

GASB 51 Survey

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Part I- Background and Comptroller's Survey

1. **The Intangible Asset Project at the GASB:** The Governmental Accounting Standards Board (GASB) questioned whether intangible assets should be accounted for using the guidance for capital assets presented in GASB Statement No. 34 and other existing authoritative guidance. A survey, related to intangible assets, was therefore conducted by the GASB to better assess the extent of inconsistencies related to financial reporting for intangible assets and to identify the various types of Intangible Assets governments may possess. Analysis of the responses indicated that inconsistencies did exist in practice, particularly in the area of recognition, measurement of donated Intangible Assets, and amortization.

2. **Objectives of the New Standard -GASB No. 51:** GASB No. 51 was issued in June of 2007. A main objective of the GASB 51 is reducing inconsistencies existing in practice, thereby enhancing the comparability of the accounting and financial reporting of Intangible Assets. Adherence to the statement will also assure a more faithful representation of the service capacity of Intangible Assets and the financial position of governments.

3. **Purpose of the Comptroller's Survey:** GASB No. 51 contains requirements for Intangible Asset classification, recognition, measurement, amortization, impairment, presentation and disclosure. In order to comply with the requirements, the Comptroller needs to obtain a complete inventory of all agency Intangible Assets, including valuation data and any FMS identification if the Intangible Asset is included in the system. All information included in the survey must be determined in accordance with the provisions set forth in GASB No. 51. For

example, every Intangible Asset listed on the survey must meet the Intangible Asset definition contained in GASB No.51, paragraph 2.

4. The provisions of GASB No. 51 are discussed in the following sections of this paper.

Part II- GASB Standards and Interpretations

5. Part II consists of standards contained in GASB No. 51 and nonauthoritative interpretations of the standards to provide guidance on applying the standards.

6. **Intangible Asset Defined:** GASB 51 defines Intangible Assets as assets that possess all the following characteristics:

- a) Lack of physical substance,
- b) Nonfinancial in nature and,
- c) The initial useful life extends beyond a single reporting period (GASB No. 51, par. 2).¹

Interpretation

7. The cost of an “acquisition of future revenues” does not meet the definition of Intangible Assets as set forth in GASB No. 51, par. 2 because the transaction is monetary in form and therefore does not satisfy paragraph 6 B above.

8. **Intangible Assets not covered under GASB No. 51-** The provisions of GASB No. 51 do not apply to the following Intangible Assets:

¹ All language taken from GASB No. 51 has been referenced to that statement by paragraph number.

A) Assets that are acquired or created primarily for the purpose of directly obtaining income or profit,

B) Assets resulting from capital lease transactions,

C) Goodwill.

(GASB No. 51, par. 3).

Interpretation

9. A copyright acquired to generate royalty income is not an Intangible Asset within the scope of GASB No. 51. because it is acquired for the purpose of directly obtaining income.

10. Water rights acquired with the intent that they be used in operations as the main source for water sold by a utility fall within the scope of GASB No. 51 because any income or profit being generated by the utility through the sale of water is from overall operations. The water rights are being used in operations and are not themselves directly generating the income or profit. If the utility acquired the water rights with the intention of generating income through trading those rights the water rights would be excluded from the scope of GASB No. 51.

11. An Intangible Asset acquired or created with the intent that it be resold are not subject to the provisions of GASB No. 51.

12. Classification: Intangible Assets subject to the provisions of GASB No. 51 should be classified as capital assets² (GASB No. 51, par. 5), and reported on the government-wide *Statement of Net Assets* only if they are identifiable. An Intangible Asset is identifiable if it is:

- Separate or,
- It arises from contractual or other legal rights (GASB No. 51, par.6).

Interpretation

13. Land use rights such as water rights, timber rights, and mineral rights associated with property already owned by the City are considered a bundle of rights. The value of the individual rights in the bundle of rights of property ownership should remain aggregated and reported as a tangible capital asset upon implementation of GASB No. 51. Because these land use rights are considered part of the tangible capital asset (the associated property) and the property is reported at historical cost, the reported value of the property already includes consideration for all rights associated with the ownership of that asset. Therefore, the tangible capital asset should not be increased upon implementation of GASB No. 51 to reflect the current value of land rights that could be separated and transferred.

14. In contrast, land use rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as an Intangible Asset subject to the transaction provisions of GASB No. 51 if they meet the description of an Intangible Asset.

