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Statement No. 51 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for Intangible Assets

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The guidance specific to intangible assets referred to above includes guidance on recognition. This Statement requires that an intangible asset be recognized in the

statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

How the Changes in This Statement Improve Financial Reporting

The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature (for example, recognition provisions for internally generated intangible assets, including computer software). This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets—and therefore the financial position of governments—and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 2 and 3 discuss the applicability of this Statement.

Statement No. 51 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for Intangible Assets

June 2007

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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June 2007

CONTENTS

Paragraph Numbers

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Accounting and Financial Reporting for Intangible Assets

June 2007

INTRODUCTION

1. Since the issuance of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* questions have been raised regarding the inclusion of intangible assets as capital assets for accounting and financial reporting purposes. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets can be purchased or licensed (which includes acquisition through an installment contract), acquired through nonexchange transactions, or internally generated. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also results in a more faithful representation of the service capacity of intangible assets—and therefore the financial position of governments—and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes standards of accounting and financial reporting for intangible assets, except as described in paragraph 3, for all state and local governments. As used in this Statement, an intangible asset is an asset[1] that possesses all of the following characteristics:

a. *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
b. *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
c. *Initial useful life extending beyond a single reporting period.*

3. The provisions of this Statement apply to all intangible assets except for the following:

a. Assets that meet the description in the preceding paragraph if the assets are acquired or created primarily for the purpose of directly obtaining income or profit.[2]
b. Assets resulting from capital lease transactions reported by lessees, which are addressed in National Council on Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments,* as amended.
c. Goodwill created through the combination of a government and another entity.

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[1]In Concepts Statement No. 4, *Elements of Financial Statements,* assets are defined as "resources with present service capacity that the government presently controls," with a *resource* being defined as "an item that can be drawn on to provide services to the citizenry," and *present service capacity* being defined as an asset's "existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission."
[2]The accounting and financial reporting for these assets generally should follow authoritative guidance for investments.

4. This Statement amends Statement 34, paragraphs 19–21, and Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 9e, 16, and 18.

Accounting and Financial Reporting for Intangible Assets Using the Economic Resources Measurement Focus

Classification

5. All intangible assets subject to the provisions of this Statement should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets, including the areas of recognition, measurement, depreciation (termed *amortization* for intangible assets), impairment, presentation, and disclosures should be applied to intangible assets, as applicable.[3] The provisions in the remainder of this Statement should be applied to intangible assets in addition to the existing authoritative guidance for capital assets.

Recognition

6. An intangible asset should be recognized in the statement of net assets[4] only if it is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:

a. The asset is separable, that is, the asset is *capable* of being separated or divided from the government and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability

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[3]References to relevant authoritative guidance for capital assets include, but are not limited to, paragraphs 18–22, 44, 45, 116, 117, and 120 of Statement 34 and paragraphs 5–20 of Statement 42.

[4]For purposes of this Statement, the term *statement of net assets* includes the government-wide statement of net assets, proprietary fund statement of fund net assets, and if applicable, the statement of fiduciary net assets, required to be presented as components of the basic financial statements, as discussed in Statement 34.

b. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Internally Generated Intangible Assets

7. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.

8. Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

a. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
c. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

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

Internally generated computer software

9. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of

this Statement. For example, licensed financial accounting software that the government modifies to add special reporting capabilities would be considered internally generated.

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

a. *Preliminary Project Stage*. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.
b. *Application Development Stage*. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.
c. *Post-Implementation/Operation Stage*. Activities in this stage include application training and software maintenance.

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

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

a. The activities noted in the preliminary project stage are completed
b. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

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

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

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

14. The activities within the stages of development described in paragraph 10 may occur in a sequence different from that shown in that paragraph. The recognition guidance for outlays associated with the development of internally generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

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

a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing
b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks
c. An extension of the estimated useful life of the software.

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

Specific Amortization Issues

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

17. An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should *not* be amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.[5]

[5]This change should be accounted for as a change in accounting estimate.

Impairment Indicator

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

Accounting and Financial Reporting for Intangible Assets Using the Current Financial Resources Measurement Focus

19. Outlays associated with intangible assets subject to the provisions of this Statement should be reported as expenditures when incurred in financial statements prepared using the current financial resources measurement focus.

EFFECTIVE DATE AND TRANSITION

20. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Except as noted in paragraphs 21–23, accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net

assets, fund balances, or fund net assets as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

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

22. Retroactive reporting of intangible assets considered to have indefinite useful lives as of the effective date of this Statement is not required but is permitted. Retroactive reporting of internally generated intangible assets (including ones that are in development as of the effective date of this Statement) also is not required but is permitted to the extent that the approach in paragraph 8 can be effectively applied to determine the appropriate historical cost of an internally generated intangible asset as of the effective date of the Statement.[6]

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[6]The policy applied for reporting these intangible assets should be disclosed in accordance with (Accounting Principles Board) APB Opinion No. 22, *Disclosure of Accounting Policies.*

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

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board:

Robert H. Attmore, *Chairman*
Cynthia B. Green
William W. Holder
Edward J. Mazur
Marcia L. Taylor
Richard C. Tracy
James M. Williams

Appendix A

BACKGROUND

24. The GASB first addressed intangible assets in paragraph 19 of Statement 34. That standard includes intangible assets (and specifically easements) in the description of items that should be considered capital assets for accounting and financial reporting purposes as follows:

> 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.

25. The inclusion of intangible assets in the above description of capital assets created questions as to whether and when intangible assets should be accounted for using the guidance for capital assets present in Statement 34, or the existing authoritative guidance for intangible assets (Accounting Principles Board Opinion [APB] No. 17, *Intangible Assets*, or Financial Accounting Standards Board [FASB] Statement No. 142, *Goodwill and Other Intangible Assets,* as appropriate). Based on inquiries and other informal research, it was believed that inconsistencies in the accounting and financial reporting for intangible assets had developed in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. In May 2003, the Board added a project on intangible assets to its technical agenda to address these inconsistencies.

26. A survey related to intangible assets was conducted through the GASB website to better assess the extent of inconsistencies related to accounting and financial reporting for

intangible assets and to identify the various types of intangible assets that state and local governments may possess. Seventy-two responses to the survey were received. Analysis of these responses indicated that inconsistencies did indeed exist in practice, particularly in the areas of recognition, measurement of donated intangible assets, and amortization.

27. In December 2006, the Board issued an Exposure Draft, *Accounting and Financial Reporting for Intangible Assets*. The Board received 47 responses to the Exposure Draft. In April 2007, the Board held a public hearing on the proposals put forth in the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft and testified at the public hearing contributed to the Board's deliberations in finalizing the requirements in this Statement.

28. In arriving at the conclusions presented in this Statement, the Board considered its own standards and those of the FASB, International Accounting Standards Board, American Institute of Certified Public Accountants, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and the Canadian Institute of Chartered Accountants.

Appendix B

BASIS FOR CONCLUSIONS

29. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

Characteristics of Intangible Assets

30. In determining the required characteristics of items that would be included within the scope of this Statement, the Board began with those characteristics inherent in the term *intangible asset*—an item that meets the definition of an asset as provided in Concepts Statement No. 4, *Elements of Financial Statements,* and lacks physical (tangible) substance. From there, the Board concluded that it was necessary to develop other required characteristics to set parameters around the population of assets to be covered by the provisions of this Statement.

31. The Board concluded that intangible assets within the scope of this Statement should have a nonfinancial nature. Otherwise, several financial assets including cash, investment securities, receivables, and prepaid expenses would be considered intangible assets, which was not the Board's intent, because they meet the definition of an asset and lack physical substance.

