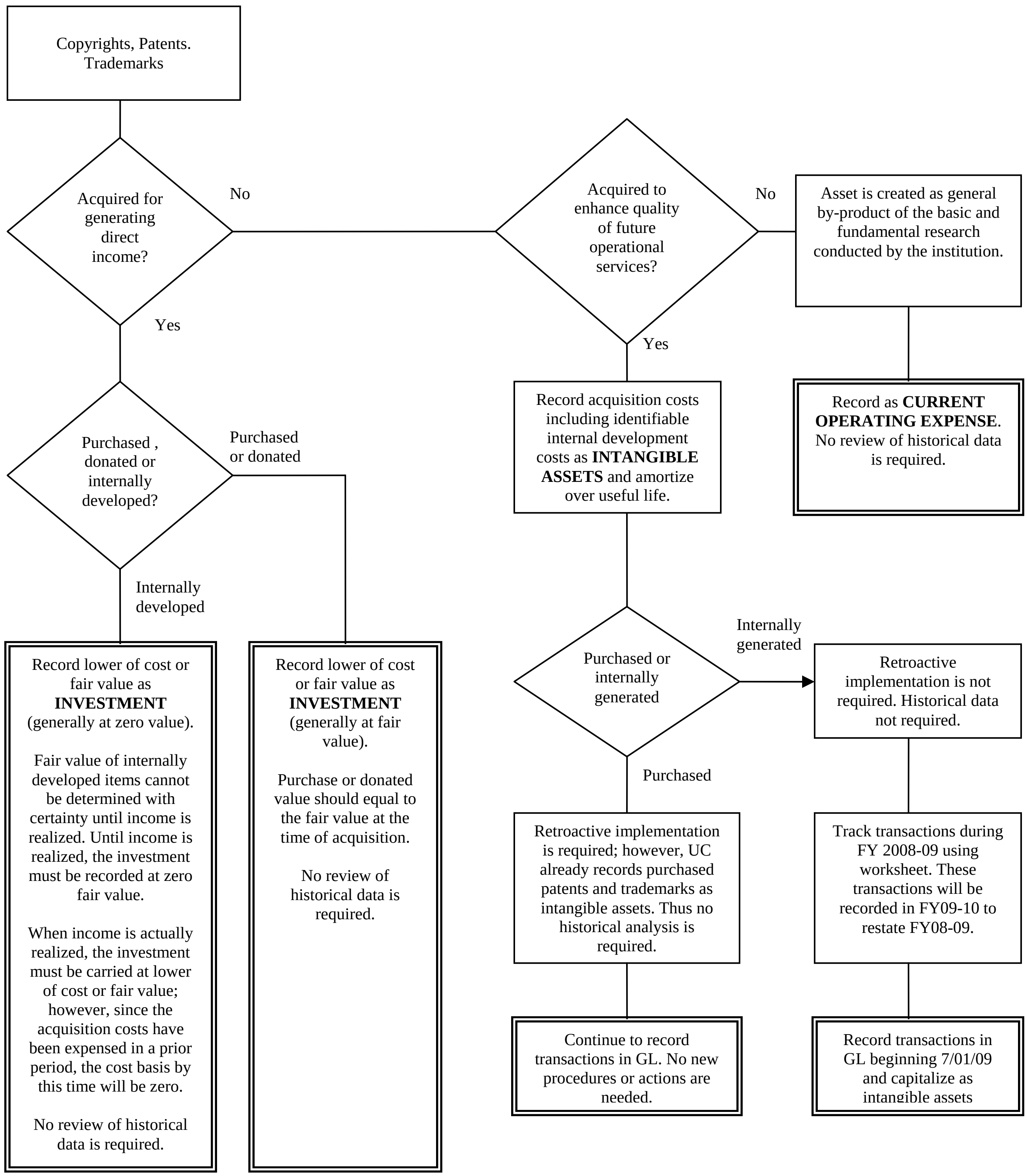
GASB 51 Transition Flowchart – Easements & Land Rights

A unique CAAN number must be assigned to identify each easement or land rights with limited useful lives. A single CAAN number may be assigned to identify a group of easement or land rights with indefinite useful lives.



