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Thomas J. Sadowski
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MEMORANDUM

TO: All Agencies

FROM: OA Accounting

DATE: 4/11/2008

RE: GASB Statement No. 51 Implementation (Intangible Assets)

The Governmental Accounting Standards Board (GASB) has recently issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. This statement will require that intangible assets, including those that are internally generated, be recognized as fixed assets. This memo summarizes Statement No. 51 and SAM II changes relating to the implementation of this statement.

Summary of Statement No. 51

- An **intangible asset** is an asset that lacks physical substance and has an initial useful life greater than a year. Examples include easements, computer software, water rights, timber rights, patents, and trademarks.
- **Amortize** intangible assets over their useful lives. Do not amortize if the useful life of the asset is unlimited. The life of intangible assets is usually limited by legal, contractual, regulatory, or other factors. For example, software usually contains renewal periods. The useful life should include all renewal periods if the cost of renewal is insignificant in relation to the increased level of service capacity.
- Prior periods must be **restated** except for assets with unlimited lives or those that are internally generated. To comply with the standard, all intangible assets purchased after June 30, 1980 should be added to SAM II starting in FY09.

SAM II reporting changes and coding instructions beginning July 1, 2008

- Intangible Assets should be entered with a fixed asset type of N.
- Use the following object codes and balance sheet accounts for intangible assets:

Object Codes

- 2706 Non-mainframe Computer Software
- 2707 Mainframe Computer Software
- 2895 Mainframe Computer Software Leases, Capital
- 2896 Non-Mainframe Computer Software Leases, Capital
- 2911 Mainframe Computer Software Rentals
- 2912 Non-Mainframe Computer Software Rentals

Balance Sheet Accounts

- 1704 Intangible Assets
 - 1804 Accumulated Depreciation, Intangible Assets
- Recommended useful life for computer software will be 3-5 years based on the expected length of use. Trademarks and patents will need to be assessed for the legal life to determine their useful lives. Assets with a limited life should use a depreciation method of "SL" (straight line) on the Fixed Asset Acquisition (FA) document. Otherwise, the depreciation method on the FA would be "NA".
 - To add intangible assets to the general ledger that were purchased in prior years, please create a JV with the following accounting entries:

Dr. Asset (Balance Sheet Account 1704)
 Cr. Fund Balance (Balance Sheet Account 3265)

Enter the asset in the subsystem with a FA, using the original acquisition date so that depreciation will calculate correctly.

Internally Generated Intangible Assets

Computer software is the most common type of intangible asset that is internally generated. Computer software is considered internally generated if it is developed in-house or by a third-party contractor on the State's behalf. Software that is commercially available that is purchased or licensed but is modified using more than minimal effort is also considered internally generated. Internally generated intangible assets **must** be reported starting July 1, 2009.

- An **internally generated** intangible asset (ex. computer software) should only be capitalized if management has implicitly or explicitly authorized and committed to funding the project.

- Internally generated intangible assets should be expensed or capitalized based on the following stages:
 - Expenditures associated with activities in the **preliminary project stage** should be expensed as incurred. The following activities should be considered part of the preliminary stage: formulate and evaluate alternatives, determine a need for the suggested technology/software, and select the final alternative for the development of the software.
 - Expenditures related to the activities in the **application development stage** should be capitalized (only if project is being funded on an ongoing basis and should only include data conversion costs that are essential to make the system operational). Activities related to this stage include design, including software configuration and interfaces, coding, installation to hardware, and testing.
 - Expenditures associated with activities in the **post-implementation/operation stage** should be expensed as incurred. Activities related to this stage include application training and software maintenance.
- **Impairment standards** listed in GASB Statement No. 42 should be applied, in addition to a sixth indicator of impairment relating to internally generated intangible assets, which may become impaired if there is a stoppage of development.
- **SAM II reporting changes and coding instructions**
 - Internally generated intangible assets will not need to be added to the general ledger and subsystem until all the expenditures related to the application development stage are complete. All expenditures that are accumulated during this stage should be reported to the OA/Accounting at the end of each fiscal year for inclusion in the Comprehensive Annual Financial Report. After all expenditures are completed, the asset should be added to SAM II.

Please contact the OA Accounting mailbox at OASAMIFixedAssets@oa.mo.gov with any questions.