32. In the Basis for Conclusions of the Exposure Draft, an asset that has a nonfinancial nature was described as one that is not expected to ultimately be settled in fixed or determinable amounts of cash and does not reflect a prepayment of cash for goods or services. Some respondents to the Exposure Draft expressed concern that this description of nonfinancial nature lacked sufficient clarity and further suggested that the description be included in the Standards section of the Statement as opposed to solely being in the Basis for Conclusions. The Board agreed with these respondents and provided a more robust description of nonfinancial nature in the Standards section of this Statement.

33. The Basis for Conclusions of the Exposure Draft also explained that an intangible asset held for sale would not meet the description of an intangible asset because it would not be considered to have a nonfinancial nature as that term was described in the Exposure Draft. Some respondents to the Exposure Draft disagreed with that position suggesting that an asset should not be precluded from meeting the description of an intangible asset solely because it is held for sale. The Board agreed with these respondents and decided on a description of nonfinancial nature that would not result in an asset held for sale being precluded from meeting the definition of an intangible asset. However, the Board believes that an intangible asset considered held for sale upon its acquisition or creation generally would be acquired or created primarily for the purpose of directly obtaining income or profit and, therefore, would be excluded from the provisions of the Statement under the scope exclusion provided for such assets.

34. The Board concluded that intangible assets within the scope of this Statement also should have initial useful lives extending beyond a single reporting period. The Board believes that items that meet the other required characteristics but do not have initial

useful lives extending beyond a single reporting period generally would be most appropriately expensed as incurred.

35. Some respondents to the Exposure Draft requested that the Statement include further guidance as to whether specific outlays meet the description of an intangible asset or provide additional examples of common types of intangible assets held by state and local governments. The Board considered these comments and determined that the issue raised by these respondents involves determining whether specific outlays meet the definition of an *asset* in the first instance, as opposed to whether they meet the description of an *intangible asset*. The Board concluded that in many cases, the facts and circumstances of a specific arrangement will be critical to determining whether or not the associated outlays meet the definition of an asset, thereby limiting the effectiveness of any broad guidance that could be provided in this Statement. Therefore, the Board concluded that the provision of guidance on whether specific outlays meet the description of an intangible asset or the provision of additional examples in this Statement would not be beneficial.

Categories of Intangible Assets

36. At the outset of the project, the Board tentatively concluded that for purposes of discussing issues associated with accounting and financial reporting requirements for intangible assets, these assets should be grouped based on their mode of acquisition. The Board believed that the mode of acquisition of the asset could be a consideration in determining the timing of recognition or the measurement attribute, as well as required disclosures. The Board initially identified the following five groups of intangible assets:

a. Intangible assets separately acquired through exchange transactions
b. Intangible assets separately acquired through nonexchange transactions
c. Intangible assets created or acquired through a combination with another entity
d. Internally generated intangible assets
e. Intangible assets created through statutes or the inherent nature of the governmental entity.

Intangible Assets Created or Acquired through a Combination with Another Entity

37. As the Board considered intangible assets created or acquired through a combination with another entity (governmental or nongovernmental), it considered whether broader accounting and financial reporting requirements for combination transactions should be addressed as part of this project. The Board concluded that the issues that would need to be deliberated in developing accounting and financial reporting requirements for combination transactions would extend beyond issues related to intangible assets. Therefore, the Board concluded that guidance on accounting and financial reporting for combination transactions should not be included as part of the intangible assets project. Accordingly, the Board also concluded that the provisions of this Statement should not be applied to goodwill created through a combination transaction.

38. The Exposure Draft stated that the recognition and measurement provisions of the Statement would not apply to intangible assets other than goodwill that are acquired or created through a combination transaction. The intent of the Board was to allow for the recognition and measurement provisions of existing authoritative guidance for combination transactions to continue to be applied for these assets as appropriate. A number of respondents to the Exposure Draft commented that this provision lacked clarity. Upon redeliberation, the Board concluded that the recognition and measurement provisions of existing authoritative guidance for combination transactions that apply to

state and local governments (for example, APB Opinion No. 16, *Business Combinations*) are not in conflict with those of this Statement and, therefore, they should continue to be applied upon the provisions of this Statement becoming effective. Based on this conclusion, the Board decided that it was unnecessary to include this scope exception in the Statement.

Intangible Assets Created Through Statutes or the Inherent Nature of the Governmental Entity

39. In its deliberations on intangible assets created through statutes or the inherent nature of the governmental entity, the Board made a distinction between "powers" and "rights" held by a government. The Board determined that powers give the government the ability or authority to directly compel or control the actions of another party. Provision of this ability is the essence of the service capacity of a power. Powers generally are obtained by a government through its constitution or charter, or through the passage of legislation, either that of the government itself, or that of a higher level of government, for example, a state law granting the power to levy a tax to a local government. Powers generally are not obtained by a government through a transaction (either exchange or nonexchange) that creates an obligation or duty on the part of another party to grant such powers to the government.

40. The Board determined that generally all of the items that may be considered intangible assets created through statutes or the inherent nature of the government would meet the description of powers detailed above because the nature of a government is one of a lawmaking body that can directly control or compel the actions of other parties through its laws for the benefit of the government or its constituents. Examples of such powers may include the power to tax, the power of eminent domain, the power to require

use of government services, the power to require fee-based permits and licenses for certain activities, and the power to regulate (for example, award franchises or exclusivity to service providers).

41. Upon making the determination described above, the Board considered the following discussion in paragraph 11 of Concepts Statement 4 regarding whether the power to tax and other powers should be considered assets:

> The power to tax is a distinguishing characteristic of government. Because governments are formed to provide services, frequently irrespective of the ability of specific individuals to pay for those services, governments are often established with the power to tax. That power, while central to the function of many governments, does not constitute an asset of those governments with that power. A government's power to tax may be considered one of the government's most important resources (that is, a means that can be drawn on), but it is not an asset of the government because the power to tax does not have present service capacity. The power to tax produces an asset for accounting and financial reporting purposes only when the power to tax is exercised and an enforceable tax levy or a taxable transaction has occurred, as applicable, resulting in a resource with present service capacity—taxes receivable. Similarly, other powers inherent in a government, such as regulatory or eminent domain powers, are not assets, but they may produce assets when exercised.

42. Based on the above discussion, the Board concluded that powers held by the government would not be considered assets as defined in Concepts Statement 4 and, accordingly, would not meet the description of an intangible asset provided in this Statement.

Accounting and Financial Reporting for Intangible Assets Using the Economic Resources Measurement Focus

Classification

43. One of the fundamental issues causing inconsistency in the accounting and financial reporting of intangible assets is determining whether and when intangible assets should be considered capital assets. Based on the description of capital assets in paragraph 19 of Statement 34, classification of an intangible asset as a capital asset depends on whether the intangible asset is "used in operations." (Having an initial useful life extending beyond a single reporting period is a required characteristic of both capital assets in Statement 34 and intangible assets as described in this Statement.) In the Exposure Draft, the Board tentatively concluded that all intangible assets generally would be "used in operations" in some fashion. Therefore, the Board further tentatively concluded that all assets meeting the description of an intangible asset should be classified as a capital asset.