² The New York City Comptroller has established cost and useful life thresholds that must be met (in addition to GASB No. 51 for Intangible Assets) in order for an asset to be classified as a capital asset. Currently the thresholds for asset capitalization are a minimum asset cost of \$35,000 and an expected useful life, for City purposes, of at least five years. See Directive No. 10, *Charges to the Capital Projects Fund* and Directive No. 30, *Capital Assets*.

15. Common Intangible Assets: The following is a common list of Intangibles Assets: Easements, water rights, timber rights, patents trademarks, franchises, privileges and computer software including those that are internally generated. This list is not all inclusive.

16. Easement - An easement is the right to use another person's land for a stated purpose. It can involve a general or specific portion of the property.

17. Right-of-Way - A right-of-way is a type of easement that gives someone the right to travel across property owned by another person.

18. Valuation Cost (Measurement): GASB No. 34, *Basis Financial Statements and Management's Discussion and Analysis- for State and Local Governments*, requires that capital assets [including Intangible Assets] be reported at historical costs and that donated assets be reported at their estimated fair market value at the time of acquisition, plus ancillary charges, if any.

19. GASB No. 51 requires that existing authoritative guidance for capital assets should be applied to Intangible Assets that fall within the scope of its provisions. Therefore, GASB No. 34 must be applied when measuring Intangible Assets.

Interpretation

20. For a donated right-of-way easement, (i.e. a right-of-way easement donated with a road by the developer) the outlay the City would have incurred to acquire the easement in an exchange transaction may be used to estimate the fair value of the easement. The configuration

of the underlying land may influence the estimation of the fair value of a right-of-way easement and the value should be greater than a nominal amount. (GASB No. 51, par.74)

21. For a donated permanent right-of-way easement under which little or no use of the associated land is left with the landowner (i.e. a right-of-way easement for a road) the fair value of the associated land generally can be used as a basis to estimate fair market value of the easement (GASB No. 51, par. 75).

22. **Amortization:** GASB No.34, par. 21 requires that capital assets be depreciated (termed amortization for Intangible Assets (GASB No. 51, par.5)) over their estimated useful lives. GASB No. 51 specifies no mandated maximum amortization period for Intangible Assets. Intangible Assets with indefinite useful lives should not be amortized, (for example, permanent right-of-way easement, land and land improvements.)

Internally Generated Intangible Assets

23. GASB No.51 states that Intangible Assets are internally generated if they are created or produced by the City or an entity contracted by the City, or if they are acquired from a third party but require more than minimal incremental effort on the part of the City to begin to achieve their expected level of service capacity (GASB No. 51, par. 9).

24. **Capitalization Criteria-** As required by GASB No. 51, par. 8, outlays incurred and related to the development of internally generated intangible assets may be capitalized upon the

occurrence of the following:

- a) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the software upon completion of the project;
- b) Determination of the technical or technological feasibility for completing the project so that the software will provide its expected service capacity, and;
- c) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of multiyear project, continue development of the software.

Interpretation

25. Evidence that indicates paragraph **24.** (c) has been met may include the following:

- Budgetary commitments for funding the project.
- Reference to the project in strategic planning documents.
- Commitments with external parties to assist in the Intangible Asset's creation.
- Internal assignments or the hiring of specific personnel to work on the project,
- Efforts made to secure the City's legal rights to the results of the project.

Internally Generated Computer Software

26. Capitalization Criteria- Internally Generated Computer Software: Only activities in the Application Development Stage of internally generated computer software should be capitalized (GASB No. 51, par. 12). Activities in this stage include the design of the chosen path, including software interfaces, coding, installation of hardware, and testing, including the parallel processing phase (GASB No. 51, par.10).

27. Outlays incurred in the development of internally generated computer software should be capitalized only on the occurrence of the following:

- The activities in the preliminary stage (see paragraph .31) are completed
- Management implicitly or explicitly authorizes and commits to funding the software project.

28. Capitalization of outlays should cease no later than the point at which the computer software is substantially complete and operational (GASB No. 51, par. 12).

Interpretation

29. Websites should be considered computer software. If the website meets the definition of internally generated computer software, the outlays associated with its development should be based on the guidance in GASB No. 51 (see paragraphs **.26- .28** above.)

30. Capitalization of Data Conversion Costs: The cost of purchasing or developing computer software that provides for the conversion of old data or allows access to it by new systems may be capitalized if it is determined to be necessary to make the computer software operational. Otherwise, it should be considered an activity of the Post-Implementation/Operation Stage (See paragraph **32.**) The determination of whether data conversion activities are necessary to make computer software operational will often depend on the nature of the software and its intended use.

