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## Intangible Assets – What Has Changed?

by Cherie R. Wright, CPA, Partner

In Governmental Accounting Standards Board Statement No. 34 (GASB 34), capital assets were defined as “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.” [Emphasis added] Since the GASB 34 definition already required reporting of intangible assets, why was GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, necessary? Based on research performed by GASB, there were some inconsistencies in whether and how intangible assets were reported. GASB believed clarification was necessary to address the inconsistencies, as well as other specific issues identified through their research.

GASB 51 defines intangible assets as those assets that possess all of the following characteristics: lack of physical substance, nonfinancial in nature, and having an initial useful life extended beyond a single report period (i.e., greater than one year). Examples of intangible assets include computer software, right-of-ways, easements, patents, copyrights, and water and other land rights.

However, GASB 51 exempts the following intangible assets from the reporting requirements:

- Assets acquired or created primarily for the purpose of directly obtaining income or profit,
- Assets resulting from capital leases (refer to National Council on Governmental Accounting (NCGA) Statement 5 for reporting requirements), and

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## IRS Resources for Governments

The FSLG (Federal, State and Local Governments) section of the IRS website has many resources specifically designed for governmental entities, including toolkits with resources for public employers on federal employment tax obligations, a government entity compliance, and government retirement plans. In addition, the FSLG has customer account services specifically dedicated to answering questions from government employers with questions on social security administration, tax rules, employee classification or other federal tax issues. The FSLG website is located at [www.irs.gov/govt/fslg/](http://www.irs.gov/govt/fslg/).

## Have You Considered GASB 54 in Your FY 2011 Budget Documents?

We would like to remind everyone of the upcoming Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will be effective for fiscal year ending June 30, 2011. Many municipalities will be reclassifying funds based on the new fund type definitions, and some have not yet considered how this will change fund classifications in their FY 2011 budgets. If you have questions or need assistance with implementation of GASB 54, contact Cherie Wright at (602) 277-9449, ext 376 or [cheriew@heinfeldmeech.com](mailto:cheriew@heinfeldmeech.com).

## Intangible Assets (Cont'd from Page 1)

- Goodwill created through the combination of a government and another entity.

For the most part, intangible assets are accounted for in the same manner as any other capital asset so existing authoritative guidance for capital assets applies. However, for those intangible assets with a limited useful life, the allocation of costs over the life of the asset is labeled *amortization* instead of *depreciation*.

One of the issues raised in GASB's research was how to account for internally generated intangible assets. These are assets that are created or produced either internally or by a third party on behalf of the government. Even those assets that are purchased but subsequently modified with more than a "minimal incremental effort" are deemed internally generated. Capitalization and valuation of internally generated intangible assets only occurs once the following criteria have been met:

- Specific identification of the project objective,
- Determination of the service capacity to be provided by the asset,
- Demonstration of the feasibility of project completion, and
- Demonstration that the government intends, has the ability, and is making an effort to complete the project.

GASB 51 also provides further guidance for application of these criteria and other issues as they relate to internally generated software. Only the costs incurred during the "application development stage" for internally generated software may be capitalized. The costs incurred during the "preliminary project stage" and the "post-implementation/operation stage" should not be capitalized. Likely, the most common software generated internally or by a third party on behalf of the government is a government's website.

In general, the cost of a capital asset should include any ancillary charges necessary to place the asset in its intended location and in its

intended condition for use. Whether internally generated or purchased, the ancillary costs associated computer software to be capitalized are narrowly defined. For instance, data conversion costs are only capitalized when necessary to the basic operation of the software, while employee training and routine systems maintenance costs may not be capitalized.

GASB 51 is effective for the fiscal year ending June 30, 2010, and the beginning balances must be restated for intangible assets acquired prior to July 1, 2009 with certain exceptions. Phase 1 and Phase 2 governments are permitted but not required to retroactively capitalize:

- Internally generated assets, including those still in process at July 1, 2009
- Intangible assets with an indefinite useful life
- All other intangible assets acquired by Phase 1 or Phase 2 governments prior to July 1, 1980

Phase 3 governments are not required to retroactively implement GASB 51.


While these are some of the basic concepts for reporting of intangible assets, further guidance is provided in the GASB Comprehensive Implementation Guide.

**Questions?** Contact Cherie at (602) 277-9449, ext 376 or [cheriew@heinfeldmeech.com](mailto:cheriew@heinfeldmeech.com). 

## H&M Announcements

**CPA Achievements:** The following staff recently received their CPA certifications: Michael L. Lauzon, Audit Manager, and Joseph D. Mosier, Audit Senior.

**Staff Promotions:** H&M congratulates the following staff on their recent promotions: Jatin Shah and James Rebanar to Manager; Joseph Mosier, Eugene Park, Matthew Reams and KJ Weihing to Senior; and

Diane Robinson, Stephanie Lopez, Cynthia Montoya, Amir Bolic, Krissy Agudo, Bethany Howell, Joshua Jumper, and Cassandra Perwin to Staff II. 

