

Capitalization of Intangible Assets

Policy

In accordance with Governmental Accounting Standards Board Statement 51 *Accounting and Financial Reporting for Intangible Assets*, it is the policy of the University of Arkansas to capitalize intangible assets according to the following thresholds:

Asset Class	Capitalization Threshold	Useful Life
Software – Purchased	\$500,000	5 years
Software – Internally Developed	\$1,000,000	10 years
Easements	\$250,000	15 years
Land Use Rights	\$250,000	15 years
Trademarks and Copyrights	\$250,000	15 years
Patents	\$250,000	20 years

The Property Accounting Office, with the assistance of all departments, is responsible for maintaining the information on all University of Arkansas capitalized intangible assets reported on the financial statements.

Definitions

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

Intangible assets – assets that are identifiable in that they are either separable from the University or arise from contractual or other legal rights AND possess these characteristics

1. lack of physical substance,
2. have an initial useful life in excess of one year
3. are nonfinancial in nature. As such, financial assets such as cash, investments, receivables and prepayments would fall outside the definition of intangibles.

Software – programming code used to operate computer systems and includes computer software that is purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software

Easements – the right to use part of a land parcel which is owned by another person or entity

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

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

Copyright - the exclusive legal right to reproduce, publish, sell, or distribute the matter and form of something (as a literary, musical, or artistic work)

Patents – the exclusive right, granted by the government, to make use of an invention or process for a specific period of time

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 and University policies related to the accounting and financial reporting for capital assets should be applied to intangible assets, as applicable.

Capitalization of *internally generated* capital assets can only occur after ALL of the following conditions have been met:

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, and
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.

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

Computer Software

The following specific requirements apply to capitalization of computer software.

Purchased Software - Software costs eligible for capitalization include the outright purchase of software and associated licenses and/or costs incurred to develop and implement software. 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.

Internally Developed Software - Computer software should be considered internally generated if it is developed in-house by university personnel or by a third-party contractor on behalf of the university. Commercially available software that is purchased or licensed by the University and modified using more than minimal incremental effort before being put into operation also should be considered internally generated. Changing code, changing fields, adding special reporting capabilities, and testing any changes are examples of activities that would satisfy the "*modified using more than minimal incremental effort*" criterion.

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. Training and data conversion costs are generally not capitalized.

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.

Modules of an integrated system are considered separate software packages and capitalization criteria are applied individually to each module.

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.

Costs of software development projects anticipated to be eligible for capitalization must be recorded separately to facilitate capture of expenditures to be capitalized.

The Property Accounting Office is assigned responsibility for working with areas undertaking such projects to assure that costs are properly capitalized according to generally accepted accounting principles.

Retroactive Reporting

Retroactive reporting for intangible assets acquired in fiscal years ending after June 30, 1980 is required except for

1. Those considered to have indefinite useful lives
2. Those internally generated

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