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	Origination date: 01/01/2000
Subject: Intangible Assets	Effective date: 07/01/2009
	Revision date: 01/26/2016

PURPOSE

To establish policies and procedures for identifying and recording intangible assets.

SOURCE

University Policy, GAAP, GASB 51, State of Arizona Accounting Manual (SAAM)

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140 – Intangible Assets

Intangible assets are defined as intangible resources that lack a physical substance, are nonfinancial in nature (e.g. investment securities) and have a useful life that extends beyond a single fiscal year. Examples include right of way easements, licenses and permits, patents and computer software, both acquired (purchased or licensed) from a vendor or internally generated (e.g. internally developed patent).

This policy does not apply to:

1) assets that meet the description in the preceding paragraph if the asset is acquired or created primarily for the purpose of obtaining income or profit,
2) assets resulting from capital lease transactions, or
3) goodwill created through the combination of a government and another entity.

If more than minimal incremental effort has been expended (i.e., more than thirty percent 30% of the cost of the underlying purchased resource) with respect to an intangible resource in order for it to begin to achieve its expected level of service capacity, the intangible asset is to be treated as an internally generated resource as discussed herein.

If the cost of intangible resources meets or exceeds the monetary thresholds shown in the intangible resource capitalization table below, these intangible resources are to be capitalized and their cost amortized over the applicable useful life. If the cost of these types of intangible resources is less than the monetary thresholds, the intangible resources are to be expensed.

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Asset	Capitalization Threshold	Useful Life
Computer Software >$10 Million	$10 Million	10 years (4)
Computer Software <$10 Million	$1 Million	5 years (4)
Websites	$100 Thousand	3 years
Non-Software Licenses and Permits	$100 Thousand	(1)
Patents	$100 Thousand	(1)
Copyrights and Trademarks	$100 Thousand	(1)
Rights-of-Way and Easements	$100 Thousand	(2)
Natural Resource Extraction Rights	$100 Thousand	(3)
Other Intangible Assets	$100 Thousand	(1)

Notes:

(1) The shorter of the legal or the estimated useful life is to be used; if the life is indefinite or unlimited—as may be the case with licenses or permits—then do not amortize.

(2) If the value is separable from the underlying land, then the shorter of the legal or the estimated useful life; if the life is indefinite or unlimited, then do not amortize. If the value is inseparable from the underlying land, then do not amortize.

(3) If the value of the intangible asset is identifiable, then the shorter of the legal or the estimated useful life is to be used for amortization; if the legal or useful life is indefinite or unlimited, then the underlying asset is not to be amortized. If the value of the intangible resource is indeterminable, unidentifiable, or inseparable from another asset to which it appertains (as might be the case when the purchase of land includes extraction rights, but no isolatable cost is attributed to those rights), then do not amortize the intangible asset.

(4) If the computer software is licensed, the shorter of the legal or estimated useful life is to be used.

140.1 - Internally Generated Intangible Assets

Internally generated intangible assets arise in one of two ways. They are either developed internally or are acquired from a third party and require more than minimal effort by the University before their expected level of service capacity is achievable.

In general, capitalizations of costs for internally generated intangible assets are to occur only after all of the following criteria have been met:

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1. The specific objective of the project, including its intended service capacity, has been determined.

2. The technical feasibility of the project has been demonstrated (primarily for internally generated assets).

3. The intention and ability to complete or continue development has been demonstrated and can be exhibited by a commitment to fund the project.

Additional requirements apply to internally generated computer software as described in section 140.2.

In determining the costs of incremental efforts, third party contract costs, direct labor and associated employee related expenses, and other direct costs should be included. In general, activities characterized as configuration and customization are to be excluded from the base acquisition cost and should be treated as part of the incremental effort. Allocations of indirect costs or overhead should be excluded from the cost of incremental efforts.

Costs incurred during the application development stage that are to be capitalized should be accumulated as Development in Progress until the project is implemented. Upon implementation, project costs should be transferred from Development in Progress to Intangible Assets, at which time amortization of the cost of the project should begin.

140.12 - Internally Generated Computer Software

In addition to the general capitalization criteria of section 140.1, the following requirements apply to internally generated computer software. The requirements are grouped according to the activities involved in creating and/or significantly modifying commercially available software as follows:

1. The preliminary project stage includes the conceptual formulation and evaluation of alternatives, the determination of needed technology, and the final selection of alternatives for the development of the software. Costs incurred during the preliminary project stage should be expensed.

