



**Finance Committee Meeting**

**AGENDA**

**November 2, 2010**

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**I. CALL TO ORDER**

**II. MATTERS BEFORE COMMITTEE**

1. [Intangible Asset Policy](#)

**III. ADJOURN**



## Finance Committee Meeting

### AGENDA

November 2, 2010

**Item:**

Intangible Asset Policy

**Department:**

**Additional Information:**

**Financial Impact:**

**Budgeted Item:**

**Recommendation / Request:**

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Attachments / click to download

[Intangible Asset Policy](#)

## CITY OF MONROE INTANGIBLE ASSETS POLICY

**Date issued:**

**Source:** GASB Statement 51  
Accounting and Financial Reporting for Intangible Assets

**Policy:** Intangible assets of the City of Monroe and component units should be capitalized according to the following:

1. The acquisition cost is at least One Hundred Thousand (\$100,000).
2. The intangible asset has a useful life greater than one year.
3. The department has the ability to sell, transfer, license, or rent the asset to another party or the asset arises from a contractual or legal right.
4. The asset is nonfinancial in nature and not acquired or created primarily for the purpose of generating income or profit, the result of a capital lease transaction, or goodwill.

All intangible assets meeting the capitalization requirements above will be amortized unless the intangible asset has an indefinite life.

Intangible assets with a cost equal to or greater than the threshold and a useful life of two or more years should be capitalized. Assets costing below the threshold should be expensed.

When an internally generated computer project spans more than one year, the total application development costs of the project should be considered when applying the capitalization threshold, not the outlays incurred in individual years (Note: a project would include a modification to existing software).

**Retroactive Reporting:** Retroactive reporting is required for intangible assets, except as follows. Retroactive reporting is not required for 1) internally generated intangible assets, including those in development as of the effective date of this policy and 2) intangible assets with an indefinite estimated useful life as of the effective date of this policy.

Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if 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.

Computer software is a common type of intangible asset that is often internally generated. Computer software should be 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 also should be considered internally generated. Any of the following activities would satisfy the "modified using more than minimal

incremental effort” criterion: changing code, changing fields, adding special reporting capabilities, data entry/conversion and testing any changes.

**Accounting Guidance:** Intangible assets should be classified as capital assets, except that intangible assets acquired or created primarily for the purpose of directly obtaining income or profit should be classified as investments (e.g. copyright donated to a university to generate income). Existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to intangible assets, as applicable. Additionally, before an intangible asset can be recognized in the financial statements, it must meet one or both of the following criteria:

The asset is separable, that is, the asset is capable of being separated or divided from the government and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability.

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 and obligations.

If the types of intangible assets reported by a government differ in nature and usage, then they should not be reported collectively as a single major class of capital assets (e.g., intangible assets). For example, the nature and usage of patents differs from that of right-of-way easements such that they should not be aggregated in the same major class of capital assets.

**Internally Generated Intangible Assets:** Capitalization of internally generated capital assets can only occur after ALL of the following conditions has been met:

- 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 the 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, and
- 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 meeting those criteria should be expensed as incurred.

**Specific Application to Computer Software:** The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

Preliminary Project Stage (expense)

- Conceptual formulation and evaluation of alternatives
- Determination of existence of needed technology
- Final selection of alternatives

#### Application Development Stage (capitalize)

- Design of the chosen path
- Coding
- Installation to hardware
- Testing and parallel processing
- Data conversion, if necessary to make operational

#### Post-Implementation/Operation Stage (expense)

- Application training
- Software maintenance
- Data conversion, if not necessary to make operational

Reporting of activity outlays should be based upon nature of activity, not timing of its occurrence and should follow these guidelines:

- Preliminary project stage - expense as incurred
- Application development stage – capitalize once criteria is met; cease capitalizing when software is operational
- Post-implementation/operation stage – expense as incurred

An improvement to existing computer software must do at least one of the following to qualify for capitalization:

- Increase the software's functionality,
- Increase the software's efficiency, or
- Extend the software's estimated useful life.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred. If a maintenance contract covers all required maintenance and any unspecified upgrades issued during the year by the vendor, the unspecified upgrades should be considered maintenance.

For commercially available software acquired through a licensing agreement requiring multi-year payments, a long-term liability representing the agency's obligation to make payments under the contract should also be reported. If no interest rate is stated in the licensing agreement, the long-term liability does not have to be discounted.

**Amortization:** An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (e.g., permanent right-of-way easement). Intangible assets with indefinite useful lives should not be amortized.

Intangible assets with limited useful lives (e.g., by legal or contractual provisions) should be amortized over their estimated useful lives. Amortization of computer software should begin when the program is placed into service. Renewal periods related to such provisions may be considered in determining the

useful life of the intangible asset if the government expects to exercise the renewal option and any anticipated outlays to be incurred as part of achieving the renewal are nominal (in relation to the level of service capacity obtained through the renewal).

**Definitions:**

*Intangible Assets* – Assets that lack physical substance, are non-financial in nature, and have a useful life greater than one year. Examples include, but are not limited to, easements, water rights, timber rights, patents, copyrights, trademarks, internally generated websites, and computer software (purchased, licensed, and internally generated). Note: land use rights associated with property already owned by an agency should not be reported as intangible assets separate from the property.

*Easements* – The right to use land belonging to another for a particular use.

*Water rights* – The right to access or use water from a water source (i.e., a river, stream, pond or source of groundwater).

*Timber rights* – The right to claim trees on property belonging to another.

*Patents* – The legal protection granted to an individual, company, or organization from the United States federal government or a foreign government giving the owner the exclusive right to produce and sell an invention for a given period of time.

*Copyrights* – The legal protection granted to authors or artist for their works from the federal government. This gives the owner the exclusive rights to produce or sell the artistic or published work for a specified period of time.

*Trademark* – A name, word, phrase, logo, symbol, design, or image that identifies that the product is from a unique source.

*Purchased Software* – Purchased software is software that the City of Monroe pays an upfront cost in order to use. This may be software that we pay for initially and then pay an additional annual maintenance fee in order to receive upgrades and support from the vendor.

*Licensed Software* – Licensed software is software that the City of Monroe has the right to use for a specified period of time based on an agreement with the vendor.

*Internally Generated Software* – Internally generated software is software developed by City of Monroe staff or an entity contracted by the City of Monroe, or acquired from an external entity but requiring more than minimal incremental effort on the part of the City of Monroe to begin to achieve its expected level of service capacity.