Background

GASB Statement No. 51 *Intangible Assets* requires intangible assets to be classified and reported as capital assets. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, copyrights and computer software. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally-generated. The Texas A&M University (TAMU) system members will implement the requirements of the Statement for fiscal year 2010, with a restatement of the previous fiscal year, where applicable.

Statement No. 51 defines intangible assets as assets that possess all of the following characteristics:

- **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 or not an asset lacks physical substance.

- **Non-financial 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.

- **Initial useful life extending beyond a single reporting period.** The reporting period is one year for TAMU system members.

The TAMU system members will define intangible assets to include items with all of the following characteristics:

- Acquisition or development value of $1,000,000 (internally developed software) $100,000 (easements, land use rights with limited lives, purchased software, license agreements or covenants) and $100,000 for copyrights, patents and trademarks (used for operations)

- Normal (useful) life of greater than one year

- Lack of physical substance

- Assets of non-financial nature
Intangible assets include:

- Easements
- Land rights, including water, mineral and timber rights
- Copyrights (as qualified below)
- Patents (as qualified below)
- Trademarks (as qualified below)
- Computer software
- License agreements for computer software
- Covenants not to compete

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 member. Copyrights, patents and trademarks not meeting this definition will not be classified as intangible assets.

**Easements (capitalized-values will be provided by SO)**

Prior to fiscal year 2010, easements were not capitalized as intangible assets by the members. An easement, for GASB 51 purposes, is the member’s right of use over the land of another. For example, a member may have an easement that gives the member access over a private roadway to the member’s property, or the member may have an easement to place telecommunications lines within an easement tract to connect together computers in two facilities.

As of September 1, 2009, the Real Estate department at the System Office has determined there are approximately 27 easements recorded since 1980 forward. Four of the easements have a term limit of 10 years; these will require a restatement. The remaining 23 easements have indefinite lives (perpetual) which a restatement is not required. Any easements acquired after September, 1, 2009 forward will be capitalized on the member’s books if the value of the easement is greater than the $100,000 threshold.

If the easements have an indefinite life then the asset should not be amortized, but the condition would need to be measured annually. If there is damage to the property the impact to the asset would be required to be re-analyzed. If the easement has a limited term, then it will be amortized.

**Land /Timber/Water Rights (capitalized-values provided by members)**

Land/timber/water rights are rights that we have purchased vs. granted to others. Water or timber rights are not commonly owned by members. Land rights are the rights to use or remove certain land related assets. If the members have these, then they will be recorded as intangible assets. If the right has an indefinite life then the asset should not be amortized but the condition would need to be measured annually. If the right has a limited term, then it will be amortized.

The members do not need to analyze existing capital assets where these land use rights are considered part of the original cost. When property is purchased the property includes a
‘bundle of rights’. Although individual rights included in the bundle of rights are separable and intangible in nature, they collectively represent the ownership of the asset. The land or property should be recorded at the original reported value. GASB 51 is requiring land use rights that were acquired in a transaction that did not involve acquiring the underlying property to be recorded as intangible assets.

**Mineral Rights (reported as investments-values provided by SO)**

Mineral Rights are held for the purpose of generating income, thus they would be classified as investments. After discussing this issue with the GASB, these investments will be classified on a cost basis. The mineral rights do not have an open market and GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools states that if there is no market, cost should be used.

**Copyrights, Patents and Trademarks (expensed within the fiscal year-or capitalize as investments by members)**

Copyrights, patents and trademarks may be classified as intangible assets only if they are acquired specifically to improve the quality of the member’s future operating services. TAMU system members have patents, trademarks and copyrights as a by-product of research, the intent was not to create passive income nor improve the operations of the member. Thus, current year disbursements for these types of assets will predominantly be recorded as an expense.

Beginning September 1, 2009 each member will review newly acquired copyrights, patents and trademarks to determine if they are being acquired primarily for use in future operations to enhance the quality of its services or for the primary purpose of generating passive income. Exercise professional judgment when considering the amount of revenue the intangible asset is expected to generate in comparison to the service capacity it provides.

For TAMU members, classification of copyrights, patents and trademarks as investments should be relatively rare; however, the members may acquire certain copyrights, patents or trademarks through purchases or donations for the purpose of generating direct income after September 1, 2009. When acquired by purchase or gift, the value of the gift or purchase should be equal to the cost. Patents classified as investments should be recorded at a cost or at the donor value and cannot be marked to fair value at each year end because of the authoritative guidance for investments (GASB 31) does not cover investments that do not have a readily determinable fair value. This type of copyright, patent or trademark is considered an investment the standards for reporting investments are not under the GASB 51 statement they are under the GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

**Computer Software**

Computer software is now considered an intangible asset and in fiscal year 2009 and prior years was considered personal property with a $5,000 threshold. Computer software is a common type of intangible asset that is often internally-generated. Computer software is considered internally-generated if it is developed in-house by member employees or by a third-
party contractor on behalf of the member. Commercially available software that is purchased or licensed by the member and modified using more than minimal incremental effort before being put into operation should be considered internally-generated. FAMIS was purchased, but has been modified significantly, thus it would be considered internally developed software.