GASB Classification and Transition Flowchart
Copyrights, Patents, Trademarks

A unique CAAN number must be assigned to identify each item of asset.



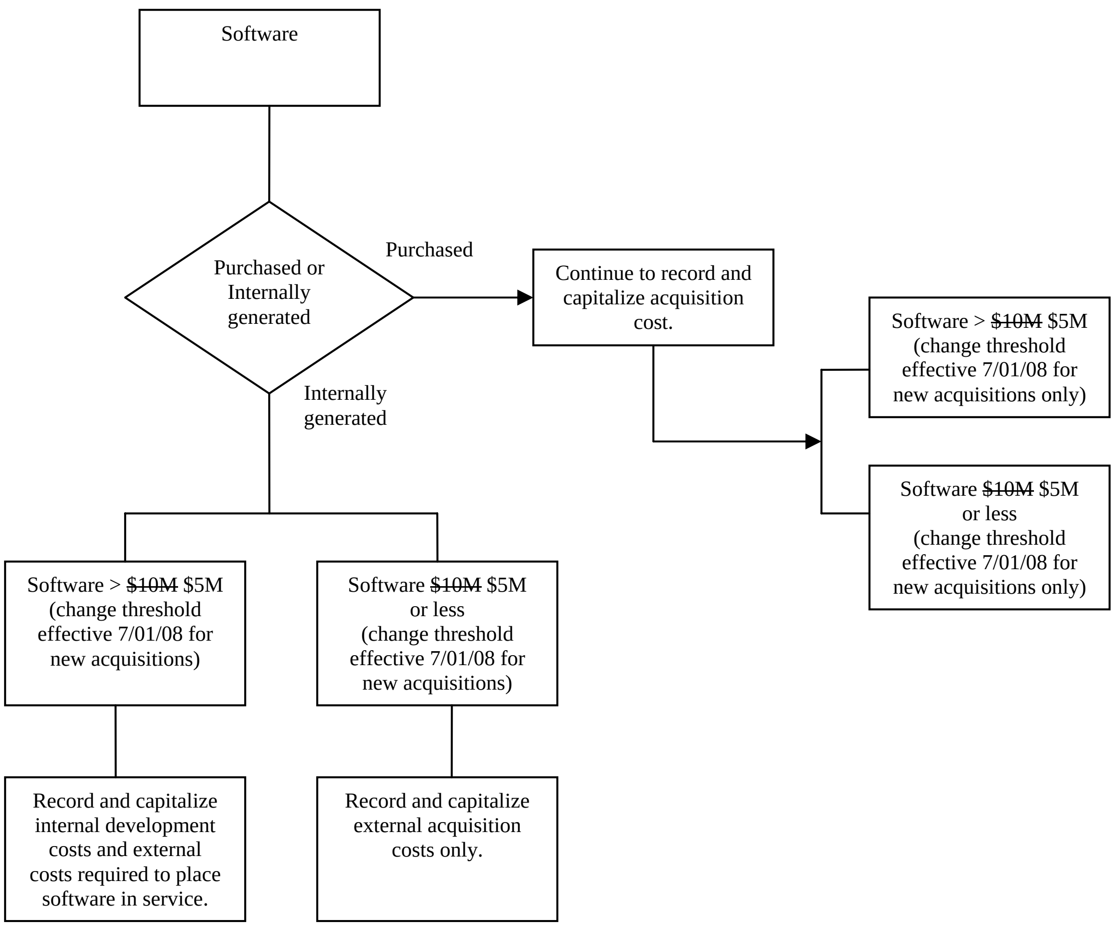
The basis and logic for the outlined procedure are further discussed in IRM 51.3.

GASB Classification and Transition Flowchart – Software

The University will change its definition of “small” and “large” software. The current threshold of $10 million will be changed to $5 million. The change in the threshold will affect the useful life assigned to the software with cost between $5 million and $10 million. It will also affect the threshold for capitalization of internal development costs. The change in threshold will enhance the University’s compliance with the intent of GASB Statement No. 51, without creating an unmanageable requirement to capitalize immaterial internal development costs for software.

No historical data will be gathered for software.

