Property Control System Manual (PCS)

PCS 104: Intangible Assets

Effective: 6/30/2010 **Revised**: 3/1/2024

Purpose

To establish policies for identifying and recording intangible assets

Source

Government Accounting Standards Board (GASB) Statement No. 51
Government Accounting Standards Board (GASB) Statement No. 96

Applicability

All intangible assets subject to the provisions of this policy should be classified as capital assets and existing authoritative guidance and other university policies applicable to capital assets, including recognition, measurement, depreciation/amortization, impairment, presentation and disclosure should be applied. This policy is effective June 30, 2010, and is retroactive to July, 1980.

This policy **does not** apply to (1) assets acquired or created primarily for the purpose of directly obtaining income or profit, (2) assets resulting from capital lease transactions reported by lessees, or (3) goodwill created through the combination of a government and another entity, or (4) subscription-based information technology arrangements.

Policy

Overview

An intangible capital asset possesses **all** three of the following characteristics:

1. lack of **physical substance** (not tangible)
2. **nonfinancial** in nature (not in a monetary form similar to cash and investment securities)

   and

3. initial **useful life** beyond a single fiscal year.

Examples of intangible assets include computer software, patents, trademarks, copyrights, websites, and right-of-way easements.
Intangible assets can be purchased or licensed, acquired through nonexchange transactions (e.g., donations), or internally generated.

Threshold

Intangible assets are capitalized or expensed depending on their cost. Intangible assets with a total cost greater than $5 million should be capitalized. Intangible assets costing less are expensed.

Recognition Criteria

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

- the capital asset is **separable**, that is, the asset is capable of being separated and sold, transferred, licensed, rented, or exchanged

  OR

- the capital asset arises from **contractual or other legal rights**, regardless of whether those rights are transferable or separable.

Depreciation

Existing authoritative guidance and university policy for depreciation of capital assets generally applies to amortizing intangible capital assets.

Intangible capital assets will be depreciated over seven years using the straight line method, unless contractual or other legal rights determine otherwise. The useful life of an intangible capital asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the capital asset is limited by contractual or legal provisions.

Intangible capital assets that are determined to have an indefinite useful life (e.g., a permanent right-of-way) will not be depreciated. Also, if the value of an intangible capital asset is inseparable from another asset (e.g., right-of-way and easement), then it will not be depreciated.

Other Considerations

Internally Generated Intangible Assets

Internally generated intangible assets are developed by the university or created by a third party specifically for use by the university. In general, capitalization of internally generated intangible assets is to occur only after all three of the following criteria have been met:

1. the university has defined a specific objective and scope for the project
2. the project is technically feasible (i.e., the objective/scope of the project is possible to achieve)

   and

3. the university has committed to the project and has the ability to complete it.

Only costs incurred after meeting the above criteria should be capitalized. Costs incurred prior to meeting the above criteria should be expensed.

An intangible asset purchased “out of the box” from an outside third party could be considered internally generated if more than a minimal incremental effort is expended to put the asset into operation. Outlays must be greater than 30 percent of the original cost of the purchase to be considered to have more than a minimal incremental effort. For example, if the university were to purchase licensed financial accounting software “out of the box” and then modified the software to add special reporting capabilities, the software would be considered internally generated if the cost to add the extra capabilities exceeded 30% of the original purchase price. Only direct costs (such as direct labor or third-party contracts) should be considered when making this determination. Indirect costs or overhead should be excluded.

Internally Generated Software and Websites

In addition to the criteria mentioned above, additional requirements apply to internally developed software and websites. These requirements are grouped according to the following three stages:

1. The **preliminary** project stage includes expenses incurred conceptualizing the project, evaluating possible alternatives, determining the feasibility of the project, and the final project selection. Costs should be expensed as incurred.
2. The **application development** stage includes the expenses created developing, installing, and testing the software. Costs should be capitalized up to the point that the software is substantially complete and ready for its intended use **(operational)**.
3. The **postimplementation/operation** stage includes expenses for training and software maintenance (including annual fees). Costs should be expensed as incurred.

In order to capitalize internally generated software and websites, both of the following must also occur:

1. activities in the preliminary project stage are complete

   and

2. management authorizes and commits to funding the project.

When determining if an outlay should be capitalized, the **nature of the activity** and not the timing of its occurrence should be the determining factor. For example, training may begin to take place during the development stage of the project. However, regardless of the timing, the expenses associated with training activities should not be capitalized. Also, **data conversion** costs should only be capitalized to the extent that they are necessary to make the computer software operational. Otherwise, data conversion costs are expensed.

Impairment

An intangible capital asset that is impaired should be reported at the lower of carrying value or fair market value. Impairment is indicated when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined.
Examples:

- The development of new technology makes an existing patent obsolete.
- Owing to a change in management priorities, development of software is stopped.

Improvements

Improvements to intangible assets that are already owned or in operation by the university should be capitalized if the modifications result in **any** of the following:

1. an increase in **functionality** (able to perform new tasks)

   OR

2. an increase in **efficiency** (such as increased level of service)

   OR

3. an extension of estimated **useful life**.

Also, costs for the improvements must meet/exceed the capitalization threshold. Updates and minor upgrades to software that are often included with a maintenance subscription should be expensed.

Clarification regarding this policy may be obtained by contacting Financial Services, Director, Rene Botiller at 480/965-8371. When a department is acquiring/creating an asset that falls under the guidelines of this policy, Financial Services should be contacted so that they may assist in ensuring that the asset is properly accounted for.

Additional Information

For information on the use of capital spend categories, see the Workday Spend Category Detail List.