Beginning September 1, 2009 each member will review newly acquired or internally developed software developments to determine if they need to be capitalized. Members will need to begin capturing costs from the technical department in 2010 to determine if the modifications of existing software or upgrades to new software need to be capitalized. The majority of the costs gathered will include salaries and wages of the technical experts or subject matter experts. It is recommended to add administrative (overhead) costs to the overall developmental costs, using the off-campus facilities and administration rate of 26%.

**Internally-developed Software Calculation**

GASB 51 provides the following additional guidance specific to internally-generated software. The majority of the costs gathered will include salaries and wages of the technical experts or subject matter experts. The activities involved 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.

**Non-Internally Generated Computer Software**

When purchasing computer software licenses or similar assets, threshold determinations should be based on the aggregate cost of the purchase. Beginning in fiscal year 2010, the Comptroller’s Office has determined software should be recorded at the purchased or developed cost and it is inappropriate to divide the purchase price by the number of licensees/users before addressing the capitalization threshold requirements.
Software Transition

Restatements for software are not required by the Comptroller’s Office, but the TAMU system members need to report consistently. Most purchased software on the books that met the capitalization criteria of $5,000 is being depreciated. Below are the Comptroller’s recommendations.

- **Transition Requirements – Assets obtained during Fiscal 2010**
  Assets obtained during and after fiscal year 2010 are subject to the revised capitalization thresholds (i.e. $100,000 for purchased computer software).

- **Transition Requirements – Assets obtained before Fiscal 2010**
  Assets developed/acquired before Sept. 1, 2009, should be reported based on the previous capitalization thresholds (i.e. $5,000 for computer software). These assets will continue to be reported and amortized for the remainder of their useful life.

Software Updates and Upgrades

Outlays associated with the minor modification of computer software should generally be considered maintenance and expensed as incurred. However, the modification should be capitalized if it results in meeting the threshold requirements and any of the following:

- An increase in the functionality of the computer software — the software is able to perform tasks it was previously incapable of performing.
- An increase in the efficiency of the computer software — the level of service provided by the software is increased without the ability to perform additional tasks.
- An extension of the estimated useful life of the software.

Covenants Not to Compete

Covenants Not to Compete are not currently capitalized as intangible assets by the members. Typically, members do not have restrictions with regard to physicians or other parties when they leave a member. However, if this is written into a contract then this could create an asset that would qualify as an intangible asset. The method for determining the amount would need to be defined, if the asset value is greater than the threshold and there is a term listed, the asset would need to be capitalized and amortized over the stated time period.

Restatements to Net Assets

Retroactive reporting should be considered for all intangible assets acquired on or after Sept. 1, 1980, unless exempted as listed below. If there is a lack of sufficient records, the estimated historical cost should be reported. Retroactive reporting is not required for the following intangible assets:
- Those considered having an indefinite useful life as of the effective date of GASB 51 (easements, land use rights)
- Those items that would be considered internally generated (software)

Retroactive reporting of indefinite useful life and internally generated intangible assets is permitted to the extent adequate records exist to determine or estimate the appropriate historical cost; otherwise, they should not be reported.

**Changes to Capitalization Thresholds**

Intangible asset thresholds have been established for the new intangible assets with two different thresholds. For assets purchased prior to September 1, 2009 the threshold remains at $5,000.

<table>
<thead>
<tr>
<th>Capitalization Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible Asset</strong></td>
</tr>
<tr>
<td>Internally Generated Computer Software</td>
</tr>
<tr>
<td>Other Computer Software</td>
</tr>
<tr>
<td>Land Use Rights-Permanent</td>
</tr>
<tr>
<td>Land Use Rights-Term</td>
</tr>
<tr>
<td>Other Capital Intangibles</td>
</tr>
</tbody>
</table>

**State Property Accounting (SPA) Class Codes**

The following SPA class codes have been created or changed to accommodate intangible asset reporting requirements.

