

Jackson County Intangible Assets Policy

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, is effective beginning July 1, 2009.

Identifiable

An intangible asset should be recognized in the statement of net assets only if it is **identifiable** which means the asset is either:

- a) Separable (i.e. it can be separated/divided from the County and sold, transferred, licensed, rented or exchanged) or
- b) Arose from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Criteria

GASB Statement 51 defines intangible assets as assets that are identifiable and possess all of the following characteristics:

- Lack of physical substance,
- Nonfinancial nature (not in monetary form like cash or investment securities) and
- Initial useful life extending beyond a single reporting period.

Examples of intangible assets include easements, land use rights (i.e. water rights, timber rights and mineral rights), patents, trademarks and copyrights. In addition, intangible assets include computer software that is purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.

Intangible assets can be purchased or licensed, acquired through non-exchange transactions (i.e. donated) or internally generated.

All intangible assets subject to the provisions of GASB Statement 51 should be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets (i.e. recognition, measurement, presentation, disclosure, etc.) should be applied to intangible assets as applicable.

Exclusions

GASB Statement 51 applies to all intangible assets except: (a) assets acquired or created primarily for purposes of directly obtaining income or profit (these intangible assets should be considered investments), (b) assets from capital lease transactions reported by lessees, except licensing agreements to lease commercially available computer software, and (c) goodwill created through the combination of a government and another entity.

Threshold for Capitalization

The establishment of an intangible asset capitalization threshold policy has been recommended by the County Finance Committee. The threshold is to be consistently applied by all departments and offices of the County for financial reporting purposes. All intangible assets valued at \$25,000 must be reported for the Annual Financial Report (AFR) with all other intangible assets excluded.

Measurement/Recognition

Effective July, 2009, intangible assets exceeding the County's threshold should be recorded at actual historical cost. For business-type activities and enterprise funds capitalized interest and supplementary charges, if any, should be included in the historical cost.

Only direct costs will be capitalized (indirect costs will not be included).

Intangible assets received in a non-exchange transaction (i.e. donated) are to be recorded at their estimated fair value at the time of acquisition.

- The fair value of an asset is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale.

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in any of the following:

- a) Increase in functionality of the software (able to perform tasks that it was previously incapable of performing),
- b) Increase in efficiency of the software (increase in level of service provided without the ability to perform additional tasks) or
- c) Extension of the estimated useful life.

If the modification does not result in any of the three outcomes, the modification should be considered maintenance and expensed accordingly.

Amortization (Use Straight-Line Method)

The useful life of an intangible asset that arises that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by those contractual or legal provisions. Contract renewal periods may be considered in determining the useful life of the intangible asset if there is evidence the County will seek and be able to achieve renewal and the anticipated outlay for renewal is nominal in relation to the level of service capacity obtained.

If there are no legal, contractual, regulatory, technological or other factors that limit the useful life of an intangible asset, then the intangible asset should be considered to have an indefinite useful life and no amortization should be recorded.

A useful life that must be estimated does not mean indefinite useful life.

Impairment

If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.

A common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to changes in the priorities of management.

Retroactive Reporting

Jackson County will not retroactively report the following intangible assets:

- 1) Those considered to have indefinite useful lives as of June 30, 2009 or
- 2) Those that would be considered internally generated as of June 30, 2009.
- 3) Costs incurred prior to July 1, 2009, for **internally generated computer software projects** in the application development stage will not be capitalized. However, costs incurred July 1, 2009 and beyond for these projects will be capitalized if exceeding the County's threshold.

Intangible assets (and related amortization) requiring retroactive reporting (for the period July 1, 1980 through June 30, 2009) will be reported at actual historical cost.

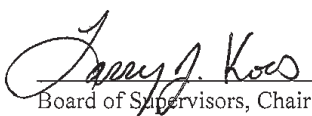
NOTE: If actual historical cost cannot be determined for these intangible assets due to lack of sufficient records, estimated historical cost will be used.

Miscellaneous

This policy must be applied to all intangible assets. If an intangible asset that meets the threshold criteria is fully amortized, the asset must be reported at the historical cost and the applicable accumulated amortization must also be reported. It is not appropriate to "net" the intangible asset and amortization to avoid reporting.

When intangible assets are sold or disposed of, it is necessary to calculate and report a gain or loss in the statement of activities. The gain/loss is calculated by subtracting the net book value (historical cost less any accumulated amortization) from the net amount realized on the sale or disposal.

The above and foregoing resolution was approved by the Jackson County Board of Supervisors on February 22, 2011.


Board of Supervisors, Chair

Attest: 
County Auditor