2. The application development stage includes the design of the chosen path, including software configuration and interfaces, coding, installation to hardware, and testing (including parallel processing). Costs directly related to application development stage activities should be capitalized up to the point that the software is substantially complete and ready for its intended use. If data conversion is necessary to make the software operational, it is considered an activity of the application development stage and, therefore, associated costs are capitalized.

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3. The post-implementation/operation stage includes training and software maintenance. Costs incurred during the post-implementation stage, such as annual maintenance fees should be expensed unless such costs constitute betterment.

140.2 - Software Modifications

For software internally generated or otherwise acquired, updates and minor upgrades to software that are often included with a maintenance subscription should be expensed. Major upgrades that increase the capacity or efficiency or extend the application's useful life and/or can be sold separately from the annual maintenance contract should be capitalized if:

1. The intangible resource to which the upgrade pertains has been capitalized and the upgrade costs are more than thirty percent (30%) of the underlying cost of the originally acquired or internally generated software, the upgrade should be treated as betterment and capitalized.

2. The intangible resource to which the upgrade pertains has not been capitalized (as might be the case with software that went into use before July 1, 2009), but the cost of the upgrade equals or exceeds the relevant capitalization threshold; the upgrade should be treated as a betterment and capitalized.

If the upgrade does not satisfy the conditions set forth in either paragraphs 1) or 2) above, it should be expensed. Other modification outlays, including outlays that do not (a) result in upgrade or improvement, or (b) extend the useful life of internally developed software, are expensed as incurred.

140.3 - Effective Dates and Retroactive Capitalization

The effective date of this policy is 7/1/2009. Software, websites and other intangible resources acquired from an external entity by way of purchase, license or donation on or after July 1, 1980, which have previously been expensed, are to be retroactively capitalized when the resource is still in use and if the applicable acquisition cost equals or exceeds the relevant threshold. When records documenting the cost of such resources are no longer extant, estimates are to be used. No retroactive capitalization of internally generated intangible resources that have previously been treated as expenses is required. Furthermore, no capitalization is required for projects that were started before, but not completed by, June 30, 2009, and the costs of such projects, even if incurred after June 30, 2009, should be expensed.

Costs incurred in connection with projects that begin on or after July 1, 2009, and result in the internal generation of intangible resources should be capitalized if the total of the costs meets or exceeds the applicable threshold.

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Procedures

To ensure compliance with CMP 140 reporting requirements, all activities that generate or result in the acquisition of intangible resources must be appropriately tracked in PeopleSoft Financials as described below if there is more than a remote possibility that the total costs of the intangible resource under consideration that are eligible for capitalization will meet or exceed the relevant capitalization threshold.

Determine need to capitalize costs – if an intangible resource can be broken up into separate modules/phases that are implemented on an individual time table, including different implementation dates, each module/phase should be considered a separate project for the purpose of determining capitalization requirements.

1. Project management establishes a project budget to determine if costs associated with the intangible resource have more than a remote possibility of exceeding the relevant capitalization threshold. The following guidelines should be followed when establishing the project budget:

a) Include all estimated costs regardless of funding source.
b) The budget should identify development costs to be incurred during the project or application development phase (capitalized costs). Include only those costs that directly contribute to getting the intangible resource ready for use (e.g., contractor costs, personnel service costs and related ERE, and miscellaneous direct costs). Exclude hardware costs and training costs as they are generally expensed, or in the case of hardware capitalized separately if over $5,000. See Q&A #9, 10 &11)
c) The budget should identify the acquisition cost associated with the resource (e.g. software purchased/licensed from vendor).
d) To determine if an intangible resource is to be considered an internally generated asset, divide the development costs (b) by the any acquisition cost (c).

See Intangible Asset Budget Template for estimating intangible assets costs

2. Project management completes the Intangible Asset Questionnaire and sends it to Financial Accounting Services (FAS)

Tracking and reporting project costs - Applicable only if it is determined that there is more than a remote possibility the costs associated with the intangible resource will exceed the relevant capitalization threshold.

3. Request that a dedicated project account (Department) be setup through the Budget Office for any new or dedicated funding. The new account should be identified as an intangible asset project account.

