POLICY Board of Trustees - Montgomery College **61007**

Chapter: Fiscal and Administrative Affairs Modification No. 001

Subject: **Intangible Asset Management**

I. Definition – Intangible Asset vs. Tangible Asset

A. Intangible Asset

An intangible asset is an asset that lacks physical substance, is nonfinancial in nature, and has a useful life of two or more years. An intangible asset is identifiable when either of the following conditions is met:

1. Separable (capable of being sold or transferred)
2. Arises from contractual or legal rights

B. Tangible Asset

A tangible asset is one that has a physical form and has a useful life of two or more years.

II. Capitalization Policy

The College will capitalize all acquisitions which meets the criteria of an intangible asset with a purchase price of $100,000. For internally generated assets the total project value has to be $200,000 or greater. Included in this $200,000 is any purchased software that is then configured for College use. For internally generated software the only project costs to be capitalized are the costs that fall into the application development stage as defined in GASB 51. These costs include the design of the chosen path, including software configuration, and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase and data conversion. All labor cost associated with this phase will be supplied to The Office of Business Services by the area(s) implementing the software. Costs expensed for internally generated software are all cost that fall into the Preliminary Project Stage and the Post-Implementation/Operation Stage. Examples of these costs are conceptual formulation, evaluation of alternatives, application training and software maintenance. All items deemed to be intangible assets will be amortized in accordance with Generally Accepted Accounting Principles (GAAP). Capitalized items and their related amortization are recorded as assets in the Fixed Asset Plant Fund for tracking and reporting purposes.

III. Capital Inventory Management

A. Property Control

The Office of Business Services will maintain a property control systems of all capital assets including intangible assets. The property control system will be managed in accordance with Federal, State, and College Policies and Procedures. All intangible assets shall be used pursuant to Board policy and College procedures.

B. Authority – Disposal

1. Only the Board of Trustees may authorize a disposal when the value is $25,000 or greater.

2. The Senior Vice President of Administrative and Fiscal Services or their assigned person may authorize a disposal when the value is less than $25,000.

IV. The President is authorized to establish procedures to implement this policy.

Board Approval: March 19, 2012

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I. Definition

A. GASB Statement 51 defines intangible assets as assets that are identifiable and possess all of the following characteristics:

1. Lack of physical substance
2. Nonfinancial nature (not in monetary form like cash or investment securities)
3. Initial useful life of greater than one year

B. Examples of intangible assets include easements, land use rights (i.e. water rights, timber rights and mineral rights), patents, trademarks and copyrights. In addition, intangible assets include computer software that is purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.

C. Intangible asset can be purchased, licensed, or acquired through non-exchange transactions for internally generated.

D. All intangible assets subject to the provisions of GASB Statement 51 should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets (i.e. recognition, measurement, presentation, disclosure, etc.) should be applied to intangible assets as applicable.

II. Exclusions

GASB Statement 51 applies to all intangible assets except: (1) assets acquired or created primarily for purposes of directly obtaining income or profit (these intangible assets should be considered investments), (2) assets from capital lease transactions reported by lessees, except licensing agreements to lease commercially available computer software, and (3) goodwill created through the combination of a government and another entity.

III. Accounting and financial reporting requirements of the Statement

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

1. The asset is separable. The asset is capable of being separable. The asset is capable of being separated or divided from the College and sold, transferred, licensed, rented or exchange, either individually or together with a related contract, asset or liability.
2. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the College or from other rights and obligations.

B. In accordance with existing authoritative guidance for capital assets, intangible assets received in a non-exchange transaction should be recorded at their estimated fair value at the time of acquisition plus ancillary charges, if any.

IV. Amortization Issues

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. 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. The useful Life should be the shorter of the intangible asset's technological life versus its legal/contractual and regulatory life. A permanent right-of-way easement is an example of an intangible asset with indefinite useful life. Intangible assets with indefinite useful lives should not be amortized.

V. Impairment Indicator

A. The provisions for accounting and financial reporting for impairment of capital assets contained in Statement No. 42 are applicable to intangible assets.

