

## **Policy 3-043: Accountability for Intangible Assets**

### **I. Purpose and Scope**

To set forth University policy and capitalization thresholds re: accounting and financial reporting for intangible assets.

Limitation: This Policy is not intended to govern the creation of intellectual property rights based on work-product of University faculty members or other employees; or the determination of ownership or transfer of ownership of such rights, as those matters are governed by other policies (see Section V.C. and V.D., below). As to such rights, this Policy applies only to regulate accounting and financial reporting practices for such rights which pursuant to other policies have been determined to be an intangible asset owned by the University.

### **II. Definitions**

For the limited purposes of this Policy, the following definitions apply.

- A. Intangible assets - intangible assets possess three characteristics: lack of physical substance, an initial useful life in excess of one year, and nonfinancial in nature. As such, financial assets such as cash, investments, receivables and prepayments would fall outside the definition of intangibles.
- B. Software - programming code used to operate computer systems. Software may be purchased or developed internally.
- C. Easements - the right to use part of a land parcel which is owned by another person or entity.
- D. Land use rights - includes mineral, water, timber, and other types of rights which grant the University the ability to mine, harvest, obtain, or otherwise use natural resources on land not owned by the University or its component units.

- E. Trademarks - a word or mark that distinctly indicates the ownership of a product or service, and that is legally reserved for the exclusive use of that owner.
- F. Copyright - the exclusive legal right to reproduce, publish, sell, or distribute the matter and form of something (as a literary, musical, or artistic work).
- G. Patents - A patent is the legal right to use an invention.
- H. Fair Market Value - The price that an asset would sell for on the open market. For assets donated to the University, this value may need to be determined by an independent party to the transaction.

### **III. Policy**

- A. Inventory Records - Property Accounting will maintain inventory records on all intangible assets covered by this policy. Such assets must meet minimum dollar thresholds as described in section III. D. Unlike policies for noncapital equipment, departments do not have a responsibility for maintaining records of intangible assets below the thresholds set by this policy unless there are other business requirements to do so.
- B. Physical Inventory - a physical inventory of intangible assets is not required, however, departments must advise Property Accounting upon the receipt, disposition, or obsolescence of any intangible asset.
- C. Accountability for Intangible Assets

It is the responsibility of each department or entity which acquires, holds, or disposes of University and government property to ensure that such property is:

- Properly recorded when acquired
- Properly reported at time of disposal

- D. Asset Classes and Capitalization Thresholds

The University's intangible asset classes and capitalization thresholds are presented in the following table:

<b>Asset Class</b>	<b>Capitalization Threshold</b>	<b>Useful Life</b>
<b>Software – purchased</b>	<b>\$100,000</b>	<b>5 years</b>
<b>Software – internally developed</b>	<b>\$1,000,000</b>	<b>10 years</b>
<b>Easements</b>	<b>\$100,000</b>	<b>15 years</b>
<b>Land use rights</b>	<b>\$100,000</b>	<b>15 years</b>
<b>Trademarks and copyrights</b>	<b>\$5,000</b>	<b>15 years</b>
<b>Patents</b>	<b>Not applicable</b>	<b>Not applicable</b>

1. Purchased Software - Software costs eligible for capitalization include the outright purchase of software and/or costs incurred to develop and implement software. The cost for purchased software must equal or exceed \$100,000 and its useful life must exceed five years.
  - a. Purchase costs - Purchases of software packages and associated licenses are eligible for capitalization, as are annual installments of a multi-year licensing contract. Payments to renew annual license agreements are not capitalized.
  - b. Costs incurred prior to formal decisions to acquire software, costs subsequent to full deployment, training costs, data conversion costs, maintenance costs, and administrative and overhead costs are not capitalized. Expenditures that include some elements that can be capitalized and others that cannot be capitalized should be segregated accordingly, when applicable.

