

**THE CALIFORNIA STATE UNIVERSITY
GAAP REPORTING MANUAL**

CHAPTER 13

CAPITAL ASSET GUIDE

INTRODUCTION

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

CALIFORNIA STATE UNIVERSITY CAPITAL ASSET GUIDE



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CAPITAL ASSET GUIDE

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Statement No. 34 of the Governmental Accounting Standards Board

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1. INTRODUCTION

Effective July 1, 2001 the California State University was required to implement Governmental Accounting Standards Board Statement No. 34 and 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 presents are infrastructure reporting and depreciation accounting. This document discusses accounting and reporting requirements related to GASB 34 and 35.

The project team has prepared this Capital Asset Guide to identify standards to be used in the initial implementation and ongoing compliance with of the new reporting requirements. Included in this guide are asset category definitions, capitalization thresholds, depreciation 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 of one year or greater. Capital assets must be capitalized, which means to record the property in the accounting records as assets. Beginning with the 2001/2002 fiscal year, capital assets must also be depreciated.

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
 - Software developed or obtained for internal use
 - Intellectual property

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

Standard asset lives have been established as a guideline for each major class of assets and are shown on the following table. 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	20 years
C. Fixed Equipment	20 years
Temporary buildings, modular units or Similar structures	The lesser of 10 years or estimated useful life
Improvements, other than buildings - Signage, sprinkler systems, TV tower, radio tower, swimming pools, paved parking lots, walkways and courtyards, fencing, bleachers, retaining walls, fountains	10-30 years or estimated useful life
Infrastructure - Roads and bridges	40 years
Telecommunications networks between buildings	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
Rare library books (collections)	Infinite
Works of art/historical treasures	Infinite or estimated useful life if exhaustible
Intangibles – Software	3-5 years
Other intangible assets	Estimate useful life



* 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 auxiliaries 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 methodologies adopted by campus must be used.

When an institution elects to depreciate its buildings by components, the same depreciation methods must be used for indirect cost allocations used with federal awards (Facilities & Administrative) purposes and financial statements purposes.

Reference: OMB Circular A21 section J.12.B.(4).

2.3. Capital Asset Acquisition Cost

Capital assets purchased with federal or state grant funds should be capitalized and depreciated by the entity owning the asset. Documentation should accompany any transfer of ownership. Transfer of ownership requires good communication between entities. The entity to which ownership is transferred would then record and depreciate the asset.

2.3.1 Capital Asset Donations - (No change with GASB 34/35)

Capital asset donations should be recorded at the Fair Market Value (FMV) on the date of donation and should be depreciated using the suggested useful lives in this guide.

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 by the entity that owns the asset. 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 on one of the entity's financial statements.



2.3.3 Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- 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.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- 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.

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

2.4. Depreciating Capital Assets

Depreciation is the expensing of an asset's depreciable cost to the time periods during which the owner receives benefit from use of the asset. Capital assets should be depreciated 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, 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 life and allows for the recording of a half-year of depreciation for assets placed in service any time during the year. Alternatively, depreciation could be applied from the specific date on which the asset was placed in service.

Depreciation 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 will be calculated and maintained by the campus for each eligible asset, and total depreciation expense will be reported for each year. Accumulated depreciation will be summarized and reported for GAAP purposes annually.

Straight-line depreciation uses cost divided by useful life.



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
- 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
- Cash is not exchanged and the asset is fully depreciated 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 recorded for that asset.

Example:

	<u>Gain on Sale</u>	<u>Loss on Sale</u>
Asset's Historical Cost	\$ 10,000	\$10,000
Less Accumulated Depreciation	<u>7,000</u>	<u>7,000</u>
Net book value	\$ 3,000	\$ 3,000
 Subtract Proceeds Received	 <u>4,000</u>	 <u>2,000</u>
 Gain from Sale of Asset (credit to revenue account)	 (\$ <u>1,000</u>)	
Loss from Sale of Asset (debit to expense account)		\$ <u>1,000</u>

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

Note: When an asset is sold or transferred between campuses or another State agency, the selling entities historical cost of the asset and the accumulated depreciation will carry over to the entity buying/receiving the asset. When an asset is sold or transferred between a campus and an auxiliary, the selling entity's net book value of the asset becomes the receiving entity's new basis and the useful life would follow the receiving entities capitalization policy.