44. Some respondents to the Exposure Draft disagreed with this conclusion, commenting that in cases in which the primary present service capacity of an intangible asset relates to economic benefit as opposed to use in operations, the intangible asset would more appropriately be classified as an investment than as a capital asset. An example of such a case may be a copyright acquired by a public university through a contribution that the university uses primarily to generate royalty income. Statement No. 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." Additionally, other existing authoritative guidance for investments in the *Comprehensive Implementation Guide* suggests that

assets normally classified as capital assets should be considered investments when they are held for the direct generation of income or profit, for example, a building held primarily for the generation of rental income. Considering this guidance and the comments of the aforementioned respondents, the Board concluded that intangible assets acquired or created primarily for the purpose of directly obtaining income or profit generally should not be classified as capital assets. Instead, the Board concluded that the accounting and financial reporting for these intangible assets generally should follow authoritative guidance for investments. Therefore, these intangible assets are excluded from the scope of this Statement.

Recognition

Internally Generated Intangible Assets

45. Common types of intangible assets held by governments that may be internally generated include computer software, patents, trademarks, and copyrights. Given the process involved in producing these assets, the Board considered whether specific guidance should be provided as to the point at which outlays associated with the development of an internally generated intangible asset should be capitalized, if it all, as a capital asset in process. The Board compared the nature of internally generated intangible assets in development to that of construction-in-process capital assets, which the Board considered to be its tangible counterpart. The Board believes that generally there is a higher degree of research activity related to project alternatives associated with internally generated intangible assets in development than with tangible construction-in-process capital assets. Additionally, the Board believes that the risk of abandoning a project prior to completion for reasons including technical or technological infeasibility

or a change in the priorities of management, is greater for internally generated intangible assets in development than for tangible construction-in-process capital assets. Given these considerations, the Board concluded that it may be more difficult to determine when outlays should begin to be capitalized in the case of an internally generated intangible asset in development than for tangible construction-in-process capital assets. Therefore, the Board concluded that recognition guidance specific to internally generated intangible assets should be provided in this Statement.

46. The Board considered four alternative methods of accounting for outlays associated with internally generated intangible assets in development:

a. Expense all outlays as incurred
b. Capitalize all outlays as incurred
c. Capitalize outlays when incurred once specified conditions are fulfilled and expense all outlays incurred up to that point (specified-conditions approach)
d. Accumulate all outlays on the statement of net assets as a deferred outflow until the achievement of present service capacity can be determined (successful-efforts approach).

47. An approach that would have all outlays associated with internally generated intangible assets in development expensed as incurred is based on the concept that a capital asset in process should not be recognized because of the project risks that exist prior to the project being completed and the asset being placed in service. Conversely, an approach that would capitalize all outlays associated with internally generated intangible assets in development as incurred is based on the concept that a capital asset in process exists from the outset of the project. The Board believes that both of these approaches take an excessively extreme view of the development process in terms of when a capital asset in process is created. The Board believes that there is a greater possibility of not achieving service capacity with an internally generated intangible asset in development.

Nevertheless, the Board also believes there is a point in the development process at which that possibility is sufficiently minimized so that it can be demonstrated that a capital asset in process has been created. However, the Board does not believe that this point is at the outset of the project. Rather, the Board believes that certain activities need to take place and certain conclusions need to be reached about the project to make such a demonstration. Based on those beliefs, the Board concluded that a specified-conditions approach, described in paragraph 46c, is the most appropriate method of accounting for outlays associated with internally generated intangible assets in development.

48. The Board believes that the specified-conditions approach provides preparers more flexibility in determining when a capital asset in process has been created, which is necessary given the wide range of intangible assets that may be internally generated and the differences in the development processes of similar types of internally generated intangible assets. As compared to the two approaches discussed previously, this approach also would allow internally generated intangible assets in development to be appropriately capitalized earlier in the development process, while providing safeguards against the capitalization of outlays that may become impaired in the future because the project is not completed.

49. A successful-efforts approach, described in paragraph 46d, would allow for all outlays directly related to an internally generated intangible asset to ultimately be capitalized, thereby reflecting the full cost of the asset. In contrast, under the specified-conditions approach, only the outlays incurred after it has been determined that the specified conditions have been met are capitalized. While the benefit of a successful-efforts approach has some merit, the Board identified several issues with this approach.

First was the question of whether a deferral of these outlays would meet the definition of a deferred outflow of resources in Concepts Statement 4. Second, the determination of what outlays would be considered "directly related" to an internally generated intangible asset, and therefore subject to deferral, would require considerable judgment, thereby potentially impacting the comparability of the accounting for these assets in governmental financial statements. Finally, although not reported as assets, deferral of these outlays would still result in an addition to net assets, which would have to be reversed if it is determined that a recognizable asset will not be generated from the project. Therefore, from a net asset perspective, this approach would essentially garner the same result as the approach that would capitalize all outlays at the outset of the project. Given these concerns, the Board reconfirmed its preference for the specified-conditions approach.

50. Some respondents to the Exposure Draft expressed concern that application of the specified-conditions approach would require outlays associated with an internally generated intangible asset in development that were originally expensed to be capitalized upon the meeting of the specified conditions. These respondents commented that this would cause restatement of financial statements and require extensive record keeping on the part of preparers to accumulate these outlays. However, the Board's intention is that only outlays incurred subsequent to meeting the specified conditions should be capitalized; outlays incurred prior to this point should remain expensed as a period cost. To make this point, clarifying language has been added to the Statement.

51. In developing the criteria described in paragraph 8, which represent the specified conditions that are required to be met to begin capitalization of outlays associated with

internally generated intangible assets in development, the Board considered factors that could jeopardize the success of a project to create an intangible asset. Some of the factors considered included:

a. Lack of human or financial resources needed to complete the project
b. Lack of management interest in completing the project
c. Inaccurate assessment of the needs/wants of potential internal/external users of the asset generated by the product
d. Technological or technical infeasibility of the creation of the asset
e. Obsolescence of the asset created.

The Board also considered the nature of projects undertaken by governments that result in internally generated intangible assets, and guidance provided in International Accounting Standard (IAS) 38, *Intangible Assets*, which takes an approach similar to a specified-conditions approach in recognizing internally generated intangible assets.

52. 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 was included in the specified-conditions criteria to limit capitalization of outlays only to those that directly relate to the creation of the specific intangible asset being developed through the project, excluding outlays that relate more to general research or the pursuit of varying alternative paths of development. The Board believes that the determination of the specific objective of the internally generated intangible asset should be at a level that details the purpose or function of the asset. For example, a specific objective of an internally generated intangible asset may be the development of computer software to be used in the administration of a government's Section 8 housing program. Determination of the nature of service capacity expected to be provided by the intangible asset should, at a minimum, be at a broad qualitative level. For example, the expected service capacity of the aforementioned Section 8 computer software may be to

automate the calculation and payment of the subsidy to be received by program participants, thereby improving services provided by the government. If the intangible asset is similar to other intangible assets created previously, evidence to indicate that the asset will achieve the expected service capacity should exist to support management's determination. In the absence of the experience of similar intangible assets, management should have other evidence to indicate that the asset will achieve the expected service capacity.

53. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity was included in the specified-conditions criteria to determine whether the government has identified a design path or course of action that, if executed properly, will result in an asset that will generate the expected service capacity. This will limit instances in which a project is abandoned or significantly altered because it cannot be completed for technical or technological reasons. It also will help limit capitalization of outlays to those that directly relate to the creation of the specific intangible asset being developed, as this point generally would be subsequent to the completion of general research or pursuit of varying alternative paths of development. Both the terms *technical* and *technological* are used in the condition as the Board believes that technological feasibility has a connotation more closely aligned with computer software, while technical feasibility has a connotation more closely aligned with other internally generated intangible assets such as patents, copyrights, and trademarks. The use of both terms in the condition is not intended to imply the existence of differing types of feasibility that are required to be assessed.