## 2. Internally Developed Software

- a. Internally developed software may be fully created by the University for internal use or it may be purchased from a third party but require more than minimal incremental effort to implement.
- b. Software and other intangible assets are not subject to capitalization if they are to be leased or sold, used in research and have no alternative uses, or are developed for others under contractual arrangements.
- c. Costs for a specific software program, and other direct costs to install or implement the software, are capitalized only when the combined costs exceed \$1,000,000 and the program's useful life exceeds ten years. "Other direct costs" may include the salaries and benefits of staff spending more than minimal effort on the project; the costs of consultants engaged to assist in the implementation; and other costs directly attributable to installing or developing the software. The General Accounting Department is assigned responsibility for working with areas undertaking such projects to assure that costs are properly capitalized according to generally accepted accounting principles.
- d. Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only when all of the following conditions are present:
  - i. 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.
  - ii. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.

- iii. 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.
  - e. Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.
  - f. Activities pertaining to software development and implementation including software design, coding, installation, and testing are generally capitalized - subject to the capitalization thresholds described above. Costs associated with these activities may include materials and equipment, consulting fees, travel, salaries, and interest incurred prior to deployment.
  - g. Training and data conversion costs are generally not capitalized.
  - h. Modules of an integrated system are considered separate software packages and capitalization criteria are applied individually to each module. Research software includes software specifically designed to perform or monitor experimentation; it is capitalized only when capable of functioning in a non-research capacity, and it is acquired to do so. Software designed to account for the costs of conducting research is not considered research software and is eligible for capitalization.
  - i. Costs of software development projects anticipated to be eligible for capitalization must be recorded separately to facilitate capture of expenditures to be capitalized. The General Accounting Department will work with areas engaged in such projects to ensure costs are accounted for properly.
3. Software upgrades - Upgrades and enhancements should only be capitalized if they result in significant increases in functionality. Routine upgrades included in maintenance agreements are not normally segregated and

- capitalized unless they provide an extraordinary enhancement in software functionality.
4. Land Use Rights - where the University owns the land for which rights exist, only the value of the land will be capitalized. Land use rights will be capitalized separately only in situations where a third party owns the land.
  5. Patents - Although intangible assets by definition, patents are accounted for as investments in accordance with exclusionary language found in paragraph 3a of GASB Statement No. 51.
  6. Donations of capital intangible assets will be recorded at their fair market value on date of gift with the exception of software which will be recorded at fair market value less published educational discounts.
  7. University Hospital and Clinics - the Hospital and Clinics maintain a separate capitalization policy (see Section V. C.)
  8. Intangible Assets Purchased on Grant or Contract Funds
    - a. All requests to retain or transfer ownership of intangible assets purchased as part of a grant or contract, from a federal agency to the University, must be made through the Office of Sponsored Projects.
    - b. The University must maintain records for all property purchased under grants and contracts and comply with all regulations relating to such property. This obligation to the awarding agency continues until the project is terminated or until the expiration of the useful life of the property, whichever is required by the awarding agency. If, during the period of performance under an award, the Principal Investigator leaves the University and a new Principal Investigator is appointed, the obligation of the University remains in force and becomes the responsibility of the new Principal Investigator.

- c. Status of title to property purchased under a grant or contract will be determined at the time of acquisition based on agency requirements.

#### **IV. Rules, Procedures, Guidelines, Forms and other Related Resources**

- A. Rules *[reserved]*
- B. Procedure *[reserved]*
- C. Guidelines *[reserved]*
- D. Forms *[reserved]*
- E. Other related resource materials *[reserved]*

#### **V. References**

- A. Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- B. Capitalization Policy - [University Hospitals and Clinics Administration](#)
- C. Policy [7-002](#); Patents and Inventions
- D. Policy [7-003](#); Ownership of Copyrightable and Related Works

#### **VI. Contacts**

Acting as the Policy Owner, the [Office of the Director of Research Management & Compliance](#) is responsible for answering questions regarding the application of this policy. Acting as the Policy Officer, the [Office of the Associate Vice President for Financial & Business Services](#) has the authority to allow exceptions to this policy.

#### **VII. History**

Revision 0: Approved by the Vice President for Administrative Services December 7, 2009. Presented to the Academic Senate Executive Committee December 21, 2009.

Presented for the Information and Recommendations of the Academic Senate  
January 11 2010. Approved: Board of Trustees; February 9, 2010; see [Executive  
Summary](#)

Update Owner and Officer; June 2, 2014