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.



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.

Cost of demolition of existing buildings and improvements (less salvage) in order to construct new buildings or improvements.



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
- 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
- Environmental compliance (i.e., asbestos abatement)
- 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 or 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)
- 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



3.2.4.3 Componentization Of Buildings

- SHELL-Same as constructed buildings above
- SERVICE SYSTEMS- Electrical and lighting systems, heating, ventilation, air conditioning, HVAC, plumbing, fire protection systems and elevator systems
- FIXED EQUIPMENT- sterilizers, casework, fumehoods, 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.
- 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

The following are examples of expenditures **not** to capitalize as improvements to buildings. 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 renovation, such as repainting, touch-up plastering, replacement of carpet, tile or panel sections; sink and fixture refurnishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections.
- 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).

Note: Prospective and retroactive reporting of infrastructure assets purchased, constructed, or donated is required for fiscal year ending June 30, 2002. Recording of infrastructure acquired prior to July 1, 1980 is optional.



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 increases the life or value of the asset by a significant amount 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 will not use the Modified Approach in lieu of 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 amortized 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 expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off 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.

3.5.2. Depreciation Methodology

Depreciation is not applicable 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 asset categories.

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 increase the value or life of the asset by a significant amount 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 at least one year.

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 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

All purchases of books and materials for a professional, academic or research library should be capitalized, as there is no minimum dollar amount. Library acquisitions are valued at cost or other 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 section 4-2 of the GAAP Reporting Manual for detailed instructions regarding acquisitions and deletions of library books.

“Rare books” if purchased by a campus can be treated like collections and not depreciated.

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

Intangible assets are property which lack physical substance but give valuable rights to the owner. 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.

3.9.1 Computer Software

Colleges and universities are now encouraged by the National Association of College and University Business Officers to adopt the AICPA Statement of Position 98-1, *Software Developed or Obtained for Internal Use* (SOP 98-1).

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.

3.9.1.2 Capitalization of Costs

Software development generally involves three phases. These phases and their characteristics are as follows:

- Preliminary project phase – when conceptual formulation of alternatives, the evaluation of alternatives, determination of existence of needed technologies and final selection of alternatives is made.
- Application development phase – Design of chosen path including software configuration and software interfaces, coding, installation of computer hardware and testing, including parallel processing phase.
- Post-implementation/operation phase – training and application maintenance activities.

Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Internal and external costs associated with the application development phase should be



capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

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

Certain costs associated with the CMS project qualify for capitalization under SOP 98-1, 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 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 stage (capitalized at the Chancellor's Office)
- External costs paid to third parties for specific upgrades and enhancements subsequent to July 1, 2002 (capitalized at the Chancellor's Office)
- 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.

This policy recognizes that certain other costs may qualify for capitalization under SOP 98-1. 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.

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.

3.9.2 Intellectual Property

Intellectual property includes patents, copyrights, trademarks and franchises.



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 original GAAP audit, as of and for the year ended June 30, 2002, undergone analysis of capital assets. This analysis was performed to ensure that asset values were accurately reflected on the 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 34 ¶ 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 & building improvements	110002	2321	Buildings
Accumulated depreciation - Buildings	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 - Infrastructure
Construction work in progress	110008	2350	Construction work in progress
Personal property including:			
■ Equipment	110006	2341	Equipment
■ Accumulated depreciation - Equipment	110007	2349	Accumulated depreciation - Equipment
■ Library books & materials	190020	2790	Other Assets
■ Accumulated depreciation - Library books and materials	190021	2790	Accumulated depreciation - Library books and materials
■ Works of art and historical treasures	190030	2790	Other Assets
Intangible assets	190001	2410	Intangible Assets
Accumulated depreciation - Intangible assets	190014	2490	Accumulated depreciation - Intangible assets



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 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 ..., 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 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 assets. 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:
- 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
 - Capital acquisitions
 - Sales or other dispositions
 - 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:
- Beginning and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements)
 - Increases and decreases (separately presented)
 - The portions of each item that are due within one year of the statement date
 - 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 ($\$1,794,780 \times 15$).



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:

$$(1 / (16 + 20 + 24) / 3) = 5\% \text{ annual depreciation rate}$$

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.