Interpretation

31. A human resource system for which the effective processing of payroll transactions is dependent on the transfer of information, such as pay rates, payroll withholding data, and employee direct deposit information, would be necessary to make the computer system operational. Therefore,

the conversion of data for this type of system would be eligible for capitalization. Conversely, a database system containing vendor information and performance feedback may be less reliant on converted legacy data to be considered operational because the data provided by such a system may be more informational in nature and not essential to undertaking current procurement transactions. The conversion of the data for this type of system would not be eligible for capitalization.

32. Outlays Not Capital Eligible: The following outlays are generally not capital eligible:

- Costs incurred in the Preliminary Project Stage of a project- These costs consists of activities associated with the 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 (GASB No. 51, par. 10a).
- Costs incurred in the Post-Implementation/Operation Stage of a project- These costs consists of application training and software maintenance (GASB No. 51, par. 10b).

33. Data conversion costs occurring after the internally generated computer software becomes operational is not eligible for capitalization.

Interpretation

34. The training of employees involved with developing internally generated computer software does not further the development of the software and does not otherwise contribute to putting the software in condition for use. Thus, training costs are not capital eligible.

35. Effective Date: GASB No. 51 is effective for financial statements for periods beginning after June 15, 2009.

36. Transition: Retroactive reporting is required for Intangible Assets except for those considered to have indefinite useful lives and those that are internally generated.

37. If determining the actual historical costs of Intangible Assets which have an indefinite useful life and or are internally generated is not practical due to the lack of sufficient records, agencies should report the estimated historical cost for all Intangible Assets acquired in fiscal years ending after June 30, 1980.

OFFICE OF THE COMPTROLLER
GASB NO. 51 QUESTIONNAIRE
INTANGIBLE ASSETS

ORGANIZATION _____

PREPARED BY _____

PREPARER'S PHONE NUMBER _____

DATE _____

NAME OF INTANGIBLE ASSET _____

For further assistance in completing this Questionnaire or to obtain further understanding in regards to the Survey, please contact Susan Cornwall, Unit Chief; Bureau of Accountancy, at (212)669-8216 or by email at scornwa@comptroller.nyc.gov.

Completed Questionnaire is due by: **November 2, 2009.**

THE INTANGIBLE ASSET QUESTIONNAIRE

All Questionnaires must be submitted to the Comptroller's Office, even if the intangible asset under review does not meet the provisions of GASB No. 51.

Part 1- All Intangible Assets

Classification (pars. 6-8)¹

1. Does the intangible asset lack physical substance?

Yes _____ No _____

2. Is the intangible asset nonfinancial in nature?

Yes _____ No _____

(Not in a monetary form similar to cash and investment securities, and it represents neither a claim or rights to assets in a monetary form similar to a receivable, nor a prepayment for goods or services)

3. Does the initial useful life of the intangible asset extend beyond five years as per Directive No. 10², *Charges to the Capital Projects Fund*, and Directive No. 30³, *Capital Assets*?

Yes _____ No _____

¹ All paragraph numbers represent references to the *GASB 51 Survey* white paper.

² Directive No. 10 sets forth the accounting policies for determining when an agency may use capital funds financed by long-term debt for the acquisition, construction, reconstruction, or installation of a capital asset.

³ Directive No. 30 incorporates Directive No. 10 eligibility criteria for recording capital assets and provides further guidance on capital asset valuation, recording, disposition, and inventory control.

4. Is the cost of the Intangible Asset \$35,000 or more as per Directive No. 10, *Charges to the Capital Projects Fund*, and Directive No. 30, *Capital Assets*?

Yes _____ No _____

[If any of questions 1-4 received “No” answers, please discontinue the questionnaire. The provisions of GASB No. 51 do not apply to this asset.]

Does the cost of the intangible asset represent an “acquisition of future revenues”?

Yes _____ No _____

5. Was the intangible asset acquired or created primarily for the purpose of directly obtaining income or profit?

Yes _____ No. _____

6. Did the intangible asset result from a capital lease transaction?

Yes _____ No. _____

7. Is the intangible asset the **goodwill*** which was created through a combination of a government and another entity?

Yes _____ No _____

[If any of questions 5-8 received “Yes” answers, please discontinue the questionnaire. The provisions of GASB No. 51 do not apply to this asset.]