54. 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 was included in the specified-conditions criteria to assist in determining that the government has made a level of commitment toward completing the project. 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 government's legal rights to the project. As projects to develop internally generated intangible assets may take place over several years, particularly computer software projects, the Board concluded that a commitment to *continue* development of the intangible asset would suffice for meeting the specified-conditions criteria if all of the other conditions are met. A government may not otherwise be able to demonstrate a commitment of budgetary or other resources to complete the project if completion is not expected to occur until several years in the future.

55. Some respondents to the Exposure Draft expressed concern that the individual conditions in the specified-conditions criteria were not specific enough to ensure consistent application in terms of capitalizing outlays and that additional guidance regarding application of the conditions was needed in the Standards section of the Statement. Concern also was expressed that without more specificity, auditors may encounter difficulty in determining the appropriateness of a preparer's judgment as to whether the specified conditions have been met. The Board believes that these issues are inherent to some degree in the provision of principles-based guidance for which management judgment and subjectivity are involved in the application. Therefore, these

issues are not unique to the application of the specified-conditions approach. The Board also concluded that conditions that would be more specific than the conveyance of a broad principle would not be appropriate because of the breadth and depth of development processes that may be undertaken to create internally generated intangible assets. These development processes may differ among governments, or even by the nature of the intangible asset being created by the same government. The Board determined that some level of commonality could be drawn from the various processes used to develop computer software. Therefore, more specific guidance on the application of the specified-conditions approach to the development of computer software is provided in the Statement.

56. Some respondents to the Exposure Draft requested that guidance be provided in the Statement as to the types of outlays that should be capitalized as part of an internally generated intangible asset, for example, external direct costs, internal direct costs, and indirect and other overhead costs. Similar comments also were made by other respondents to the Exposure Draft related to the types of outlays that should be subject to capitalization for internally generated computer software. The Board considered these comments and concluded that there is nothing in the nature of an intangible asset in development that would require treatment different than tangible construction-in-process in the types of outlays that should be capitalized. Therefore, existing authoritative guidance and practice in this area for capital assets should be applied for intangible assets in development. To the extent that it is concluded in the future that additional authoritative guidance on the types of outlays that should be capitalized is necessary, the

Board believes this guidance is more appropriately provided in the broader context of capital assets.

Internally Generated Computer Software

57. The Board believes that the most prevalent type of internally generated intangible asset (and likely most significant in terms of outlays) for many governments is computer software. The Board also believes that internally generated computer software has a development cycle that can be different from other types of internally generated intangible assets, such as patents and trademarks, but commonality among the various computer software development models can be drawn. Given these beliefs, the Board concluded that recognition criteria specific to internally generated computer software, which serves as an application of the aforementioned specified-conditions criteria, should be provided in this Statement. The Board believes that prior to issuance of this Statement, in the absence of authoritative guidance issued by the GASB, the guidance in the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* has been applied by some governments that have capitalized outlays related to computer software even though governments were specifically excluded from its scope. Therefore, the Board considered the recognition criteria for internal-use computer software provided in SOP 98-1 in its development of the recognition criteria for internally generated computer software.

58. The Board considered whether the development stage approach for recognition of computer software present in SOP 98-1 was still relevant in light of the software development models currently used by state and local governments. Based on the

Board's research into such models and the current application of the provisions of SOP 98-1, the Board concluded that such an approach to recognition continues to be appropriate. The Board also considered whether the development stage approach used in SOP 98-1 is as applicable for governmental entities as for private-sector entities by comparing that approach to Federal Accounting Standards Advisory Board (FASAB) Statement No. 10, *Accounting for Internal Use Software.* The Board noted that the relevant provisions in FASAB Statement 10 were consistent with those of SOP 98-1.

59. Some respondents to the Exposure Draft expressed the position that a development stage approach does not reflect the process undertaken for certain software development models currently used by governments, potentially resulting in inconsistency in the application of the development stage approach. The Board acknowledged that the development stage approach outlined in this Statement is more easily applied with some software development models than others. However, the Board believes that the principles of the development stage approach generally can be applied effectively to the various software development models because of the commonality of the core activities of these models.

60. The Board then considered whether the activities included in each of the development stages and the resulting recognition guidance for each stage would be consistent with the specified-conditions criteria for recognition of internally generated intangible assets. The Board believes that the activities in the preliminary project stage of SOP 98-1 as described in this Statement would need to be completed before the specified-conditions criteria would be considered met. Therefore, the Board concluded

that outlays associated with activities in the preliminary project stage should be expensed as incurred, which is consistent with the provisions of SOP 98-1.

61. SOP 98-1 states that capitalization of software outlays should begin when the preliminary project stage is completed and when management with the relevant authority implicitly or explicitly authorizes and commits to funding the project, and it is probable that the project will be completed and the software will be used to perform the function intended. The Board concluded that this guidance is consistent with the specified-conditions criteria. The Board believes that the criteria in paragraphs 8a and 8b generally would be considered met once the activities and related tasks in the preliminary project stage are completed. Through determining the performance requirements of the software project and making strategic decisions to allocate resources between alternative projects, it would appear that an objective for the software project will have been defined. The determination of the performance requirements also would appear to demonstrate how the software will provide service capacity. Once systems and other technological requirements for the project have been determined, and the government has either selected a commercially available software package or has explored and selected a development path to meet the performance requirements, it would appear that the technological feasibility of the project could be demonstrated. The Board believes that the item in paragraph 8c generally would be considered met once management authorized and committed to funding the software project, at least currently in the case of a multiyear project.

62. The Board also concluded that outlays incurred related to activities during the post-implementation/operation stage, including application training and software maintenance,

should be expensed as incurred. The Board believes that these are outlays of operating the software and should not be considered ancillary to the development of the software. This conclusion also is consistent with the guidance in SOP 98-1.

63. One respondent to the Exposure Draft expressed concern that the treatment of outlays related to business process reengineering activities undertaken as part of a computer software project was not addressed in the recognition guidance for internally generated computer software. The Board considered this comment and concluded that while business process reengineering activities may occur as a result of the development of computer software, or may be part of a broad project that also involves the development of computer software, these activities should not be considered part of the process to develop the computer software. Therefore, determining the appropriate accounting treatment for outlays associated with business process reengineering activities should be done separately from determining the recognition of outlays associated with developing internally generated computer software. Accordingly, the Board decided not to specifically address business process reengineering activities in the recognition guidance for internally generated computer software in the Statement.

64. Some respondents to the Exposure Draft requested that situations in which the government licenses the use of commercially available computer software from a third party, as opposed to purchasing the computer software, be addressed in the Statement. These respondents expressed concern over whether the outlays associated with licensing the software would be considered an asset. These respondents also requested clarification of the stage of development in which the licensing of the software should be placed if the software being licensed is considered internally generated computer

software because of the level of effort necessary to make the software operational. The Board acknowledged that in many cases involving the acquisition of commercially available computer software, the government acquires the right to use the software through a license as opposed to actual ownership of the software. Therefore, the Board agreed that licensed software should be addressed in the Statement.

65. The Board believes that outlays to acquire a license to use commercially available software that is not considered internally generated computer software generally will meet the description of an intangible asset and should be reported accordingly. If the licensed software is considered internally generated computer software and, therefore, reporting of related outlays is based on the development stage approach, the Board believes that the criteria to begin capitalization of outlays related to software development are met when the government makes the decision to license the specific software. Accordingly, the licensing of the software would be an application development stage activity, and the related outlays would be capitalized.

66. Some respondents to the Exposure Draft requested clarification as to whether the reporting of the outlays associated with the development of computer software should be based solely on the nature of the related activity, as opposed to the timing of the activity. The Board concluded that its intention is that the nature and not the timing of the activity should dictate accounting treatment and agreed that clarification of this intent would improve the consistency of the application of the development stage approach.