A unique CAAN number may be assigned to identify each item or system of software. Alternatively, a single CAAN number may be assigned to identify all software ~~$10M~~ $5M or less and another single CAAN number may be assigned to all software > ~~$10M~~ $5M.



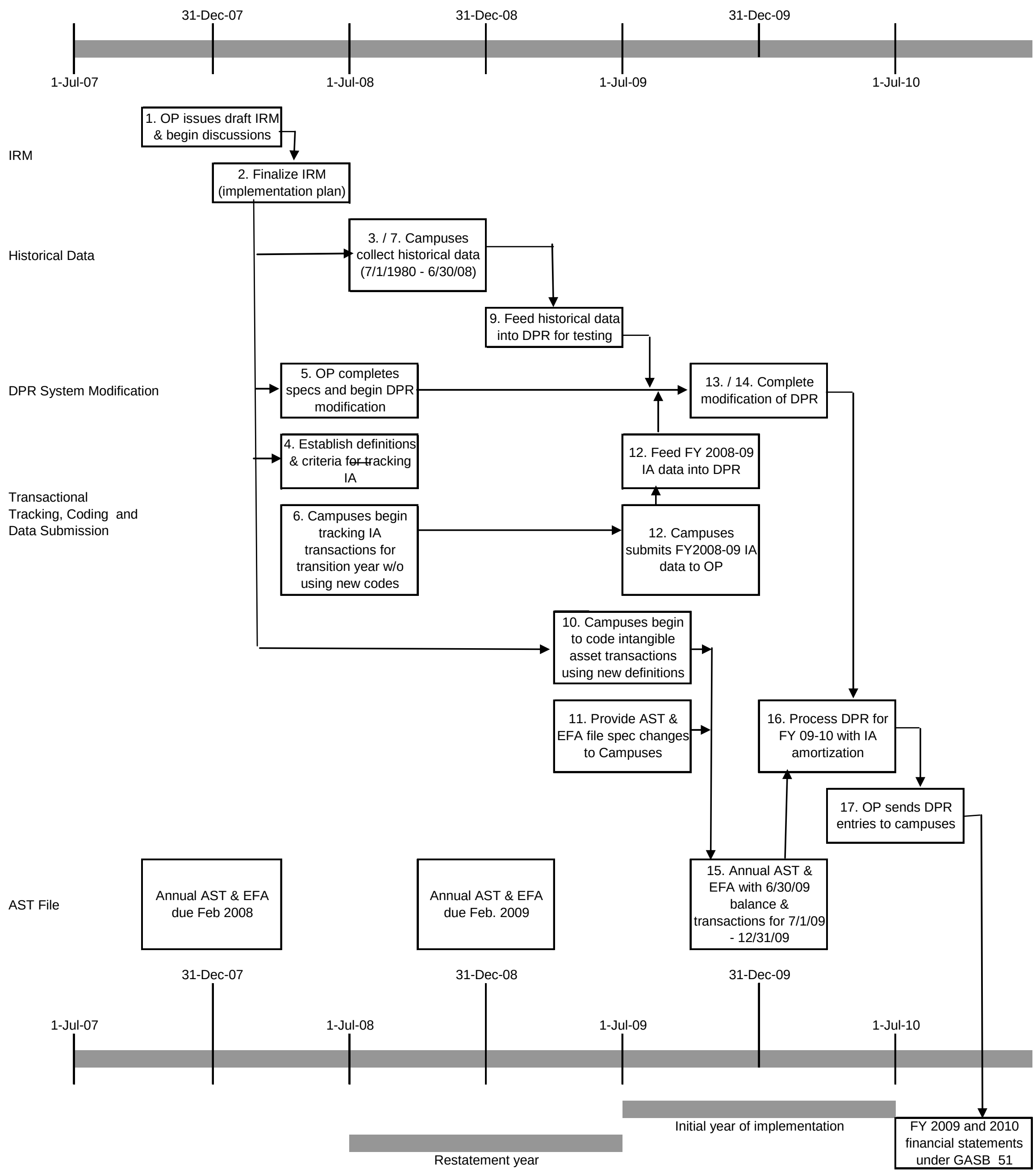
The basis and logic for the outlined procedures are further discussed in IRM 51.2.