* Terms in the Glossary are shown in **boldface type** the first time they appear in this questionnaire.

Recognition (par. 12)

8. Is the intangible asset separable?

Yes _____ No _____

(Capable of being separated from the City and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability)

9. Did the intangible asset arise from contractual or other legal rights?

Yes _____ No _____

(Regardless of whether those rights are transferable or separable from the City or from other rights and obligations)

[If questions 9 or 10 received no answers, please discontinue the questionnaire. The provisions of GASB No. 51 do not apply to this asset.]

Valuation (par. 18)

11. Is the intangible asset valued at **historical costs**?

Yes _____ No _____

12. If the intangible asset was donated, is it valued at estimated fair market value at the time of donation, plus **ancillary charges**, if any?

Yes _____ No _____

Please fill in the value of the intangible asset. \$ _____

Amortization (par. 22)

13. Is the intangible asset being amortized over its estimated useful life?

Yes _____ No _____

14. Does the intangible asset have an indefinite useful life?

Yes _____ No _____

(Only if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the intangible asset.

Examples include permanent **right-of-way easement**, land and land improvement)

15. For intangible assets that arise from contractual or other legal rights is the useful life equal to or less than the period to which the service capacity of the intangible asset is limited by contractual or legal provisions?

Yes _____ No _____

Please fill in the amortization period _____

Please fill in remaining useful life _____

Financial Management System

16. Is the Intangible asset included in the City's Financial Management System (FMS)?

Yes _____ No _____

If yes, please provide the information requested in numbers 17- 19.

17. The Capital Project ID Number. _____

18. The Detail Object Code _____

19. The Detail Agency _____

20. The Fixed Asset Number _____

Part 2- Internally Generated Intangible Assets

Definition (par. 23)

21. Was the intangible asset created or produced by the City or an entity contracted by the City?

Yes _____ No _____

22. Was the intangible asset acquired from a third party but required more than a minimal incremental effort, on the part of the City, to begin to achieve the expected level of service capacity?

Yes _____ No _____

Capitalization of outlays (par.24)

23. Were outlays, for example payroll and benefits, materials, legal and other professional services, capitalized only upon the occurrence of all of the following?

- a) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided upon the completion of the project?
- b) Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide the expected service capacity.
- c) Demonstration of the current intention, ability, and presence of effort to complete or continue the development of the intangible asset.

Yes _____ No _____

Note- see question no. 27 for internally generated computer software.

Capitalization of Internally Generated Computer Software

24. Were the outlays related to activities in the Application Development Stage of the intangible asset capitalized (par. 26)?

Yes _____ No _____

(Activities in this stage include the design of the chosen path, including software interfaces, coding installation of hardware, and testing, including the parallel processing phase.)

25. Was data conversion outlays capitalized only if it was an activity of the Application Development Stage?

Yes _____ No _____

(The data conversion was determined to be necessary to make the computer software operational (par. 30).

26. Have all outlays associated with activities in the Preliminary Project Stage been expensed (par. 32)?

Yes _____ No _____

(Activities in this stage include the conceptual formation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.)

27. Were outlays capitalized only when the following occurred (par. 26):

- a) After the activities in the Preliminary Project Stage was completed and
- b) Management implicitly or explicitly authorized or committed to funding the software project.

Yes _____ No _____

Note: For internally generated computer software, the criteria in question no. 23. should be considered to be met if this question receives a yes.

28. Are all outlays for activities in the Post-Implementation/Operation Stage expensed (par .32)?

Yes _____ No _____

(Activities in this stage include application training and software maintenance.)

29. Did the capitalization of outlays for the intangible asset cease once the computer software was substantially complete and operational (par. 33)?

Yes _____ No _____

Glossary

Ancillary Charges

Costs that are directly attributable to the intangible asset acquisition, such as freight and transportation costs, site preparation costs, and professional fees that are necessary to place an intangible asset into its intended state of operation. Ancillary costs are capitalized as part of the cost of the intangible asset.

Easement

The right to use another person's land for a stated purpose. It can involve a general or specific portion of the property.

Goodwill

Is an accounting term used to reflect the portion of the book value of an entity not directly attributable to its assets and liabilities; it normally arises only in an acquisition. It reflects the ability of the entity to make a higher profit than would be derived from selling the tangible assets.

Historical Cost

The original cost of the intangible asset. It is usually based on the dollar amount originally exchanged in an arm's length transaction.

Right-of-Way

A type of easement that gives someone the right to travel across property owned by another person.