

Definition of Intangible Assets

A. Intangible Assets

Intangible assets are assets that are:

- (1) Identifiable – Either the assets:
 - (a) Can be separated or divided from the school district and sold, transferred, licensed, rented or exchanged; or
 - (b) Arose from some legal right (i.e., a contractual right), regardless of whether those rights are separable or dividable;
- (2) Lacking physical substance;
- (3) Non-financial in nature – The assets are not in a monetary form, such as cash or investment securities; and
- (4) Possessing a useful life that extends beyond a single financial reporting period.¹

Examples of intangible assets include the following:

- (1) Easements or land use rights (i.e., water rights, timber rights and mineral rights);
- (2) Patents, trademarks and copyrights; and
- (3) Computer software or websites that are purchased, licensed, or internally generated.

Examples of assets that are not intangible assets for purposes of this policy include only the following:

- (1) Assets acquired or created primarily for purposes of obtaining income or profit, as these are considered investment assets;
- (2) Assets from capital lease transactions reported by lessees, except licensing agreements to lease commercially available computer software; and
- (3) Goodwill established or created between the school district and another entity.

B. Outlays Associated with Internally Generated Intangible Assets

Intangible assets that are generated or created internally likely have outlay expenses associated with the generation or creation. Intangible assets are considered to be generated or created internally if they are:

- (1) Created by the school district;
- (2) Created by a third-party contracted by the school district; or
- (3) Acquired by the school district from a third-party and require more than minimal incremental effort on the part of the school district to begin to achieve the expected level of service capacity.

¹ This requirement also applies to an intangible asset in the form of a computer software license purchased or renewed, and the useful life must extend beyond a single reporting period in order for the computer software license to be capitalized.

C. Outlays Associated with Internally Generated Computer Software

Computer software that is generated or created internally likely has outlay expenses associated with the generation or creation. Computer software is considered to be generated or created internally if it is:

- (1) Developed by the school district;
- (2) Developed by a third-party contracted by the school district; or
- (3) Commercially available software acquired, purchased or licensed by the school district from a third-party that is modified using more than minimal incremental effort before being put into operation.

II. Measuring of Intangible Assets

A. Threshold for Capitalization of Intangible Assets

The school district shall adopt an intangible asset capitalization threshold policy to govern the amount at and above which intangible assets must be reported in the school district's annual reporting statements and audits. More specifically, the policy shall provide a threshold to be applied to individual intangible assets and shall prohibit the aggregation of items, including intangible assets and outlays, to meet the threshold.² The policy shall be approved by the board prior to its adoption.

[Note: The school district's policy regarding intangible asset capitalization threshold should generally be designed to capture eighty percent (80%) of the total cost of the school district's intangible assets. Therefore, prior to creating a policy regarding intangible asset capitalization threshold, the school district must know the total value of its intangible assets.]

B. Recognition of Intangible Assets

The school district shall record individual intangible assets exceeding the threshold amount outlined in the school district's intangible asset capitalization threshold policy as follows:

- (1) Intangible assets received in an exchange transaction or purchased shall be recorded at actual historical cost, which includes direct costs, and excludes indirect costs;
- (2) Intangible assets in the form of business activities and enterprise funds received in an exchange transaction or purchased shall be recorded at actual historical cost, which includes direct costs, specifically capitalized interest and ancillary charges, and excludes indirect costs; and
- (3) Intangible assets received in a non-exchange transaction or donated shall be recorded at estimated fair market value at the time of acquisition, which requires implementation of a rational method to determine or estimate the value at which the asset could be exchanged between willing parties not involved in a forced sale.

² With intangible assets in the form of computer software licenses purchased or renewed, each individual license must be accounted for separately and all licenses cannot be aggregated for purposes of measuring whether the assets have exceeded the threshold.

