COLORADO STATE UNIVERSITY
Financial Procedure Instructions
FPI 4-12

1. **Procedure Title:** Property Management – Intangible Assets and Internally Generated Intangible Assets.

2. **Procedure Purpose and Effect:** Procedures for all departments and organizations within the university regarding intangible assets. Examples of intangible assets include easements, water rights, mineral rights, timber rights, copyrights, patents, trademarks and computer software. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally generated.

3. **Application of Procedure:** This procedure applies to all the departments or organizations that maintain and are responsible for intangible assets as well as any departments purchasing or developing intangible assets. Refer to FPI 4-7 (Fabrication of Equipment, Models and Deliverables) regarding fabrication of equipment, models, and deliverables & FPI 4-11 (Software and Internally Developed Software) regarding software and internally developed software.

4. **Exemptions:** Any exemptions to this policy require approval by Business and Financial Services.

5. **Definitions:**

   A. **Copyright:** The exclusive legal right, given to an originator or an assignee to print, publish, perform, film, or record literary; artistic or musical material, and to authorize others to do the same.

   B. **Easement:** A right to cross or otherwise use someone else's land for a specified purpose. The original owner retains the legal title to the underlying land for all other purposes.

   C. **Impairment:** In assessing estimated useful life, entities should consider the effects of obsolescence, technology, competition and other economic factors. If any of these affect the value or useful life of the asset, an asset is considered impaired and should be adjusted in the general ledger.

   D. **Intangible Assets:** Intangible assets are capital assets having no physical existence. Their value is limited by the rights and expected benefits that possession confers to the university. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks and computer software. Copyrights are also included as examples of internally generated intangible assets in GASB Statement No. 51, Paragraph 45. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally generated.

   E. **Internally Generated Intangible Assets:** Intangible assets are considered internally generated if they are created or produced by the university, or if they are acquired from a third party but require more than minimal incremental effort on the part of the university to begin to achieve their expected level of service capacity. Examples of internally generated intangible assets include; copyrights, patents, trademarks, and computer software.

   F. **Land:** Land is non-depreciable property purchased by the university. There is no capitalization threshold as to the total cost spent for land.

   G. **Land Improvements:** Capital land improvements are those items that have a life of their own exclusive of the land or building(s) and are non-infrastructure betterments to the property.

H. Land Rights: Includes water, mineral and timber rights.

I. Patent: A government authority or license conferring a right or title for a set period, especially the sole right to exclude others from making, using, or selling an invention.

J. Threshold: Monetary limits for assets to be capitalized.

K. Trademark: A symbol, word or words legally registered or established by use as representing a company or product.

6. **<u>Procedure Statement:</u>** The purpose of this procedure is to outline the accounting treatment of intangibles. Intangible assets are to be classified as capital assets. As capital assets, intangible assets are subject to existing authoritative guidance for accounting and financial report of capital assets, including the appropriate recognition, measurement, amortization, impairment, presentation and disclosure, as applicable.

A. Capitalization Thresholds:

Intangible Assets	$50,000	
Land		All acquisitions will be capitalized
Land Improvements	$50,000	

B. Intangible Assets: Assets that possess all of the following characteristics:

1. Lack of Physical Substance. An asset may be contained in or on an item with physical substance; for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance; for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether an asset lacks physical substance.

2. Nonfinancial Nature. An asset that is not in a monetary form similar to cash and investment securities, and represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services

3. Initial useful life extending beyond a single reporting period

The following intangible assets are excluded from the preceding provisions:

4. Assets that are acquired or created primarily for the purpose of directly obtaining income or profit; for example, a copyright used primarily to generate royalty income. The accounting and finance reporting for these assets generally should follow authoritative guidance for investments

5. Assets resulting from capital lease transactions reported by lessees, which are addressed National Council of Governmental Accounting (NCGA) Statement 5, Accounting and Financial Reporting Principals for Lease Agreements of State and Local Governments, as amended

6. Goodwill created through the combination of the university and another entity

C. Recognition: 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 separated or divided from the university and sold, transferred, licensed, rented, or exchanged, 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 university or from other rights and obligations

D. **Measurement:** 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.

In the case of a donated right-of-way easement, the outlay the university would have incurred to acquire the easement in an exchange transaction can be used to estimate the fair value of the easement.

