This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California
GASB 35 Depreciation Reporting

Issues Resolution Memo No. 18

Approach to Intangible Assets (formerly recorded as Improvements Authorized)

Define Issues

The University must establish guidelines for the consistent treatment and reporting of intangible assets (formerly recorded as Improvements Authorized) for campuses and medical centers.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. Among other matters, these Statements will require the University to account for depreciation in its financial statements for the fiscal year beginning July 1, 2001, with comparative information for the prior year. Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

The University currently uses the Improvements Authorized account group (10207) to book goodwill, covenants and other intangible assets. In FY 2000, only one campus recorded intangible assets in this account group.

Currently, the University capitalizes, but does not depreciate the assets reported in the Improvements Authorized account group.

Authoritative Guidance

GASB Statement No. 34

GASB Statement No. 34 sets forth the requirement for reporting depreciation in a public institution's annual financial statements.

> *Paragraph 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.

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 and intangible* assets that are used in operations and that have initial useful lives extending beyond a single reporting period… [emphasis added]

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 and 25. Inexhaustible capital assets such as land and land improvements should not be depreciated.

Recommended Approach

- The Improvements Authorized account group will be re-named Intangible Assets and will record the assets associated with goodwill, covenants not to compete, trademarks, patent purchases, etc.
- Beginning July 1, 2000, the University will capitalize intangible asset costs beginning in the year the assets are acquired.
- Campuses will assign individual CAANs (capital asset account numbers) to each intangible asset recorded, as necessary. Therefore, beginning July 1, 2000, all campus and medical center intangible assets will be recorded and tracked in the campuses' CFS AST files.
- The University will depreciate intangible assets. The useful life for intangible assets will be determined on a case-by-case basis. For example:
  - Goodwill may be amortized over periods of years up to 40 years, depending on whether that is consistent with the underlying economic substance.
  - Covenants not to compete would be amortized over the term of the agreement.
  - Purchased patents would be amortized over 17 years unless it was demonstrated that it should be accelerated.
- When the assets reach a net book value of zero, the costs, along with the accumulated depreciation, will be written off.
- OP will calculate the June 30, 2000 accumulated depreciation balance by determining the year the intangible assets were capitalized and accumulating each year's depreciation expense.

Next Steps

- OP to seek campus concurrence at the January North/South meeting.
- Campuses should provide the original year capitalization for the balance of assets reported in account group code 10207 as of June 30, 2000.
- Campuses and medical centers should identify all existing intangible assets and, if necessary, reclassify the assets to account group code 10207 by the time campuses submit their December 31, 2000 files to OP in April 2001.
- OP will calculate the June 30, 2000 accumulated depreciation balance.
- OP will determine the process for accumulating data on the lives of individual intangible assets.