- (4) Intangible assets reported retroactively³ shall be recorded at actual historical cost⁴, regardless of whether the asset is fully amortized prior to June 30, 2009. If an intangible asset reported retroactively is fully amortized prior to June 30, 2009, the school district shall record the value of the intangible asset separately from the value of the amortization.

III. Accounting for Intangible Assets

A. Intangible Assets

Intangible assets exceeding the threshold shall be accounted for as capital assets. Therefore, all financial requirements concerning capital assets, including, but not limited to, all accounting and reporting requirements, such as those associated with recognition, measurement, presentation and disclosure, shall be followed.

B. Outlays Associated with Internally Generated Intangible Assets

Outlays from internally generated intangible assets exceeding the threshold shall not be accounted for as capital assets until they are identifiable and the “specified conditions criteria” have occurred (see below). Outlays exceeding the threshold not meeting these requirements and/or incurred prior to these criteria occurring shall be accounted for as an expense when the expense is incurred.

Outlays from internally generated intangible assets exceeding the threshold shall be accounted for as capital assets if they occur after such time as:

- (1) The assets are identifiable – See the definition outlined in Section I of this Policy; and
- (2) The “specified conditions criteria” have occurred, as follows:
 - (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; and
 - (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.

C. Outlays Associated with Internally Generated Computer Software

Outlays from internally generated computer software developed by the school district or by a third-party contracted by the school district exceeding the threshold shall be accounted for as follows:

³ Reference Section VI of this Policy for the retroactive reporting of intangible assets.

⁴ If actual historical cost cannot be determined for intangible assets acquired prior to June 30, 2009, due to lack of sufficient records, estimated historical cost shall be used.

- (1) During the preliminary project stage, all outlays exceeding the threshold shall be accounted for as an expense when the expense is incurred. The preliminary project stage involves the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology and the final selection of alternatives for development of the software.
- (2) During the application development stage, outlays that occur before the specified conditions criteria have occurred and exceed the threshold shall be accounted for as an expense when the expense is incurred; outlays that occur after the specified conditions criteria have occurred⁵ and exceed the threshold⁶ shall be accounted for as capital assets; and outlays that occur after the computer software is substantially complete and operational and exceed the threshold shall be accounted for as an expense when the expense is incurred. The application development stage involves the design of the chosen path, including, but not limited to the purchase of the software or license;⁷ the software configuration and the software interfaces; the coding; the installation to hardware; the testing; any minor modifications made to the software before it is placed into operation⁸; and the data conversion, if such was deemed necessary in order to make the software operational.
- (3) During the post-implementation and operation stage, all outlays exceeding the threshold shall be accounted for as an expense when the expense is incurred. The post-implementation and operation stage includes the data conversion, if such was not deemed necessary during the application development stage in order to make the software operational; the application training; and the software maintenance.

Outlays from internally generated computer software extensively modified by the school district or by a third-party contracted by the school district exceeding the threshold shall be accounted for as follows:

- (1) All outlays from the modification of computer software exceeding the threshold shall be accounted for as capital assets if the one of the following conditions exist:
 - (a) The modification causes an increase in the functionality of the software (the software is able to perform tasks that it was previously incapable of performing);
 - (b) The modification causes an increase in the efficiency of the software (the software offers an increased level of service without the need for an increased performance of tasks); or
 - (c) The modification extends the estimated useful life of the software.

⁵ The specified conditions criteria are considered to be met for internally generated computer software developed by the school district or a third-party contracted by the school district when the preliminary project stage is complete and the board authorizes and/or commits to funding the development of new computer software.

⁶ In determining whether the outlays exceed the threshold, each outlay shall be accounted for separately and no outlay shall be aggregated with any other outlay for purposes of measuring whether the outlays have exceeded the threshold. For example, the initial purchase of the computer software or license and the modifications made to the computer software or license should be accounted for separately and should not be aggregated for purposes of measuring whether the outlays have exceeded the threshold.

⁷ The purchase of the computer software or license shall be treated as an outlay that shall be capitalized.