67. Some respondents to the Exposure Draft requested that the Statement provide guidance as to the development stage within which data conversion activities should be

placed. After considering these comments, the Board concluded that to the extent data conversion activities are considered necessary to make the computer software operational, that is, in condition for use, such activities should be considered application development stage activities; otherwise, data conversion activities should be considered post-implementation/operation stage activities. The Board believes this conclusion is consistent with existing authoritative guidance for capital assets that states that the cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use.

68. The Board believes that the determination of whether data conversion activities are necessary to make the computer software operational should be based on the judgment of the preparer and will often depend on the nature of the software and its intended use. For example, in the case of a general ledger system or a human resources system for which effective use is dependent on the transfer of information from the legacy system, management may not believe that the software can be used until data conversion is completed. Conversely, management may believe that a database system containing vendor information and performance feedback may be operational prior to the completion of data conversion.

69. The Board also considered how to determine whether modifications of computer software that is operational should be considered software maintenance, resulting in related outlays being expensed as incurred, or considered an upgrade or improvement of the software, resulting in outlays being capitalized as appropriate. Existing authoritative guidance for capital assets other than infrastructure accounted for using the modified approach provides that outlays related to activities that increase the capacity or efficiency

of the asset, or that extend the useful life of the asset beyond its previously established useful life, should be capitalized. The Board concluded that the nature of computer software and its modifications are not sufficiently different from that of tangible capital assets to result in a difference in accounting for modifications of computer software.

70. In its deliberations on accounting for modifications of computer software that is operational for purposes of the Exposure Draft, the Board considered the nature of a modification that would extend the useful life of computer software. The Board determined that because computer software is intangible, it does not deteriorate physically; rather, obsolescence is what decreases the service capacity of computer software. Therefore, only modifications that defer obsolescence should be considered to extend the useful life of software. In the Exposure Draft, the Board tentatively concluded that generally only those modifications that add capacity or efficiency to computer software defer obsolescence and would result in an extension of the useful life of software. The Exposure Draft stated that modifications that do not result in added capacity or efficiency generally would not result in an extension of the useful life of software and would be more appropriately considered maintenance.

71. One respondent to the Exposure Draft disagreed with the above conclusion, commenting that in its view, there could be modifications that extend the useful life of computer software without adding capacity or efficiency. After deliberations on this comment, the Board agreed with the respondent and concluded that these types of modifications could occur, and to the extent they do occur, the associated outlays should be capitalized consistent with the existing authoritative guidance for capital assets. However, the Board also believes that modifications that extend the useful life of

computer software without adding capacity or efficiency are rare in occurrence. The Board believes that, in many cases, modifications that do not add capacity or efficiency may *appear* to extend the useful life of computer software beyond its originally estimated useful life because the government may continue to utilize the software past that point subsequent to the modification. However, the utilization of the computer software beyond its originally estimated useful life is most likely the result of an underestimation of the original useful life, as opposed to being the direct result of the modification. Such underestimation may be the result of the government not fully considering the impact of expected maintenance activities in its original estimation of the useful life of the computer software. In this case, the modification should be considered maintenance and the related outlays should be expensed as incurred. The remaining estimated useful life of the computer software also should be adjusted as appropriate.

Measurement

72. One area of measurement of intangible assets for which the Board considered providing guidance in this Statement is valuation of intangible assets received in a nonexchange transaction. Following existing authoritative guidance for capital assets, intangible assets received in a nonexchange transaction should be recorded at their estimated fair value at the time of acquisition plus ancillary charges, if any. A number of inquiries have been received from constituents related to appropriately estimating the fair value of donated easements, particularly right-of-way easements. A common example of how a government may receive a donated easement is a situation in which developers of new residential neighborhoods are required to build roads for their development and then

donate those roads along with the associated right-of-way easement to the government at the completion of the project.

73. After performing research into how the fair value of donated easements may be estimated in practice, the Board determined that there are many factors that can be considered when estimating the fair value of a donated easement, making the estimation of fair value dependent on the unique facts and circumstances of the specific easement acquired. Therefore, the Board did not believe that a global methodology, or even alternative methodologies, for estimating the fair value of donated easements should be developed for this Statement.

74. The Board believes, however, that in the case of a donated right-of-way easement (for example, a right-of-way easement donated with a road constructed by a developer), it would be inappropriate to arbitrarily assign a nominal value to the easement without application of a rational technique to estimate its fair value. For example, a nominal value should not be assigned to a right-of-way easement solely because of the facts and circumstances related to the configuration of the underlying land, that is, the shape of the underlying land or the presence of an existing structure on the land, such as a roadway. In existing authoritative guidance provided in the *Comprehensive Implementation Guide,* the fair value of an asset is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In the case of a right-of-way easement, however, generally the only willing buyer is the government. Therefore, the Board believes that in the case of a donated right-of-way easement, the outlay the government would have incurred to acquire the easement in an exchange transaction can be used to estimate the fair value of the easement. So while facts and

circumstances related to the configuration of the underlying land may influence the estimation of the fair value of a right-of-way easement, the Board expects that, with rare exception, such an easement will have a fair value greater than a nominal amount as the government would have incurred an outlay of a greater than nominal amount had the easement been acquired in an exchange transaction.

75. In the case of a donated permanent right-of-way easement under which little or no use of the associated land is left with the landowner (for example, a right-of-way easement for a road), the Board believes that the fair value of the associated land generally can be used as a basis to estimate the fair value of the easement. As a practical matter, acquiring this type of easement is similar to the government acquiring fee simple title on the land because the landowner is left with little or no use of the associated land. The fair value of the associated land may be used to approximate the outlay that would have been incurred by the government had it acquired the right-of-way easement through an exchange transaction.

Amortization

76. In its consideration of whether any amortization provisions specific to intangible assets should be provided in this Statement, the Board concluded that there would be some need for additional guidance in determining the useful life of an intangible asset. This need arises from the fact that the length of the useful life of an intangible asset is not limited by physical condition, and the deterioration thereof, as with tangible capital assets. The useful life of an intangible asset is often limited by contract, law, or regulation, as may be the case, for example, for patents and certain land use rights.

77. In certain instances, the useful life of such intangible assets may be extended through renewal. The Board believes that these renewal periods should be considered in determining the useful life of intangible assets in situations in which the renewal is expected to be pursued and achieved, and serves as an extension of the existing asset. In these cases, the Board believes it is reasonable for the government to expect that the intangible asset will provide service capacity through at least some portion of the renewal period. However, the Board concluded that evidence should exist to support that the renewal will be pursued and achieved. The Board further concluded that such evidence should support the expected approval of a third party, or the satisfaction of certain conditions, to the extent that these are required prior to the execution of the renewal. The Board also concluded that to be considered an extension of the existing asset, any anticipated outlays to be incurred as part of achieving the renewal should be nominal in relation to the level of service capacity expected to be obtained through the renewal. The Board believes that outlays associated with renewal that would be greater than nominal indicate the creation of a new asset, as opposed to the renewal of the existing asset. For example, a government pays $100 million to enter into a contract to purchase water rights for 30 years and that contract contains an option for the government to renew it for an additional 10 years in exchange for $30 million. In this case, the Board believes that the renewal option does not represent a potential extension of the originally acquired 30-year water rights; rather, it represents the opportunity to acquire a new asset, 10-year water rights, with the same terms as the originally acquired water rights. In contrast to this example, if a government holds a trademark for which the only outlays associated with renewal are legal fees to assist with the filing of the renewal application and a nominal

filing fee to process the renewal application, it would appear that the renewal has not resulted in the acquisition of a new asset but rather the extension of the existing trademark. Therefore, the government should consider the renewal period in determining the maximum useful life of the trademark.