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4. Identify a Project Manager who is responsible for developing a project plan. For software projects, the project plan must clearly identify specific begin and end dates for the development phase described in section 140.2. Any changes to these dates must be communicated to FAS to ensure capitalization adjustments are accurately reported. It is recommended that appropriate stages similar to those applied to the development of software and websites be established for other internally developed intangible resources (e.g., patents and copyrights) to help determine whether costs should be expensed or capitalized.

5. All project costs budgeted against the dedicated project account must be charged directly to that account (Department) and funds cannot be transferred from the dedicated project account to other accounts to pay for project related costs.

6. At a minimum, any personnel service, ERE and other project costs incurred against the overall project budget must be accumulated and reported to FAS on a monthly basis. Contact FAS for further instructions.

7. FAS will be responsible for making adjustments within PeopleSoft Financials to capitalize personnel service and related ERE costs, recording year-end "Completion-in-Progress" entries and final capitalization entries. All salary and ERE capitalization adjustments will be made through GASB adjustment accounts, and they will not impact the recording of original salary and ERE costs.

Examples

Internally Generated Patent:

Assume a university conducts research on developing medical instruments and supplies that improve the effectiveness and efficiency of surgical procedures. One aspect 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. Additionally, they 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.

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In February 201X, the data accumulated from the research described above were presented to the vice president for research. Based on the presentation, the vice president formally sought approval from the university's cabinet for five full-time researchers and $500,000 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. The vice president demonstrated to the cabinet 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 university.

The university should begin to capitalize outlays associated with the development of the project and acquisition of the related patent upon the authorization of resources by the cabinet (February 201X). 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 university's commitment of personnel and the $500,000 to fund the outlays of the project demonstrate its current intention, ability, and presence of effort to continue or complete the work needed to acquire the patent. The $500,000 budget exceeds the $100,000 capital threshold for patents so project costs incurred after February 201X should be capitalized until such time as the project is substantially complete. No outlays associated with the project incurred prior to meeting the specified conditions in February 201X should be capitalized. Those outlays should have been expensed as incurred.

Internally Generated Computer Software:

Assume that in January 201A, a college identified the need for new student receivables billing software. Upon identification of this need, the college assembled a project task force composed of staff from various departments. From February through May 201A, 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.

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- 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 college reserved $2.15 million in its FY 201B budget to cover the cost of the implementation project. The college awarded a contract in the amount of $1.6 million to a software company to acquire a perpetual license to use its application as modified to meet the college's needs. As part of the contract, the company would be responsible for installation and modification of the software, while several college employees would be dedicated to the project full time until its completion.

Installation of the software occurred from October through February 201B. Testing of the software and resulting modifications were completed in April 201B, at which point the software was considered to be substantially complete and operational. Entry of data and training of software users and operators occurred during May 201B so that the software could be used for the FY 201C fall billing.

The college determined that the aggregate outlays for the software project were $2.30 million, composed of the following:

- Outlays associated with task force activities from February through May 201A: $.15 million (budgeted in FY 201A)
- Outlays for commercial software and installation services during FY 201B: $1.6 million
- Outlays for payroll and related costs associated with employees involved in installation, required data conversion, and testing of software during FY 201B: $0.3 million
- Outlays for training software users and operators during FY 201B: $0.15 million
- Outlays for payroll and related costs associated with employees involved in entry of data for new students during FY 201B: $0.1 million

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 June 30, 201A, the college should record the outlays associated with the task force activities of $.15 million as an expense.

The acquisition of the license to use the commercially available software and the installation and testing activities occurring in FY 201B should be considered application development stage activities. The related outlays of $1.9 million ($1.6 million payment to vendor and $.3 million of salaries) should be capitalized in FY 201B as the preliminary project stage had been completed in FY 201A, and the college allocated resources for the project, providing evidence of its commitment to complete the project.

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The training activities occurring in FY 201B should be considered post-implementation/operation stage activities and expensed as incurred. Additionally, the outlays associated with the data entry activities for new students also should be expensed because they were not essential data conversion related to the implementation. Therefore, for FY 201B, the college should record the outlays associated with the training and new student data entry activities of $0.25 million as an expense.

Definitions (SAAM and NAU)

Application Development Stage – A phase in the internal development of software which includes design, coding, configuration, testing, installation and, if applicable, parallel processing.