⁸ Making minor modifications to the computer software or license shall be treated as an outlay that shall be capitalized.

- (2) All outlays from the modification of computer software exceeding the threshold shall be accounted for as an expense when the expense is incurred if none of the above conditions exists.

IV. Amortization of Intangible Assets

In amortizing an intangible asset that is capitalized because it exceeds the threshold and meets the requirements above,⁹ the following general rules shall apply:

- (1) The useful life of an intangible asset generally shall be estimated. Therefore, the intangible asset has a determinable useful life, even if it must be estimated, and shall be amortized using the straight-line method.
- (2) The useful life of an intangible asset that arises from and is limited by contractual or other legal rights shall not exceed the period of the intangible asset's service capacity provided under the contract or other legal provision. Therefore, the intangible asset has a determinable useful life, even if it must be estimated, and shall be amortized using the straight-line method.
- (3) The useful life of an intangible asset that is not limited by any legal, contractual, regulatory, technological or other factors shall be indefinite. Therefore, the intangible asset has no determinable useful life and shall not be amortized.

In considering changes in circumstances that affect the amortization of an intangible asset, the following rules shall apply:

- (1) An intangible asset that arises from and is limited by contractual or other legal rights shall take into consideration contract renewal periods for purposes of determining its useful life and its amortization schedule only if the following requirements are met:
 - (a) There is evidence that the school district will seek and be able to achieve contract renewal; and
 - (b) The anticipated outlay for contract renewal is nominal in relation to the level of service capacity obtained by the contract renewal.
- (2) An intangible asset that was once not limited by any legal, contractual, regulatory, technological or other factors, but now is limited by such factors due to changes in conditions, shall be tested for impairment¹⁰ because the expected duration of the useful life of the asset has changed, and then the following rules shall apply:
 - (a) If an impairment is determined not to exist, the intangible asset has a determinable useful life and shall be amortized using the straight-line method.
 - (b) If an impairment is determined to exist, the following must occur:
 - (i) The loss due to the impairment shall be accounted for as a loss;
 - (ii) The intangible asset has a useful life that must be estimated and is determinable; and

⁹ This includes intangible assets that were in existence from July 1, 1980, through June 30, 2009, and must be retroactively reported.

¹⁰ Internally generated intangible assets and computer software commonly experience impairment with development stoppage, including, but not limited to, stoppage of development of computer software due to changes in the priorities of management.

- (iii) The carrying value, or the value remaining after accounting for the impairment, shall be amortized using the straight-line method over the remaining estimated useful life.

V. Selling or Disposing of Intangible Assets

In selling or disposing of intangible assets, the school district shall calculate and report a gain or loss on the sale or disposal. The gain or loss shall be calculated by subtracting the net book value, which consists of the historical cost less any accumulated amortization, from the net amount realized on the sale or disposal.

VI. Application of Policy

The requirements of this policy shall apply to all financial statements covering periods beginning after June 30, 2009.

The requirements of this policy shall apply retroactively to intangible assets that were in existence from July 1, 1980, through June 30, 2009.¹¹ However, the following intangible assets shall not be retroactively reported as capital assets:

- (1) Intangible assets considered to have an indefinite useful life as of June 30, 2009;
- (2) Intangible assets considered to be internally generated as of June 30, 2009;
- (3) Outlays from internally generated computer software incurred in the application development stage on or prior to June 30, 2009;¹²
- (4) Any intangible asset held by a “Phase 3” School District, characterized as such for purposes of implementing GASB Statement 34. [Note: The school district needs to include a specific statement regarding whether the school district was classified as “Phase 3” for purposes of implementing GASB Statement 34.]

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¹¹ This includes computer software purchased prior to June 30, 2009, that is currently still in use.

¹² Reference Section III, Subsection C of this Policy for the accounting of outlays from internally generated computer software incurred in the application development stage after June 30, 2009.