78. As described above, the length of the life of an intangible asset may be limited by contract, law, or regulation. The length of its life also may be limited by some form of obsolescence, as may be the case, for example, with computer software or trademarks. Absent these factors, however, the period over which a government may use an intangible asset could be indefinite, meaning that there is no foreseeable limit to the period over which the asset is expected to provide service capacity to the government. Therefore, the Board concluded that if no legal, contractual, regulatory, technological, or other factors limit the useful life of an intangible asset, then it should be considered to have an indefinite useful life. The Board distinguished the concept of an *indefinite* useful life from an asset that is *inexhaustible*. With an indefinite useful life, changes in circumstances could occur that result in the asset having a finite useful life, whereas if an asset is inexhaustible, it would generally take an impairment to result in it having a finite useful life. The Board also distinguished the concept of an indefinite useful life from an *indeterminate* useful life. An indeterminate useful life is finite; however, the precise length of that useful life is not determinable without estimate. Most tangible capital assets have an indeterminate useful life because they eventually will become physically deteriorated, thereby limiting their useful life, but the exact point at which they will cease providing service because of this deterioration is essentially unknown. Computer software that eventually will become obsolete and be replaced at some unknown point in

the future is an example of an intangible asset with an indeterminate useful life. A capital asset with an indeterminate useful life generally is depreciated (or amortized) over what is estimated to be its useful life.

79. The Board concluded that if an intangible asset is determined to have an indefinite useful life, it should not be amortized. The Board believes that there is no decrease in the service capacity of an asset with an indefinite useful life; therefore, the carrying value of such assets should not be reduced through amortization. Amortizing those intangible assets would not result in the most faithful representation of the assets. Should circumstances change and the useful life of the intangible asset becomes finite, the asset should be tested for impairment (as there is a change in the duration of its use), and any remaining carrying value should begin to be amortized over the remaining useful life. That change should be treated as a change in accounting estimate.

Disclosures

80. The Board considered whether the disclosures required for capital assets should be equally applicable to intangible assets. It concluded that such required disclosures should incorporate information related to intangible assets without separation or distinction of that information beyond what is otherwise required in those disclosures. The Board also considered whether disclosures beyond those required for capital assets should be required for intangible assets. The Board considered disclosures specific to intangible assets with indefinite useful lives and internally generated intangible assets, including accounting policy disclosures and discrete identification in the detail of capital asset activity, as the nature of these intangible assets may be considered by some to be unique from other capital assets. The Board concluded, however, that disclosures beyond

existing capital asset disclosures required under Statement 34 and other existing disclosures that may relate to these types of intangible assets, including those required under APB Opinion No. 22, *Disclosure of Accounting Policies*, would not be essential to a user's understanding of the financial statements. Therefore, no specific disclosures were required for intangible assets.

Impairment

81. The Board considered whether the provisions for accounting and financial reporting for impairment of capital assets present in Statement 42 should be applied to intangible assets. It concluded that there was nothing specific to the nature of intangible assets that would necessitate different requirements for determining, measuring, and reporting impairments of such assets. The Board also considered whether indicators of impairment specific to intangible assets should be added to those indicators provided in Statement 42. The Board identified a number of potential indicators of impairment specific to intangible assets, including expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. After deliberating these potential indicators of impairment, the Board concluded that an impairment of an intangible asset resulting from these circumstances (and other circumstances not specifically discussed during deliberations) would result in a change in the manner or expected duration of use of the asset, which is already included in Statement 42 as an indicator of impairment. Accordingly, the Board believes that the aforementioned circumstances should not be included in this Statement as indicators of impairment specific to intangible assets. The Board did conclude that an indicator of impairment for development stoppage should be

added to those present in Statement 42 to take into account development of internally generated intangible assets that ceases prior to the completion of the asset. This indicator is similar to the construction stoppage indicator present for tangible capital assets in process present in Statement 42.

Accounting and Financial Reporting for Intangible Assets Using the Current Financial Resources Measurement Focus

82. Based on its decision that all intangible assets subject to the provisions of this Statement should be considered capital assets, the Board concluded that these intangible assets should not be reported in financial statements prepared using the current financial resources measurement focus. Instead, outlays associated with these intangible assets should be reported as expenditures as incurred in those financial statements.

Effective Date and Transition

83. The effective date of this Statement is for financial statements for periods beginning after June 15, 2009. The Board believes this effective date allows a sufficient period of time to identify and determine the carrying value of intangible assets acquired but not reported in previous periods that will be required to be reported upon implementation given the transition provisions of this Statement. The Board believes the effective date also allows a sufficient period of time to establish cost accounting processes and accounting policies and procedures that may be necessary to appropriately apply the recognition provisions related to internally generated intangible assets and to accurately determine the cost of these assets.

84. As part of the deliberations of the Exposure Draft, the Board considered whether any exception to retroactive reporting of intangible assets should be provided. After

considering a number of factors and a number of alternatives to full retroactive reporting of these assets, the Board tentatively concluded in the Exposure Draft that all intangible assets should be required to be retroactively reported with a limited exception for internally generated intangible assets for which, after making every reasonable effort, the historical cost could not be determined or estimated. The Board believed that any further exception or limitation would be in conflict with the transition provisions of Statement 34, which did not include any exception or limitation on the retroactive reporting of noninfrastructure capital assets. The Board also tentatively concluded that retroactive reporting would result in the most faithful representation of intangible assets that are currently in service, and that may be in service in perpetuity in the case of intangible assets with indefinite useful lives, and would foster comparability among financial reports of state and local governments.

85. A number of respondents to the Exposure Draft expressed concern over the requirement to retroactively report intangible assets because the information needed to determine or estimate the cost of intangible assets acquired or created prior to implementation will often no longer be readily available. In the view of these respondents, the time and effort required to retroactively report intangible assets would result in a cost that would exceed the benefit of including this information in the financial statements. Specific to internally generated intangible assets, some respondents to the Exposure Draft also expressed concern about current management being able to effectively apply the specified-conditions approach to past facts and circumstances of which they may have little or no knowledge. Other respondents expressed concern that the exception from retroactive reporting provided for internally generated intangible

assets lacked sufficient clarity to consistently assess what would constitute "every reasonable effort" to determine or estimate the historical cost of these assets.

86. Upon redeliberation, the Board concluded that exceptions to retroactive reporting similar to those provided for retroactive reporting of infrastructure assets in Statement 34 should be provided for intangible assets other than those considered to have indefinite useful lives as of the effective date of the Statement and those considered to be internally generated. The Board believes these exceptions will achieve an appropriate balance between the cost of obtaining or developing the information needed for retroactive reporting of these intangible assets and the benefits derived from more accurate information about their service potential and periodic cost of usage.

87. The Board also reconsidered the benefit of the financial statement information provided by retroactively reporting intangible assets considered to have indefinite useful lives as of the effective date of the Statement. The Board considered the fact that there would be no cost of service associated with these assets to be reported in future fiscal periods because they would not be amortized. While retroactively reporting these intangible assets would still provide useful information related to their service potential, the Board believes that the cost of retroactively reporting these intangible assets could exceed the benefits of providing that information. Therefore, the Board concluded that the retroactive reporting of intangible assets considered to have indefinite useful lives as of the effective date of the Statement is not required but should be permitted.