4. STEPS FOR IMPLEMENTATION

Step No	Scheduled Date of Completion	Implementation Task	By
1	Jan. 7 2008	UCOP-FM will develop draft IRM 51.1 with implementation plan and approach for Statement No. 51 for discussion with PwC.	UCOP-FM
2	March 12, 2008	UCOP-FM will develop and issue IRMs 51.4 and 51.5 on software, and copyrights, patents and trademarks. The IRMS will be used to discuss the approach for these assets with PwC.	UCOP PwC
3	July 31, 2008	UCOP-FM will complete discussion of IRM 51.1 with campus Controllers and PwC. UCOP-FM will finalize the IRM and distribute to campuses.	UCOP-FM PwC
4	July 31, 2008	UCOP-FM will finalize IRMs 51.1, 51.2 and 51.3 and send to campuses. It will include worksheet templates (Attachments 4 and 5) for use by campuses to identify and gather historical information for intangible assets (for the period 7/1/1980 – 6/30/2008 and 7/1/08 – 6/30/09).	UCOP-FM Campuses
5	August 1, 2008	Using the worksheet templates to be provided by UCOP, campuses will begin to accumulate information on intangible asset transactions to: a) establish the 6/30/08 balances (due Nov. 24, 2008 to UCOP-FM) b) begin to track IA transactions for FY 2008-09 (due Oct. 5, 2009 to UCOP-FM).	Campuses
6	Oct. 31, 2008	UCOP-FM and UCOP-IRC will develop specification for modification of the UCOP DPR system to begin discussion of program modifications. UCOP-FM will also develop specifications for modification of the UCOP CFR system as required for the implementation of Statement No. 51 and send to UCOP-IRC	UCOP-FM UCOP-IRC
7	Nov. 24, 2008	Campuses will complete gathering historical data (7/1/1980 – 6/30/2008) and send to UCOP-FM.	Campuses
8	Jan. 2009	Using the historical data submitted by the campuses, UCOP-IRC will introduce IA historical data into the DPR system.	UCOP-IRC

Step No	Scheduled Date of Completion	Implementation Task	By
9	July 1, 2009	Campuses will begin using the new definitions for intangible asset transactions.	Campuses
10	July 2009	UCOP-IRC will send to campuses revised CFS AST and EFA file specifications including how to treat the historical data collected by the campuses. The new specs will apply beginning with the files due February 2010.	UCOP-IRC
11	Oct. 5, 2009	Campuses will complete and send worksheets with FY 2008-09 intangible assets transaction data to UCOP-FM. UCOP-IRC will introduce the submitted data into the modified DPR system.	Campuses UCOP-FM
12		UCOP-IRC will send to campuses the history data to be included in the 12/31/09 CFSAST file.	UCOP-IRC
13	Dec. 2009	UCOP-IRC will complete the DPR system modifications and testing..	UCOP-FM UCOP-IRC
14	Dec. 2009	UCOP will develop verification procedures to reconcile the beginning balances in the Dec. 2009 AST file to the historical data (7/1/80 – 6/30/08 and 7/1/08 – 6/30/09) previously submitted by the campuses.	UCOP-FM UCOP-IRC
15	Feb. 2010	Campuses will submit the Dec.31, 2009 CFS AST file with intangible asset data as specified by UCOP-IRC.	Campuses
16	April 2010	UCOP will process the Dec. 2009 CFS AST file with intangible asset data into the DPR system. This process will calculate the amortization amounts for FY2009-10 and identify journal entries to be made by the campuses.	UCOP-IRC
17	May 2010	UCOP-FM will send the journal entries identified by the DPR system to the campuses. Campuses will record the entries to: a) record the accumulated depreciation at 6/30/08 and the corresponding adjustment to net asset , b) record the expense for FY08-09, and c) record the expense for FY 09-10.	UCOP-FM Campuses

5. SUMMARY IMPLEMENTATION FLOWCHART



6. NEXT STEPS

Develop additional Issues Resolution Memos (IRMs) to provide procedural guidance and discussion of open issues within the University. The following IRMs are planned to be issued in the coming months.