## Let's Eat!!!

by Michael Hoerig, Audit Manager

H&M visits over 100 different communities across the Southwest every year. Almost every community that we visit has great local establishments that our staff loves to frequent (sometimes multiple times a week!). Below are some of our favorite dining choices that we frequent during our travels. If you ever find yourself in one of these places, consider checking these out!

If one of your favorites is missing, please let us know- we're always looking for great local cuisine! (*Listings shown in alphabetical order by location. Our favorite menu items are also listed.*)

### **Albuquerque, NM**

*Chama River Brewing Co.* (4939 Pan American W Fwy NE)

Fish and chips, buffalo meatloaf

*El Pinto* (10500 4th St NW)

Anything, carne adobada, margaritas

### **Blythe, CA**

*Maria's* (231 W Hobsonway)

Cocktail de camarones, sopapillas, barbacoa

### **Douglas, AZ**

*El Chef* (1057 E 11th St)

Menudo, posole

### **Eloy, AZ**

*A & M Pizza* (116 W Frontier St)

Eggplant parmesan sandwich, fresh breads

### **Flagstaff, AZ**

*Beaver Street Brewery* (11 Beaver St)

Pizza, burgers

### **Holbrook, AZ**

*Butterfield Steakhouse* (609 W Hopi Dr)

Bacon-wrapped filet mignon

### **Lake Havasu City, AZ**

*Mudshark Brewery* (210 Swanson Ave)

Beef ribs

*Javelina Cantina* (1420 McCulloch Blvd)

Fish tacos

### **Las Cruces, NM**

*Andele* (1950 Calle del Norte)

Roasted chili bar, tacos al carbon

### **Morenci, AZ**

*R & R Pizza* (1970 W River Rd)

Wings, pizza

### **Page, AZ**

*Blue Buddha Sushi* (815 N Navajo Dr)

### **Phoenix metro area**

*Serrano's Mexican Food* (several locations)

Bean dip

*Rito's Mexican Food* (907 North 14th St)

Green chili burritos

### **Rio Rancho, NM**

*Smokehouse BBQ* (4000 Barbara Loop SE)

Breakfast burritos

### **Safford, AZ**

*Copper Steer Steak House* (1206 U.S. 70)

### **Santa Fe, NM**

*Marias*

555 West Cordova Rd

Fajitas, margaritas

*Plaza Café* (54 Lincoln Ave)

Yogurt parfaits for breakfast

### **Snowflake, AZ**

*Enzo's Ristorante Italiano* (50 E 1st St North)

Anything, but its cash only!

### **Williams, AZ**

*Pine Country Restaurant* (107 N Grand Canyon Blvd)

Pies

### **Yuma, AZ**

*Burgers & Beer* (321 W 20th St)

*Lute's Casino* (221 S Main St)

Hot dog and hamburger combo

*Kneader's Bakery* (2851 South Avenue B)

Chicken ala mondo salad

## H&M University Workshops

Information on our workshops, including links to online registration, can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). For more help, contact Susan at 520-742-2611, x107 or [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com).

### Accounting Skills for Governments and Nonprofits

**Dates:**

Day 1 – Friday, September 24<sup>th</sup>

Day 2 – Friday, October 8<sup>th</sup>

**Location:** Mesa (EVIT – 1601 W. Main St.)

**Cost:** Clients - \$99 per day; Non-clients - \$119 per day

*Registration ends (for 9/24 class) – 9/15/10*

### Best Practices for Payroll and Employee Benefits

**Dates/Locations:**

Tues., Nov. 30<sup>th</sup> – Vail (Tucson area)

Wed., Dec. 1<sup>st</sup> – Mesa (EVIT)

Thurs., Dec 2<sup>nd</sup> – Flagstaff (La Quinta)

**Cost:** Clients - \$99; Non-clients - \$119

*Registration ends – 11/19/10*

## Other Trainings/ Conferences

### GFOAz – 2010 Summer Training

**Dates:** August 4-6

**Location:** Tucson, AZ (Loews Ventana Canyon)

**To Register:**

<http://www.gfoaz.org/pages/calendar/events/10summer/>

### League of Arizona Cities and Towns – 2010 League Annual Conference

**Dates:** August 24-27

**Location:** Glendale, AZ (Renaissance Glendale Hotel)

**To Register:** [www.azleague.org/e/10ac/](http://www.azleague.org/e/10ac/)

*Early registration rate ends – 7/16/10*

### National League of Cities – Congress of Cities & Exposition

**Dates:** Nov. 30 – Dec. 4

**Location:** Denver, CO (Colorado Convention Center)

**Information:**

[http://www.nlc.org/CONFERENCES\\_EVENTS/CONGRESS\\_OF\\_CITIES\\_EXPOSITION/Backtomain.aspx](http://www.nlc.org/CONFERENCES_EVENTS/CONGRESS_OF_CITIES_EXPOSITION/Backtomain.aspx)

## About Heinfeld, Meech & Co., P.C.

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff. We are the recognized leaders in the State of Arizona in the field of governmental accounting and auditing.

Our active involvement in national and state associations keep us informed about emerging issues affecting governments. We offer this free quarterly newsletter to you as part of our commitment to providing resources and training to municipality business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at [www.heinfeldmeech.com](http://www.heinfeldmeech.com).