88. The Board also agreed with the respondents who indicated that in many cases, the specified-conditions approach would not be able to be effectively applied on a

retrospective basis for internally generated intangible assets. Therefore, the Board concluded that internally generated intangible assets generally should be reported prospectively. However, the Board does believe that the specified-conditions approach may be able to be effectively applied on a retrospective basis for some internally generated intangible assets, such as those that were created in recent years or those that are in development as of the effective date of the Statement. Accordingly, the Board concluded that although retroactive reporting of internally generated intangible assets is not required, it should be permitted to the extent that the specified-conditions approach can be effectively applied to determine the historical cost of an internally generated intangible asset.

89. The Board also considered whether the amortization provisions in this Statement should be applied retroactively. Retroactive application of these provisions may impact the accumulated amortization of intangible assets recorded prior to the implementation of this Statement through their effect on the determination of the useful life of such assets. Accumulated amortization most often would be impacted for intangible assets determined to have an indefinite useful life. The Board deliberated whether changes in useful life due to implementation of this Statement should be considered a change in estimate and accounted for prospectively. The Board believes that the changes in useful life due to implementation of this Statement are of a different nature than routine changes in useful life due to reassessment of the duration of the service capacity of the asset, which would be accounted for prospectively. The Board believes that the changes in useful life due to implementation of this Statement are the result of a conceptual change in how the cost of usage of intangible assets should be determined and reported in financial statements.

Retroactive application of the amortization provisions results in the most faithful representation of the current service capacity and periodic cost of usage of intangible assets based on this changed concept. It also promotes consistency in reporting the values of intangible assets that have been acquired or developed before and after implementation of this Statement. Therefore, the Board concluded that the amortization provisions of this Statement generally should be applied retroactively.

90. Some respondents to the Exposure Draft expressed concern about retroactively applying the amortization provisions of the Statement because this would require determination of whether intangible assets should have been considered to have an indefinite useful life at some point prior to implementation of the Statement. To do this, current management would have to make judgments about past facts and circumstances of which they may have little or no first-hand knowledge. The Board agreed with these respondents and concluded that the provisions related to intangible assets with indefinite useful lives should be applied retroactively only for intangible assets previously subjected to amortization that have indefinite useful lives as of the effective date of this Statement.

91. Some respondents to the Exposure Draft also questioned whether land use rights, such as water rights, timber rights, and mineral rights associated with property already owned by a government should be reported as intangible assets separate from the associated property upon implementation of this Statement. Ownership of property is comprised of a "bundle of rights," included within which are the rights to control the use of the property and to benefit from the property. While the individual rights included in the bundle of rights of property are separable and intangible in nature, collectively, they represent the ownership of a tangible asset—the associated property. Therefore, the

value of the individual rights in the bundle of rights of property ownership should remain aggregated and reported as a tangible capital asset (land or property) upon implementation of this Statement. Additionally, because these land use rights are considered part of the tangible capital asset that is the associated property, and the property is reported at historical cost, the reported value of the property should not be increased upon implementation of this Statement for the value of land use rights that could be separated and transferred. Land use rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as an intangible asset if the description in this Statement is met.

Appendix C

ILLUSTRATIONS

92. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations illustrated. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here.

Example 1

Acquisition of Water Rights—Useful Life Limited by Contractual Provisions; Option to Renew without Additional Outlay

Assumptions

In January 2012, Milne County acquired the right to draw water from a lake on the property of a local corporation in exchange for a cash payment of $100 million. The payment is being made from general obligation bond proceeds accounted for in the county's capital projects fund. The annual volume of water that can be drawn by the county is unlimited. The county's rights under the contract expire 20 years after the execution of the contract (January 2032); however, the contract provides the opportunity for renewal of the water rights for an additional 10 years for no additional payment subject to mutual agreement of the parties. The county believes it will request renewal of the rights in 2032, as it does not believe it will find other sources that would provide a supply of water sufficient to meet the demand of its constituents. The county expects that the corporation will agree to the renewal as it is a significant user of the county's water supply and a major employer of Milne County residents. The county's fiscal year-end is December 31.

Recognition

In its government-wide statement of net assets as of December 31, 2012, the county would recognize a capital asset of $100 million for the acquisition of the water rights. A capital outlay expenditure of $100 million would be recorded in the county's capital projects fund statement of revenues, expenditures, and changes in fund balance for the year ended December 31, 2012.

Amortization

As there is evidence that the government will seek and be able to acquire renewal without incurring any additional outlays, the useful life of the water rights should be 30 years—the original 20-year term of the rights, plus the 10-year renewal term. Using the straight-line method of amortization, annual amortization expense related to the water rights of $3,333,333 ($100 million over 30 years) would be recorded in the county's government-wide statement of activities beginning in 2012.

Example 1a

Acquisition of Water Rights—Useful Life Limited by Contractual Provisions; Option to Renew with Additional Payment

Assumptions

The basic facts of the original example are the same except that the county is required to pay an additional $30 million to the local corporation if it chooses to renew its water rights for an additional 10 years at the end of the original 20-year contract period.

Recognition

The acquisition of the water rights would be recognized in the county's government-wide and capital project fund financial statements similar to the original example. No recognition of the additional outlay to renew the water rights would be made until the renewal is executed or the outlay is made, whichever occurs first.

Amortization

The useful life of the water rights should be limited to the original length of the contractual right—20 years. Because the county would be required to make an additional payment to execute the 10-year renewal period in an amount that is greater than nominal in relation to the level of service capacity expected to be obtained through the renewal, this period should not be considered as part of the useful life of the water rights acquired in exchange for the original $100 million payment. Therefore, using the straight-line method of amortization, annual amortization expense related to the water rights of $5,000,000 ($100 million over 20 years) would be recorded in the county's government-wide statement of activities beginning in 2012.

Example 1b

Acquisition of Water Rights—Useful Life Not Limited by Contractual Provisions

Assumptions

The basic facts of the original example are the same except that the county's contract with the local corporation does not place an expiration date on the county's water rights. The county expects that the water obtained through the exercising of the rights provided under this contract will be essential to meet its constituents' demand for water for the foreseeable future.

Recognition

The acquisition of the water rights would be recognized in the county's government-wide and capital project fund financial statements similar to the original example.

Amortization

As the contract does not place a limitation on the life of the water rights, and the county does not expect to cease utilizing the water rights in the foreseeable future, the water rights should be considered to have an indefinite useful life. The water rights should not be amortized unless there is a change in circumstances that limits the life of the water rights making the life finite. In that case, the water rights should be tested for impairment and any remaining carrying value should be amortized over the asset's new estimated useful life.

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 discovered a combination of microfibers 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 believe 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 patents that the college has acquired in the past and the types of stitches currently used in practice, the committee believes that the technological advancement of the new stitch supported by the patent would improve the quality of services provided 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.

Example 3

Recognition of Internally Generated Computer Software

Assumptions

In July 2012, the City of Maxwell Department of Tax Assessment identified the need for new property tax assessment and billing software. Upon identification of this need, the city assembled a project task force composed of staff from various city departments. From July through October 2012, the task force performed numerous tasks related to the project including the following:

- Determining the performance requirements of the new software through interviews with operators of the software and users of information to be provided by the software
- Determining the system requirements for the new software, including assessing the compatibility of existing hardware and other interfaced software, such as the city's general ledger system
- Assessing in-house information technology resources to determine whether the software should be developed internally or if commercial software packages should be explored
- Issuing a request for proposals for commercial software packages and installation services and conducting interviews with proposing vendors.

Based on the recommendation of the task force, the city awarded a contract in the amount of $15 million to Madlin Software Corporation to acquire a perpetual license to use its property tax assessment software as modified to meet the city's needs. As part of the contract, Madlin would be responsible for installation and modification of the software, while three city employees would be dedicated to the project full time until its completion. The city included a $16 million appropriation in its 2013 general fund budget to cover the cost of the software.