IRM 51.2, *Software Issues*

IRM 51.3, *Copyright, Patent and Trademark Issues*

IRM 51.4, *Accounting Entries for Implementation of Statement No. 51*

a. To establish restatement year beginning balances: 7/1/08 balance of acquisition cost and accumulated amortization of intangible assets.
b. Restatement year acquisitions, disposals, amortization expense and write-off of accumulated amortization.

ATTACHMENT 1: PARAGRAPHS IN GASB STATEMENTS NO. 34 AND NO. 42 AMENDED BY GASB STATEMENT NO. 51

The following paragraphs in GASB Statements 34 and 42 have been amended by Statement No. 51.

GASB Statement No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

Paragraph 18. Capital assets should be reported at historical costs. The cost of a capital assets should include capitalized interest and ancillary charges necessary to place the asset into ins 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.

Paragraph 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 operation and that have initial useful lives extending beyond a singe 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, tunnels, drainage systems, water and sewer system, 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 purpose of this Statement.

Paragraph 20. Capital assets that are being or have been depreciated (paragraph 22) should be reported net of accumulated depreciation in the statement of net assets. (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 or infrastructure assets reported using the modified approach (paragraph 23 through 25), 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 assets (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment). Required disclosures are discussed in paragraphs 116 and 117.

Paragraph 21. Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assts such s land and land improvements should not be depreciated.

Paragraph 44. Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a facility that houses the police department, the building inspection office, and the water utility offices) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets such as a city hall or a state office building that essentially services all functions is not required to be included in the direct expenses of the various functions. This depreciation expense may be included as a separate line in the statement of activities or as part of the “general government” (or its counterpart) function (and in either case, may be allocated to other functions as discussed in paragraph 42). If a government uses separate line in the statement of activities to report unallocated depreciation expense, it should clearly indicate on the face of the statement that this line item excludes direct depreciation expenses of the various programs. Required disclosures about depreciation expense are discussed in paragraph 117.

Paragraph 45. Depreciation expense for general infrastructure assets should not be allocated to various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities.

Paragraph 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 assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and 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)

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

Paragraph 120. Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely present 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’s relationship with the primary government.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*

Paragraph 5. Assets 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 events or change in circumstance would not have been expected to occur during the useful life o the capital asset.

Paragraph 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 change sin circumstances, such as physical damage, obsolescence, enactment or approval of laws or regulations or other changes in environmental factors, or change in manner of duration of use. Usable service capacity may be different from maximum service capacity in circumstances in which surplus capacity is needed fro safety, economic, or other reasons. Decreases in utilization and existence of or increase in surplus capacity that are not associated wit ha decline in service utility are not considered to be impairment.

Paragraph 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 denotes the presence of indicators of impairments, 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 result in an impairment as defined in paragraph 5.

Paragraph 8. The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent—that is, conspicuous or known 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.

Paragraph 9. 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 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 services
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.

Paragraph 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.

Paragraph 11. 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 operations 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 costs 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.

Paragraph 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 assets. The methods for measuring impairments 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 he capital asset—before and after the events 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 no new, and then is deflated to convert it to historical cost dollars.

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

Paragraph 14. Impairment 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 unit approach.

Paragraph 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.

Paragraph 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.

Paragraph 17. Unless the impairment is considered temporary as described in paragraph 18, the loss from impairments should be reported in the statement of activities and statement of revenues, expenses, and changes in fund net assets, 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.

Paragraph 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 of 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. For example, a middle school that is not being used due to declining enrollment should not be written down if evidence, such as future middle school enrollment projects substantiated by current elementary school enrollments, residential development data, birth rates, or other economic indicators, demonstrates that the closing of the middle school will be temporary. 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.

Paragraph 19. If an event or circumstance indicates that a capital asset may be impaired, but the test of impairment determines that impairment has not occurred, the estimates used in depreciation calculations—remaining estimated useful life and salvage value—should be reevaluated and changed, if necessary.

Paragraph 20. The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary.

ATTACHMENT 2: EXAMPLE 2 FROM GASB STATEMENT NO. 51

The following illustration was published as part of Statement No. 51.