<table>
<thead>
<tr>
<th>Class Code</th>
<th>Life</th>
<th>Description</th>
<th>Amortize</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>002*</td>
<td>0</td>
<td>Easements: Right of Way-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>315</td>
<td>120</td>
<td>Easements: Right of Way-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>307*</td>
<td>60</td>
<td>Purchased Software</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>308*</td>
<td>60</td>
<td>Internally Developed Software</td>
<td>Y</td>
<td>1,000,000</td>
</tr>
<tr>
<td>310*</td>
<td>60</td>
<td>Customized Software (ISAS)</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>311*</td>
<td>72</td>
<td>Enterprise Software</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>316</td>
<td>0</td>
<td>Mineral Rights-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>317</td>
<td>120</td>
<td>Mineral Rights-Term</td>
<td>N</td>
<td>100,000</td>
</tr>
<tr>
<td>318</td>
<td>0</td>
<td>Water Rights-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>319</td>
<td>120</td>
<td>Water Rights-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>320</td>
<td>0</td>
<td>Timber Rights-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>321</td>
<td>120</td>
<td>Timber Rights-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>322</td>
<td>0</td>
<td>Development Rights-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>323</td>
<td>120</td>
<td>Development Rights-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>324</td>
<td>0</td>
<td>Other Land Use Rights-Perm</td>
<td>N</td>
<td>0</td>
</tr>
<tr>
<td>325</td>
<td>120</td>
<td>Other Land Use Rights-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>Class Code</td>
<td>Life</td>
<td>Description</td>
<td>Amortize</td>
<td>Threshold</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>---------------------------------------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td>330</td>
<td>84</td>
<td>Copyright-Intangible</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>331</td>
<td>120</td>
<td>Patents-Intangible</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>332</td>
<td>120</td>
<td>Trademark/Logo-Intangible</td>
<td>Y</td>
<td>100,000</td>
</tr>
<tr>
<td>333</td>
<td>0</td>
<td>Other Capital Intangible Asset-Perm</td>
<td>N</td>
<td>100,000</td>
</tr>
<tr>
<td>334</td>
<td>120</td>
<td>Other Capital Intangible Asset-Term</td>
<td>Y</td>
<td>100,000</td>
</tr>
</tbody>
</table>

*Class codes already existed, thresholds changed from $5,000

**Amortization**

The AFR note will include new line items for intangible assets and accumulated amortization by type of intangible asset. Thus, the calculation for amortization will work the same as depreciation. SPA was built to depreciate assets and since amortization is very similar, SPA flags will continue to define an asset as depreciable or not.

**FAMIS Impacts**

There are several FAMIS issues.

- FFX needs to be able to calculate and post an amortization entry, Debit Amortization Expense and Credit Accumulated Amortization by type of intangible asset.
- New Account Controls for the contra asset and expenses will need to be setup. (Differentiate between Intangible Assets to amortize and perpetual.)
- Need the ability to make changes to amortization totals and activity.
- AFR module will need to be updated with new rows for the intangible assets and accumulated amortization by type on the Note 2 and supporting schedules.

**Capitalized Interest**

GASB 34/35 *the New Governmental Financial Reporting Model* requires assets to include interest related to any debt financing. Thus, if an intangible asset is using debt financed funding then a method will need to be developed to record capitalized interest. This will be rare for TAMU system members, but might be possible for the future.

**Related Statutes, Policies or Requirements**

GASB 51 Intangible Assets (purchased through GASB website)

Texas Comptroller of Public Accounts Statement FPP G.007

**Resolved Issues**

There are several pending issues that have been resolved related to intangible assets.

- If copyrights, trademarks or patents are donated or purchased of generating direct income, they must be recorded as an investment. Would the method be similar to mineral rights, multiply the prior year revenue by 3 and re-evaluate annually? No, the value must be at cost per GASB 31, there is no market for this type of activity.

- SO will provide Easement costs per member, so the member can report on their AFR. Historically, a value of zero was placed on easements unless money was exchanged. We will remove the old assets for $1 value and use a new methodology in 2010. The System Real Estate Office will estimate the value by multiplying the length of the easement by $100 per rod (16.5 feet), which is the amount they charge for similar easements. We will not restate the perpetual easements, only the term easements. A report will be sent out annually to the members from the SO.

- Software projects that are considered internally developed will need to capture salaries of the IT department and an overhead rate. The most exact method of determining salaries is by employee, if not possible, an estimated hourly wage is reasonable. We need to be able to track the employees’ time, determine a rate and record in FAMIS. When we record the entries in FAMIS do we will setup a unique GL/SL (or use an existing AFR GL/SL) for these adjustments.

- Comptroller’s Office is not requiring software under the old thresholds to be restated or removed and prefers to leave the software under the old thresholds. If the asset is still in use, do we agree to leave on the books? Per the Comptroller’s Office, we must leave the software recorded as assets until disposal. The language in our Note 2 will change for our Comptroller’s Office submission.

- SO will provide income related to mineral rights per member at the end of each year for the activity that flows through the SO Real Estate office. This activity will be reported at cost.

- Comptroller’s Office sent out a notice for new GLs and Object Codes for GASB 51 on June 21, 2010.

- Procedures have been developed for the software changes that were made in SPA. We will continue to work with members individually.