B. For software impairment should be recognized and measured when one of the following occurs:

1. The software is no longer expected to provide substantial service potential and will be removed from service
2. A significant adverse change occurs in the extent or manner in which the software is used or is expected to be used.
3. A significant change is made or will be made to the software program.
4. Stoppage of development of computer software due to a change in the priorities in management.

C. For other intangible assets impairment should be recognized and measured when one of the following occurs:

1. The intangible asset is no longer expected to provide substantial service potential and will be removed from service.
2. Stoppage of development of an internally generated intangible asset due to a change in the priorities of management.

D. Internally-generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.

VI. Internally-generated intangible assets and how to capitalization them

A. Intangible assets are considered internally-generated if they are created or produced by the College, or if they are acquired from a third party but require more than minimal incremental effort on the part of the College to begin to achieve their expected level of service capacity. Examples of internally-generated intangible assets include patents, trademarks, and computer software.

B. Cost incurred for the development of an internally-generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

1. 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
2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
3. 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 (Ex. Included in budgetary commitments or to be part of the strategic planning documents for the College).

C. Only costs incurred subsequent to meeting the above criteria should be capitalized. Costs incurred prior to meeting those criteria should be expensed as incurred.

VII. Internally-generated computer software

A. The Statement (GASB 51) identifies computer software as a common type of intangible asset that is often internally-generated. Computer software is considered internally-generated if it is developed in-house by College employees or by a third-party contractor on behalf of the College. Commercially available software that is purchased or licensed by the College and modified using more that minimal incremental effort before being put into operation also should be considered internally-generated for purposes of this Statement. For example, licensed financial accounting software that the College modifies to add special reporting capabilities would be considered internally-generated.

B. The Statement provides the following additional guidance specific to internally-generated software. The activities invoiced in developing and installing internally-generated computer software can be grouped into the following stages:

1. *Preliminary Project Stage*. Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software. The cost of this stage should be expensed.
2. *Application Development Stage*. Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase. The cost of this stage should be capitalized.
3. *Post-Implementation/Operation Stage.* Activities in this stage include application training and software maintenance. The cost of this stage should be expensed.

C. Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make computer software operational, that is, in condition for use. Otherwise, data conversion should be considered an activity of the Post-Implementation/Operation Stage and expensed.

D. Costs incurred related to the development of internally-generated computer software should be capitalized when both of the following occur:

1. The activities noted in Preliminary Project Stage are completed; and
2. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear software project.

E. Outlays associated with activities in the preliminary project stage should be expensed as incurred. For commercially available software that will be modified to the point that it is considered internally-generated, (1) and (2) above generally could be considered to have occurred upon the College's commitment to purchase or license the computer software.

F. Once the criteria in (1) and (2) above have been met, outlays related to activities in the Application Development State should be capitalized. The capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.

G. Outlays associated with activities in the Post-Implementation/Operation State should be expensed as incurred.

H. The activities within the stages of development (Preliminary Project Stage, Application Development Stage, and Post-Implementation/Operation Stage) may occur in sequence different from that listed above. The guidance for outlays associated with the development of internally-generated computer software set forth above should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

I. Outlays associated with an internally-generated modification of computer software that is already in operation should be capitalized in accordance with the criteria in (1) and (2) if they qualify as Application Development Stage activities and results in any of the following:

1. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing.
2. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks.
3. An extension of the estimated useful life of the software

J. If the modification does not result in any of the outcomes, the modification should be considered maintenance, and the associated outlays should be expense as incurred.

VIII. Upgrades and Enhancements

Upgrades and enhancements are defined as modifications to an existing intangible asset that results in additional functionality, and increase efficiency, or an extension of the estimated useful life. Significant modifications may result in a new and separate intangible asset record. All other modifications are expensed in the year incurred.

IX. Value to be considered an Intangible Asset and capitalized

A. For all intangible assets the cost has to be $100,000 or more in total. For computer software this includes the price of the software and associated direct external costs (e.g. external consultants).
B. For internally developed computer software the cost has to be $200,000 or more. However, if external software is bought and then changed to fit the College's needs and the software is $100,000 or more then it should be capitalized regardless of if the total project cost will exceed $200,000.
C. Normal (useful) life of greater that one year
D. Lack of physical substance
E. Assets of non-financial nature

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