Illustrations – Example 2
Recognition of an Internally-Generated Patent

Assumptions

Through its College of Medicine, Douglass State University conducts research on developing medical instruments and supplies that improve the effectiveness and efficiency of surgical procedures. A general area of the university's research is in the area of supplies used to close surgical incisions, such as stitches and staples. After months of exploratory research in this area, university researchers discover a combination of mircrofibers that when applied in the form of a stitch proved in initial tests to be significantly more durable than existing stitches and would dissolve upon the natural healing of the wound. The university researchers believed that these new stitches would be especially effective in surgeries requiring large incisions.

In February 2013, the data accumulated from the research described above were presented to the research committee of the board of the College of Medicine. Based on the presentation, the committee formally authorized 5 full-time researchers and $12 million to fund personnel and other outlays for a project to develop the new material for the stitches. The goal of the project would be to acquire a patent for the new stitch material. Based on other patent that the college has acquired in the past and the type of stitches currently used in practice, the committee believes that the technological advancements of the new stitch supported by the patent would improve the quality of services provide to patients of the hospital operated by the College of Medicine.

Recognition

The university should begin to capitalize outlays associated with the development of the project and acquisition of the related patent in its statement of net assets upon the authorization of resources by the research committee (February 2013). At this point, the specified-conditions criteria for recognizing internally-generated intangible assets appear to be met. The objective of the project has been identified as the acquisition of a patent related to the creation of a new stitch material formed from a combination of specific microfibers. The university has determined that the patent would provide service capacity through the improvement of services provided to patients of its hospital. The initial tests and other general research performed provide a basis for the technical feasibility of the creation of the new stitch material. Lastly, the research committee's commitment of personnel and the $12 million to fund the outlays of the project demonstrate the university's current intention, ability, and presence of effort to continue or complete the work needed to acquire the patent. No outlays associated with the project incurred prior to meeting the specified conditions in February 2013 should be capitalized; those outlays should have been expensed as incurred.

ATTACHMENT 3: ACCOUNT GROUP CODES—INTANGIBLE ASSETS

The following Account Group Codes designate the various classifications of capital assets at the University.

Valid Account Group Codes for the CFSAST Balance Records:

Account Group Code	Account Group Title
120110	Real Estate - Campus
120120	Real Estate - Medical Center
120210	Buildings and Structures - Campus
120220	Buildings and Structures - Medical Center
120230	Fixed Equipment - Campus
120240	Fixed Equipment - Medical Center
120310	General Improvements - Campus
120320	General Improvements - Medical Center
120440	Software > 10M Campus
120450	Software > 10M Medical Center
120460	Software <10M Campus
120470	Software <10M Medical Center
120480	Equipment-Medical Center
120490	Equipment-Campus
120510	Library Mat & Library Collections(exc. Rare Books)
120520	Library Rare Books & Rare Book Collections
120610	Construction in Progress - Campus
120620	Construction in Progress - Medical Center
120710	Intangible Assets - Campus
120720	Intangible Assets - Medical Center
120810	Infrastructure Assets - Campus
120820	Infrastructure Assets - Medical Center
120910	Special Collections-Excl Lib-Campus
120920	Special Collections-Excl Lib-Medical Center

Codes 120710 and 120720 are currently designated for use for intangible assets.

CFR reports will need to be modified to group software as a category of intangible assets. (Identify and list CFR and DPR reports that require modification)

ATTACHMENT 4: TEMPLATE FOR IDENTIFICATION OF INTANGIBLE ASSETS AT JUNE 30, 2008

(Excel version is available via the IRM website)

Please list all easements, water rights, timber rights, and mineral rights with limited useful lives (do not list items with indefinite lives or any other category of intangible assets) at your location as of June 30, 2008. Please identify individual items, not a grouping of items. For items that were acquired and renewed, such as an easement originally acquired in 1980 and renewed in 2000, list the date and acquisition costs for the latest renewal. For items acquired before July 1, 1980, you may indicate the acquisition date to be "7/1/80".

