

Attachment HE-10 - TAB 3 & TAB 7 Part 17: GASBS No. 51, Accounting and Financial Reporting for Intangible Assets

Purpose

The purpose of GASBS No. 51, Accounting and Financial Reporting for Intangible Assets, is to provide financial reporting standards for intangible assets. Intangible assets that meet the provisions in GASBS No. 51 must be classified as a **capital asset**. They can be purchased or licensed (which includes acquisition through an installment contract), acquired through nonexchange transactions, or internally generated. Below are some examples of intangible assets:

- Easements
- Water rights
- Timber rights
- Patents
- Trademarks
- Computer software

This document is provided for informational purposes and is not authoritative. HEIs must refer to GASBS No. 51 for reporting requirements.

GASBS No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, would apply to intangible assets that are reported as a capital asset per GASBS No. 51.

The net investment in capital assets calculation will include intangible assets as defined in GASBS No. 51 and are reported as a capital asset on the financial statement template.

Note: There is also a frequently asked questions (FAQs) document regarding GASBS No. 51 available on DOA's website. Keep in mind that the questions and answers provided in the FAQs document are from the Commonwealth's perspective and may differ from the institution's perspective. For example, the thresholds and/or capitalization criteria provided in the FAQs document may differ from the institution's thresholds and/or capitalization criteria. In addition, some questions and answers may not apply to the institution. For example, guidance on how to report intangible assets in the Fixed Asset Accounting and Control System (FAACS) is provided and many institutions do not use FAACS.

Applicability

Higher Education Institutions (HEIs) are required to properly report any activity/balances related to this statement in their individually published financial statements and financial statement template (FST).

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Characteristics Per GASBS No. 51 paragraph 2 an intangible asset possesses the following characteristics:

- Lack of physical substance
 - Nonfinancial nature
 - Initial useful life extends beyond a single reporting period
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Not applicable Per GASBS No. 51 paragraph 3, this statement **does not apply to the following**:

- 1) Assets that meet the description of an intangible asset in GASBS No. 51 paragraph 2; however, the asset is acquired or created primarily for the purpose of directly obtaining income or profit
- 2) Assets resulting from capital lease transactions reported by lessees, which are addressed in the NCGA Statement 5, as amended
- 3) Goodwill created through the combination of the HEI and another entity.

Refer to GASBS No. 51 for information regarding the scope and applicability of this statement.

Classification & recognition Per GASBS No. 51 paragraphs 5 & 6, intangible assets that are subject to the provisions of this statement must be classified as capital assets and they must be recognized on the statement of net position only if they are identifiable. An intangible asset is considered identifiable if either of the following conditions are met:

- The asset is separable; or,
- The asset arises from contractual or other legal rights.

Refer to GASBS No. 51 for information regarding the accounting and financial reporting for intangible assets.

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Computer software

Computer software can be purchased, licensed, or internally generated. Per response to question Z51.1 in the Comprehensive Implementation Guide – Updated through June 30, 2013, commercially available software that is purchased or licensed by the HEI and placed into operation without modification requiring more than minimal incremental effort would generally meet the description of an intangible asset. See the following section for additional information regarding internally generated computer software.

Per response to question Z51.21, if a HEI acquires commercially available computer software through a five-year licensing agreement and is required to make annual installment payments to the software vendor for the right to use the software over the life of the agreement, the HEI would report the licensed software as an intangible asset. In addition, a long-term liability representing the HEI's obligation to make the annual payments over the life of the contract would also be reported.

Per response to question Z51.2, a HEI's website should be considered computer software for purposes of applying the provisions of GASBS No. 51.

Internally generated intangible assets (including internally generated computer software)

GASBS No. 51 paragraphs 7 through 15 have specific guidance on when outlays incurred to develop internally generated intangible assets, including internally generated computer software, can be capitalized and when they must be expensed. Intangible assets are considered internally generated if they are created or produced by the HEI or an entity contracted by the HEI, or if they are acquired from a third party but require more than minimal incremental effort on the part of the HEI to begin to achieve their expected level of service capacity.

GASBS No. 51 paragraph 9 states that computer software should be considered internally generated if it is developed in-house by the HEI's personnel or by a third-party contractor on behalf of the HEI. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put in operation should also be considered internally generated for purposes of GASBS No. 51.

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Internally generated intangible assets (including internally generated computer software),
continued

Per GASBS No. 51 paragraph 8, outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following*:

- Determination of the specific objective of the project and nature of the service capacity that is expected to be provided by the intangible asset upon completion of the project
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
- 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

Outlays incurred prior to meeting the above criteria should be expensed and outlays incurred subsequent to meeting the above criteria should be capitalized.

Below is a table with activities involved in developing and installing internally generated computer software that can be grouped in stages. If the criteria in GASBS No. 51 paragraph 8 are met, the following shows which outlays would be expensed vs. capitalized:

Stage	Capitalized vs. Expensed
1) Preliminary project stage*	Expensed
2) Application development stage	Capitalized (Note: Capitalization should cease no later than the point at which the computer software is substantially complete and operational.)
3) Post-implementation/operation stage	Expensed

Note*: For internally generated software, the criteria in GASBS No. 51 paragraph 8, should be considered met only when the preliminary project stage is completed and management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Refer to GASBS No. 51 for guidance on accounting and financial reporting for internally generated intangible assets, including internally generated computer software as well as internally generated modification of computer software that is already in operation.

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Indefinite useful life

Per GASBS No. 51 paragraph 17, an intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, or other factors that may limit the useful life of the asset.

Financial statement template (FST) line items, TAB 3, & TAB 7 Part 17 (HEI)

Per GASBS No. 51 paragraph 5, intangible assets subject to the provisions of this statement should be classified as capital assets. Below is a listing of the intangible capital asset line items** included in the following tabs in the Attachment HE-10: FST and TAB 3 for the HEI only:

Nondepreciable Capital Assets:

- Intangible assets with indefinite useful life: Provide description

Depreciable* Capital Assets:

- Computer Software (including websites)
- Patents, Trademarks, and/or Copyrights
- Water Rights and/or Easements
- Other Intangibles: Provide description

Note*: The terms depreciable and depreciation used in the Attachment HE-10 for the HEI include the amortization of intangible assets.

Note **: Internally generated intangible assets should be reported on the FST as Construction in Progress by the HEI until substantially complete and operational, and then it should be reclassified to the applicable intangible asset FST line item.

Attachment HE-10 TAB 7 Part 17 has questions regarding intangible assets and GASBS No. 51 reporting for the HEI.

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**Foundations –
intangible
assets**

The Attachment HE-10 - Combining FST and TAB F4 do not include intangible assets within the capital asset categories because the foundations follow FASB rather than GASB standards. If foundations have intangible assets as defined in the FASB standards, these assets should be reported on other Combining FST line items (i.e., Other Assets, Other Restricted Assets, etc.). In addition, Attachment HE-10 TAB F7 Part 9 is to indicate if a foundation has an intangible asset reported on the Combining FST and also to provide a description, the Combining FST line item and amount. This is for informational purposes only.
