

TOPIC	CAPITAL ASSET REPORTING	SUB-SECTION 23.20.10
SECTION	INTANGIBLE ASSETS	ISSUANCE DATE July 6, 2011
SUB-SECTION	DEFINITIONS	REVISED - 2019

### DEFINITIONS

Intangible assets are reported as capital assets per GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. Intangible assets are purchased, licensed, donated, or internally generated. Examples are land use rights (easements, water rights, timber rights, and mineral rights), intellectual rights (patents, trademarks, and copyrights), and computer software.

#### GENERAL

An intangible asset:

- lacks physical substance. However, it may be contained in or on an item with physical substance, such as software on a computer.
- has a nonfinancial nature. It is not in a monetary form similar to cash and investment securities, and it does not represent either a claim or right to assets in monetary form similar to receivables, or a prepayment for goods or services.
- has an initial useful life that extends beyond a single reporting period.

If an asset meeting the above criteria is acquired or created primarily for the purpose of directly obtaining income or profit, or results from capital lease transactions reported by lessees, or is goodwill created through the combination of a state agency and another entity, then it is excluded from being reported as an intangible asset.

An intangible asset is identifiable, which means that either the asset is capable of being separated from the agency and sold, transferred, licensed, rented, or exchanged; or 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 or obligations.

Land use rights are not separated from land already owned or acquired by the agency. The value of the individual rights should remain aggregated and reported as the tangible asset land. Land use rights acquired in a transaction that did not involve acquiring the underlying property are reported as an intangible asset if it meets the reporting criteria.

Intangible assets acquired through non-exchange transactions (donations, capital contributions) are reported at fair market value. In the case of a donated right-of-way easement, the expense that the agency would have incurred to acquire the easement can be used to estimate the fair value of the easement.

#### INTERNALLY GENERATED INTANGIBLE ASSETS

An intangible asset is internally generated if it is created or produced by the agency or an entity contracted by the agency, or if it is acquired from a third party but requires more than minimal incremental effort on the part of the agency to begin to achieve its expected level of service capacity. Expenses incurred prior to meeting the following criteria should remain as an expense. Expenses related to the development of internally generated intangible assets are capitalized only when all of the following have occurred:

- Specific objective of the project and its service capacity are determined.
- Technical or technological feasibility is present for completion of the project.
- Current intention, ability, and presence of effort for completion of the project are present. The agency has made a level of commitment toward completing the project.

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Depending upon the activity, the development and installation of internally generated computer software will be expensed or capitalized based on the following stages:

- Preliminary Project Stage - activities include conceptual formulation, evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software. Costs in this stage are expensed as incurred.
- Application Development Stage - activities consist of design, configuration, and interfaces; coding; installation to hardware; and testing, including parallel processing. Costs meeting the criteria for this stage, including related labor costs, are capitalized. Data conversion is considered an activity of this stage only to the extent it is necessary to make the software operational, that is, in condition for use. Otherwise, data conversion is considered part of the post-implementation/operation stage.
- Post-Implementation/Operation Stage - activities include application training and software maintenance. Training of employees does not further the development of the software and does not contribute toward putting the software in condition for use. Data conversion is part of this stage unless it qualifies for the application development stage as noted above. These costs are expensed as incurred.

When activities in the preliminary project stage are completed, and management authorizes and commits to funding, capitalization of costs begins. For commercially available software that will be modified to the point of being considered internally generated, these activities are considered to have occurred when the agency purchases or licenses the software. Capitalization ceases when the computer software is substantially complete and operational. The recognition guidance is applied based on the nature of the activity, not the timing of its occurrence. For example, costs for training activities that occur during the application development stage are expensed as incurred.

Modification of internally generated software that is already in operation is considered maintenance and is expensed as incurred. The modification is capitalized if it results in an increase in functionality, an increase in the level of service, or extends the estimated useful life of the software.

#### USEFUL LIFE AND GAAP REPORTING THRESHOLD

Intangible assets are amortized over their useful lives on the proprietary and fiduciary (with the exception of agency funds) fund financial statements as well as the government-wide financial statements. The useful life should not exceed the time limits imposed by contractual or legal provisions. Renewal periods may be considered in determining the useful life if there is evidence that the agency will renew the contract and any costs incurred as part of the renewal are insignificant in relation to the level of service capacity expected to be obtained. Significant costs associated with renewal would indicate the creation of a new capital asset.

An indefinite useful life occurs where there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. Assets with indefinite useful lives are not amortized.

The capitalization threshold for GAAP reporting is  $\geq$  \$1,000,000.