Campus: ______________________

Completed by: ______________________ Date: ______________

	(1) Sub-location: Campus or Medical Center	(2) Acquisition Date	(3) CAAN	(4) Fund Source (FED, NONFED, OTHER)	(5) Acquisition Amount	(6) Useful Life (Enter Data in One Column Only)		(7) Specific Item Description (of easements, water rights, timber rights and mineral rights with limited useful life)	(8) Was it Previously Capitalized at Acquisition?
						(a) Number of whole years	(b) Expiration year		
1.	Campus	8/18/2002	5508	OTHER	42,000	10		Right of way easement from city of xx at 123 Campus Drive.	No
2.									
3.									
4.									
5.									

An Excel file will be provided to the campuses for actual use.

Attachment 5: Template for Identification of Intangible Asset Transactions in FY 2008–2009

(Excel version is available via the IRM website)

The implementation of GASB 51 will require the inclusion of easements, water rights, timber rights, mineral rights and certain internally-generated copyrights, patents and trademarks as INTANGIBLE ASSETS. These assets will not be capitalized or included as INTANGIBLE ASSETS until FY2009-10; however, transactions in FY 2008–2009 must be identified for restatement in FY2009–2010.

Please list transactions of easements, water rights, timber rights, mineral rights and qualifying internally-generated copyrights, patents and trademarks incurred during FY 2008-09, including additions, disposals or transfers. Item capitalized in FY 2008–2009 in accordance with pre-GASB 51 policy should not be listed. Please identify individual items, not a grouping of items. The information will be used to restate the FY2008-09 statements in FY2009–2010.

Campus:____

Completed by: ____________________________________ Date: ______________________________

Transaction Date	Enter Type of Action: 1 = Add 2 = Disposal 3 = Transfer 4 = Impairment 5 = Capitalized Interest	Location 2: 1 = General Campus 2 = OP (AGC=120710)	Medical Center (Y/N) (AGC=120720)	CAAN	Fund Source (FED, NONFED or OTHER)	Amount of transaction (+ for Add or Transfer; - for all others)	Asset Description (up to 35 characters) (only required for Add Transactions)	These fields are only required for Transfer Transactions Enter the target (TO) information for the transfer					
								Campus	Location 2: 1 = General Campus 2 = OP (AGC=120710)	Medical Center (Y/N) (AGC=120720)	Asset Type: IN = Intangible	CAAN	Fund Source (FED, NONFED or OTHER)
4/12/2009	*Transfer*	*1*	*N*	*4545*	*OTHER*	*35,000*	*<this is an example only>*	*Los Angeles*		*N*	*IN*	*4545*	*FED*

ATTACHMENT 6: UCOP SYSTEM MODIFICATION—INTANGIBLE ASSETS

(Complete system modification specs will be outlined in separate documents.)

DPR System

The Corporate Asset Depreciation System (DPR) calculates depreciation for the University's capital assets with finite useful lives. In order to retroactively introduce items of intangible assets such as easements, land rights and other items previously not recorded in the system, the DPR system must be modified to accept information on newly introduced assets with existing accumulated depreciation balances.

Since data for certain intangible assets such as easements have never been gathered or processed in the DPR system, the University must gather the required data, determine the past depreciation (amortization) that would have applied, and insert this new data into the DPR system database as of July 1, 2008. While the data will be revised "as of July 1, 2008", the actual change will be recorded during FY 2009-10, to capture the revised data for FY2008-09 for restatement purposes in 2009-10.

The following DPR System reports will require modification:

- List of reports to be identified.

The reports currently list intangible assets and software as part of the subtotal labeled "Equipment". The reports must be modified to separately show a subtotal for intangible assets and software. Equipment subtotal should not include intangible assets or software.

ULO System

Since intangible assets will have various useful lives depending on the facts and circumstances, the useful life to be assigned to each item of intangible asset must be collected through the Useful Life Override (ULO) system. The ULO will also need to recognize and accept cases where the useful life may be indefinite, resulting in no amortization for that item to be calculated. Software will not require an over-ride life since they have been assigned default lives of three and seven years. It will be possible to exclude software from the ULO system since they have been assigned separate codes.

CFR System

The reports currently list intangible assets and software as part of the subtotal labeled "Equipment". The reports must be modified to separately show a subtotal for intangible assets and software. Equipment subtotal should not include intangible assets or software.