Installation of the software occurred from January through July 2013. Testing of the software and any resulting modifications were completed in October 2013, at which point the software was considered to be substantially complete and operational. Entry of tax year 2014 assessment information and applicable tax rates and training of software users and operators occurred from October through December 2013 so that the software could be used to produce the city's 2014 tax bills. The city's fiscal year-end is December 31.

The city determined that the aggregate outlays of the software project were $17.15 million, composed of the following:[7]

- Outlays associated with task force activities from July through November 2012: $1.5 million
- Outlays for commercial software and installation services: $14.6 million
- Outlays for payroll and related costs associated with employees involved in installation and testing of software: $0.5 million
- Outlays for training software users and operators: $0.3 million
- Outlays for payroll and related costs associated with employees involved in entry of new tax year (2014) assessment information and applicable tax rates: $0.25 million.

[7]The accumulation of project outlays by activity has been provided to facilitate this example. For accounting and financial reporting purposes, only the accumulation of project outlays that will be capitalized would be required.

Recognition

The activities of the task force should be considered preliminary project stage activities, and the related outlays should be expensed as incurred. Therefore, for the fiscal year ended December 31, 2012, the city should record the outlays associated with the task force activities of $1.5 million as an expense in its government-wide statement of activities and an expenditure in its general fund statement of revenues, expenditures, and changes in fund balance.

The acquisition of the license to use the commercially available software and the installation and testing activities occurring in 2013 should be considered applicationdevelopment stage activities. The related outlays of $15.1 million should be capitalized in the 2013 government-wide statement of net assets as the preliminary project stage had been completed in November 2012, and the city included an appropriation to fund the software development in its 2013 general fund budget, providing evidence of its commitment to complete the project. These outlays would be recorded as an expenditure in the 2013 general fund statement of revenues, expenditures, and changes in fund balance.

The training activities occurring in 2013 should be considered post-implementation/operation stage activities and expensed as incurred. Additionally, the outlays associated with the data entry activities also should be expensed because they related to the entry of new tax information. Therefore, for the fiscal year ended December 31, 2013, the city should record the outlays associated with the training and data entry activities of $0.55 million as an expense in its government-wide statement of activities and as an expenditure in its general fund statement of revenues, expenditures, and changes in fund balance.

Appendix D

CODIFICATION INSTRUCTIONS

93. The sections that follow update the June 30, 2006, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

SUMMARY STATEMENT OF PRINCIPLES **SECTION 1100**

Sources: [Add the following:] GASB Statement 51

Depreciation and Impairment of Capital Assets [Insert the following footnote after the term *depreciation* in the heading; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

.107 [Revise first sentence as follows:] Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets reported using the modified approach as set forth in Section 1400.

[Add GASBS 51, ¶17, to sources.]

* * *

FUND ACCOUNTING SECTION 1300

Sources: [Add the following:] GASB Statement 51

.109 [Insert the following footnote after the term *depreciation* in subparagraph b; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

REPORTING CAPITAL ASSETS SECTION 1400

Sources: [Add the following:] GASB Statement 51

[Revise Statement of Principle as follows:]

Depreciation of Capital Assets

[Insert the following footnote after the term *depreciation* in the heading; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

[Revise first sentence as follows:] Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets reported using the modified approach as set forth in this section. [GASBS 34, ¶21, ¶22, ¶92, and ¶107; GASBS 51, ¶17]

.103 [Insert the following footnote after the phrase *that are used in operations* in the first sentence; renumber subsequent footnotes:] Intangible assets that are subject to the provisions of paragraphs .122–.135 of this section (see paragraphs .120 and .121) should be classified as capital assets. [GASBS 51, ¶5]

.104 [Revise first sentence as follows:] Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives as described in paragraph .134, or are infrastructure assets reported using the modified approach in paragraphs .105–.107. [GASBS 34, ¶21; GASBS 42, ¶9; GASBS 51, ¶17]

[Insert new paragraphs .120–.135 as follows; renumber subsequent paragraphs and footnotes.]

Intangible Assets

.120 As used in this section, except as described in paragraph .121, an intangible asset is an asset[16] that possesses all of the following characteristics:

a. *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
b. *Nonfinancial nature.* In the context of this section, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
c. *Initial useful life extending beyond a single reporting period.*

[GASBS 51, ¶2]

[16][GASBS 51, fn1]

.121 [GASBS 51, ¶3, including footnote] [Change *this Statement* to *paragraphs .122–.135,* and update cross-references.]

Classification

.122 All intangible assets subject to the provisions of paragraphs .123–.135 (see paragraphs .120 and .121) should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets, including the areas of recognition, measurement, depreciation (termed *amortization* for intangible assets), impairment, presentation, and disclosures should be applied to intangible assets, as applicable. The provisions of paragraphs .123–.135 should be applied to intangible assets in addition to the existing authoritative guidance for capital assets. [GASBS 51, ¶5]

.123–.134 [GASBS 51, ¶6–¶17, including headings and footnotes] [Change *Statement* to *section* and update cross references.]

.135 [GASBS 51, ¶19, including heading; change *this Statement* to *paragraphs .123–.135*.]

.164 [Revise subparagraph e of current paragraph .148 as follows:] Construction stoppage, such as stoppage of construction of a building due to lack of funding, or development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. [GASBS 42, ¶9; GASBS 51, ¶18]

.171 [Revise second sentence of current paragraph .155 as follows:] Capital assets impaired from construction or development stoppage also should be reported at the lower of carrying value or fair value. [GASBS 42, ¶16; GASBS 51, ¶18]

.173 [Revise second sentence of current paragraph .157 as follows:] In certain circumstances involving capital assets impaired through enactment or approval of laws or regulations or other changes in environmental factors, change in technology or obsolescence, change in manner or duration of use, or construction or development stoppage, evidence may be available to demonstrate that the impairment will be temporary. [GASBS 42, ¶18; GASBS 51, ¶18]

* * *

CLASSIFICATION AND TERMINOLOGY SECTION 1800

Sources: [Add the following:] GASB Statement 51

.133 [Insert the following footnote after the term *depreciation* in the first sentence; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Add the following:] GASB Statement 51

.118 [Insert the following footnote after the term *depreciation* in the first sentence; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

Sources: [Add the following:] GASB Statement 51

.106 [Insert the following footnote after the term *depreciation* in the first sentence of subparagraph a(7); renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE SECTION 2600

Sources: [Add the following:] GASB Statement 51

.109 [Insert the following footnote after the term *depreciation* in subparagraph b(1); renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS SECTION L10

Sources: [Add the following:] GASB Statement 51

.108 [Insert the following footnote after the term *depreciated* in the first sentence; renumber subsequent footnotes.] As used in this section, the term *depreciated* considers amortization of intangible assets. [GASBS 51, ¶5]

* * *

HOSPITALS AND OTHER HEALTHCARE PROVIDERS SECTION Ho5

Sources: [Add the following:] GASB Statement 51

.103 [Insert the following footnote after the term *depreciation* in subparagraph b; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

SPECIAL-PURPOSE GOVERNMENTS SECTION Sp20

Sources: [Add the following:] GASB Statement 51

.103 [Insert the following footnote after the term *depreciation* in subparagraph b; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

* * *

UTILITIES SECTION Ut5

Sources: [Add the following:] GASB Statement 51

.103 [Insert the following footnote after the term *depreciation* in subparagraph b; renumber subsequent footnotes.] As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

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