STATE OF IOWA
DEPARTMENT OF ADMINISTRATIVE SERVICES
GASB 51 IMPLEMENTATION, AMENDED BY GASB 63 and 72

Intangible Assets Policy

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, is effective **beginning July 1, 2009** (FY 2010).

The cumulative effect of applying this Statement will require a restatement of beginning net assets, fund balances, or fund net assets (as appropriate). **This means that <u>certain</u> intangible assets (and related amortization) in existence from July 1, 1980 to June 30, 2009 will need to be reported as the beginning (July 1) balance for intangible assets for FY 2010**. See section entitled "Retroactive Reporting" for further details.

<u>Identifiable</u>

An intangible asset should be recognized in the statement of net position only if it is **identifiable** which means the asset is either:

a) separable (i.e. it can be separated/divided from the government and sold, transferred, licensed, rented or exchanged) or
b) arose from contractual or other legal rights, regardless of whether those rights are transferable or separable.

<u>Criteria</u>

GASB Statement 51 defines intangible assets as assets that are **identifiable** and possess <u>all</u> of the following characteristics:

- lack of physical substance,
- nonfinancial nature (not in monetary form like cash or investment securities) and
- initial useful life extending beyond a single reporting period.

Examples of intangible assets include easements, land use rights (i.e. water rights, timber rights and mineral rights), patents, trademarks and copyrights. **In addition, intangible assets include computer software that is purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.**

Intangible assets can be purchased or licensed, acquired through nonexchange transactions or internally generated.

All intangible assets subject to the provisions of GASB Statement 51 should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets (i.e. recognition, measurement, presentation, disclosure, etc.) should be applied to intangible assets as applicable.

<u>Exclusions</u>

GASB Statement 51 applies to all intangible assets <u>except</u>: (a) assets that meet the definition of investments, (b) assets from capital lease transactions reported by lessees, except licensing agreements to lease commercially available computer software, and (c) goodwill created through the combination of a government and another entity.

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Threshold for Capitalization

The intangible asset capitalization threshold has been established by the GASB Statement 51 Workgroup and approved by the Iowa Department of Administrative Services. The threshold is to be consistently applied by all State agencies and universities, excluding the University of Iowa Hospitals and Clinics. All intangible assets **at or above $500,000** must be reported for the Comprehensive Annual Financial Report (CAFR), all other intangible assets are excluded. The University of Iowa Hospitals and Clinics will use a threshold of **$5,000** for intangible assets.

Measurement/Recognition

Effective July 1, 2009, intangible assets exceeding the State's threshold should be recorded at actual historical cost including capitalized interest (only for business-type activities and enterprise funds) and ancillary charges, if any. (NOTE: For federal reporting purposes, the state agency/university should contact their cognizant federal agency for guidance on how to handle/report capitalized interest.

Only direct costs will be capitalized (indirect costs will not be included).

Intangible assets received in a nonexchange transaction (i.e. donated)

- prior to FY2016, are to be recorded at their estimated fair value at the time of acquisition. 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 forced or liquidation sale.
- in FY2016 and after, are to be recorded at their acquisition value at the date of acquisition. Acquisition value is defined in GASB 72, paragraph 79, as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. It would be inappropriate to arbitrarily assign a nominal value to a donated intangible asset without applying a rational technique to determine its acquisition value.

The threshold for intangible assets applies to individual assets and it is not acceptable to account for items in aggregate to meet the threshold limitations.

For **internally generated intangible assets** (see next page), outlays incurred by the government's personnel, or by a third-party contractor on behalf of the government, for development of internally generated intangible assets should be capitalized.

For **internally generated computer software**, outlays incurred during the application development stage (see next page) will be capitalized if they exceed the threshold. These outlays include the initial purchase of the computer software/license and modifications made to the software before it is placed into operation. The initial purchase of the software/license and modifications made should be analyzed **separately** for capitalization purposes (do not aggregate).

- Costs incurred prior to July 1, 2009, for internally generated computer software projects in the application development stage will not be capitalized. However, costs incurred July 1, 2009 and beyond, for these projects will be capitalized if exceeding the State's threshold.

Computer software licenses purchased/renewed will not be aggregated. Each individual license purchased/renewed will be measured against the State's threshold and the useful life must extend beyond a single reporting period in order for the license to be capitalized.

Internally Generated Intangible Assets

Internally generated intangible assets are created or produced by the government or an entity contracted by the government, or 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.

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

Specified-Conditions Criteria

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 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 this point should be expensed.

Internally Generated Computer Software

Computer software is 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 should be considered internally generated.

The development and installation of internally generated computer software can be grouped into three stages:

1) **Preliminary Project Stage**: involves conceptual formulation and evaluation of alternatives, determination of the existence of needed technology and final selection of alternatives for development of the software. *Expense* all outlays in this stage.

2) **Application Development Stage**: includes the design of the chosen path (i.e. software configuration, software interfaces), coding, installation to hardware, and testing. Data conversion activities could be included in this phase if those activities are deemed

necessary to make the software operational. *Capitalize* all outlays incurred during this stage once the *Specified-Conditions Criteria* are met. (Note: the *Specified-Conditions Criteria* are considered met when the Preliminary Project Stage is complete and management authorizes/commits to funding the project.) Capitalization should cease when the computer software is substantially complete and operational.

3) **Post-Implementation/Operation Stage**: includes application training and software **maintenance**. Data conversion activities would be included in this stage if not deemed necessary to make the software operational. *Expense* all outlays in this stage.

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in any of the following:

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

If the modification does not result in any of the three outcomes, the modification should be considered maintenance and expensed accordingly.

<u>Amortization (Use Straight-Line Method)</u>

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 those contractual or legal provisions. Contract renewal periods may be considered in determining the useful life of the intangible asset if there is evidence the government will seek and be able to achieve renewal and the anticipated outlay for renewal is nominal in relation to the level of service capacity obtained.

If there are no legal, contractual, regulatory, technological or other factors that limit the useful life of an intangible asset, then the intangible asset should be considered to have an indefinite useful life and no amortization should be recorded.

A useful life that must be estimated does not mean indefinite useful life.

<u>Impairment</u>

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.

A common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to changes in the priorities of management.

Retroactive Reporting

The State of Iowa will not retroactively report the following intangible assets:

1) Those considered to have indefinite useful lives as of June 30, 2009 or
2) Those that would be considered internally generated as of June 30, 2009.
3) Costs incurred prior to July 1, 2009, for **internally generated computer software projects** in the application development stage will not be capitalized. However, costs incurred July 1, 2009 and beyond, for these projects will be capitalized if exceeding the State's threshold

Intangible assets (and related amortization) requiring retroactive reporting (for the period July 1, 1980 through June 30, 2009) will be reported at actual historical cost. **This includes purchased software that is still in use, even if fully amortized as of June 30, 2009.**

NOTE: If actual historical cost cannot be determined for these intangible assets due to lack of sufficient records, estimated historical cost will be used.

Miscellaneous

This policy must be applied to all intangible assets. If an intangible asset that meets the threshold criteria is fully amortized, the asset must be reported at the historical cost and the applicable accumulated amortization must also be reported. It is not appropriate to "net" the intangible asset and amortization to avoid reporting.

When intangible assets are sold or disposed of, it is necessary to calculate and report a gain or loss in the statement of activities. The gain/loss is calculated by subtracting the net book value (historical cost less any accumulated amortization) from the net amount realized on the sale or disposal.