Computer Hardware – Computer hardware consists of all the equipment that can be considered a component of, is typically attached to, or communicates with an information system. The term encompasses processing units, memory apparatus, input and output devices, storage devices, and connectivity equipment.

Computer Software – Computer software includes the non-equipment components—operating systems and applications purchased or licensed — of an information system. Application software is computer software designed to help the user to perform singular or multiple related specific tasks.

Easements – an interest in land owned by another that entitles its holder NAU to a specific limited use or enjoyment.

Excluded Intangibles – Classes of intangibles excluded by GASB 51 from treatment as an intangible asset. Such intangibles include financial assets such as cash, investment securities, receivables and prepayments. Excluded intangibles also include: intangibles that are acquired primarily for the purpose of directly obtaining income; intangibles resulting from capital lease transactions reported by lessees; and, goodwill created through the combination of a government and another entity.

Expensed Intangible — an intangible that, because of its nature and relatively low monetary value, is expensed rather than capitalized.

Incremental Expense – Additional costs incurred with respect to bringing a purchased intangible up to the expected, planned or necessary level of service or capacity. With respect to software, for example, incremental expenses would include custom programming to accomplish needed reporting or integration with other systems.

Intangible – Lacking physicality; unperceivable by the sense of touch.

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Intangible Asset – An intangible resource that, because of its nature and value, is capitalized.

Intangible Betterment – An improvement made to an intangible asset.

Intangible Resource – An intangible resource is an identifiable resource that lacks a physical substance and has a useful life that extends beyond a single fiscal year. Specifically excluded from the term "intangible resource" are investments and other financial instruments, property held under the terms of a capital lease, and goodwill (which might arise from the creation of an organization that combines a public and a private entity). Also excluded are monetary assets, such as cash, or claims to monetary assets, such as accounts receivable, or prepayments for goods or services. Depending upon its nature and value, an intangible resource is treated, for accounting purposes, either as an expensed intangible or as an intangible asset.

Internally Generated Intangible Resource – An intangible resource is internally generated if it is created by the Government of the State of Arizona, one of its constituent units, or by an entity contracted by the Government of the State of Arizona or one of its constituent units. An intangible resource purchased from an outside source is considered internally generated, if incremental expenses exceed thirty percent (30%) of the cost of the underlying intangible that was purchased.

Internally Generated Intangible Asset – An internally generated intangible resource that by virtue of its cost is capitalized.

Internally Generated Software – A special class of internally generated intangible resource that incorporates the programs and related files designed to operate on a computer.

Internally Generated Software Asset – Internally generated software that, due to its cost and related considerations, is capitalized.

License – a grant by the holder of a copyright or patent to another of any of the rights embodied in the copyright or patent short of an assignment of all rights. For purposed of capitalization thresholds, the computer software threshold should apply to licensed computer software.

Minimal Incremental Effort – A threshold used to determine whether costs related to a given intangible resource—most frequently software—should be capitalized or expensed. Intangible resources, even those resources purchased from a third party, are considered to be internally generated if they require more than minimal incremental effort to begin to achieve their expected level of service capacity. The threshold of minimal incremental effort is considered crossed once the government's expenditures to place an intangible resource (such as computer software) into service exceed thirty percent (30%) of the cost of the underlying intangible that was purchased.

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Post-Implementation Stage – A phase in the internal development of software that follows application development. This phase includes the operation and maintenance of the software as well as the training of users, operators and those charged with its maintenance.

Preliminary Project Stage – A phase in the internal development of software. This phase includes the definition of functional and technical needs and the evaluation of alternative approaches to the development or acquisition of software.

Website - A website is a collection of related web pages, images, videos or other digital assets that are addressed relative to a common Uniform Resource Locator (URL), often consisting of only the domain name, or the IP address, and the root path ('/') in an Internet Protocol-based network. A web site is hosted on at least one web server, accessible via a network such as the Internet or a private local area network.

Web Application - A web application is a type of a software application that is accessed over a network such as the Internet or an intranet.

CROSS-REFERENCES

Arizona Board of Regents - Policy Manual

CMP 430-25 Inventory of Capital Equipment

CMP 130: Capitalization and Depreciation

State of Arizona Accounting Manual (SAAM) – Long-Lived Resources: Capital Assets, Etc