E. **Amortization Issues:** The useful life on 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. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the university will see and be able to achieve renewal and that any anticipated outlays be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable.

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. 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. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining useful life of the asset.

F. **Impairment Indicator:** The provisions for accounting and financial reporting for impairment of capital assets contained in GASB Statement No. 42 are applicable to intangible assets. In addition to the indicators included in Paragraph 9 of GASB Statement No. 42, a common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.

G. **Disclosure:** No special disclosures are required for intangible assets other than that already required for capital assets. Disclosures beyond existing capital asset disclosures required under GASB Statement No. 34 and other existing disclosures that may relate to intangible assets, including those required under Accounting Principles Board (APB) Opinion No. 22, Disclosure of Accounting Policies, are not required.

H. **Internally-Generated Intangible Assets:** Outlays 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. Evidence of intention, ability, and presence of effort to complete the intangible asset may include budgetary commitments for funding the project, reference to the project in strategic planning documents, commitments with external parties to assist in the creation of the intangible asset, and efforts to secure the university's legal rights to the projects

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

I. **Classification of Internally Generated Patents as Intangible Assets:** Example. A research university that authorizes a research and development project to create a new medical stitch material from a combination of microfibers that has initially been found to be significantly more durable than existing stitches. The goal of the project is to acquire a patent for the new stitch material in order to improve the quality of services provided to patients of the university hospital. The example requires the capitalization of research and development costs related to the development of this new medical stitch material.

Departments should contact Sponsored Programs regarding internally generated Patents.

J. **Copyrights, Patents and Trademarks:** Copyrights, patents and trademarks will be classified and recorded as intangible assets only if they are acquired for the primary purpose of enhancing the quality of operational services of the university. Copyrights, patents and trademarks not meeting this definition will not be classified as intangible assets. Please reference Sponsored Programs PI Manual section XI regarding patent/copyright policies and procedures.

K. **Land:** All costs incurred in acquiring land or getting the land ready for its intended use should be considered as part of the land cost. These expenditures shall include (1) the purchase price, (2) closing costs such as title to the land, attorney's fees and recording fees, (3) costs incurred in getting the land in condition for its intended use, such as grading, filling, draining, and clearing, and (4) the assumption of any mortgages or liens.

If both a building and land are purchased, the cost of the land should be capitalized separately from the building cost.

L. **Land Improvements:** The cost of a land improvement project must be $50,000 or more to be capitalized. A land improvement project could include cost for paths, septic systems, athletic fields, bleachers, tennis courts, golf courses, retaining walls, parking lots, fountains, fencing and gates, landscaping, sprinkler systems, swimming pools, yard lighting, playground equipment, etc. Land improvements differ from infrastructure (which consists of improvements like streets and sidewalks, utility lines, etc.).

7. Reference and Cross-References:

GASB Statement No. 51: http://www.gasb.org

Property Management website: http://busfin.colostate.edu/Depts/PropMgt.aspx

Office of Sponsored Programs website: https://www.research.colostate.edu/osp/

State of Colorado Fiscal Procedures Manual: https://www.colorado.gov/pacific/osc/fiscalprocedures

8. **Forms and Tools**:

Property Management Agency Account Request form located at:
http://busfin.colostate.edu/Resources/Forms.aspx (Under Accounting Misc.)

Sponsored Programs SP-11 form located at:
https://www.research.colostate.edu/osp/wp-content/uploads/sites/21/2019/05/WorkInProgress-account_request.pdf (Under Forms heading Sponsored Programs Forms subheading)

For examples of Journal Entries located at:
http://busfin.colostate.edu/Resources/Forms.aspx

Business and Financial Services Guides and Manuals located at:
http://busfin.colostate.edu/Resources/Guides_Manuals.aspx