



Fiscal Leadership for Georgia

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Governor

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MEMORANDUM

TO: Agency Heads
Agency Fiscal Officers

FROM: Greg S. Griffin, CPA *GS*
State Accounting Officer

DATE: May 19, 2009

SUBJECT: Implementation of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets

The Governmental Accounting Standards Board (GASB) has issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. The objective of this statement is to establish uniform accounting and financial reporting requirements for intangible assets. The statement will require that certain intangible assets, including those that are internally generated, be recognized as capital assets. **Implementation of this statement is effective July 1, 2009 (FY 2010).** This memo provides an overview and summary of Statement No. 51.

Summary of Statement No. 51

An **intangible asset** is an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life greater than a year. Common types of intangible assets include right-of-way easements, land use rights, patents, trademarks, copyrights, licenses, permits and computer software. Agency websites are considered computer software. If the website meets the description of internally generated computer software, the outlays associated with its development should be capitalized as described further below. A more comprehensive list of intangible assets is also attached for your review (see Appendix A).

Amortize intangible assets over their useful lives. If, however, the useful life of an intangible asset is unlimited, do not amortize it. The life of an intangible asset 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.

Retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this statement and those that would be considered internally generated. However, you may

retroactively report an internally generated (developed) intangible asset if the amount is based on sound cost accounting principles that can be supported for your auditors.

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 (e.g., 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. Examples: formulating and evaluating alternatives, determining a need for the suggested technology/software, and selecting the final alternative for the development of the software.

Expenditures related to the activities in the **application development stage** should be **capitalized** only if the 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, software configuration and interface, coding, installation to hardware, testing and parallel processing.

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.

In preparation for implementing Statement No. 51, The State Accounting Office (SAO) is requesting that agencies and organizations complete the attached survey by June 15, 2009. Only one response is required per organization. You may send your completed survey to Consuelo Ravelo (cravelo@sao.ga.gov) or mail it to the SAO at 200 Piedmont Ave. Suite 1508 West Tower, Atlanta, GA 30334.

The SAO is aware of the need for guidance, training and/or workshops relative to this GASB pronouncement. Further instructions on asset recognition and measurement, including amortization, will be distributed in the very near future. Any questions may be directed to Consuelo at cravelo@sao.ga.gov or Alan Skelton at askelton@sao.ga.gov.

Agencies are strongly encouraged to look for intangible assets NOW, requesting help from both legal counsel and information technology staff.

APPENDIX A - INTANGIBLE ASSET CATEGORIES

Marketing-Related Intangible Assets

- (1) Trademarks
- (2) Service marks, collective marks, certification marks
- (3) Trade dress (unique color, shape, or package design)
- (4) Newspaper mastheads
- (5) Internet domain names
- (6) Noncompetition agreements

Customer-Related Intangible Assets

- (7) Customer lists
- (8) Order or production backlog
- (9) Customer contracts and related customer relationships
- (10) Non-contractual customer relationships

Artistic-Related Intangible Assets

- (11) Plays, operas, ballets
- (12) Books, magazines, newspapers, other literary works
- (13) Musical works such as compositions, song lyrics, jingles
- (14) Pictures, photographs
- (15) Video and audiovisual material, including motion pictures, music videos, television programs

Contract-Based Intangible Assets

- (16) Licensing, royalty
- (17) Advertising, construction, management, service or supply contracts
- (18) Lease agreements
- (19) Construction permits
- (20) Franchise agreements
- (21) Operating and broadcast rights
- (22) Use rights such as drilling, water, air, mineral, timber cutting, route authorities, and easements
- (23) Servicing contracts such as mortgage servicing contracts
- (24) Employment contracts

Technology-Based Intangible Assets

- (25) Patented technology
- (26) Computer software and mask works, websites
- (27) Unpatented technology
- (28) Databases, including title plants
- (29) Trade secrets, such as secret formulas, processes, recipes

SURVEY
 Accounting and Financial Reporting for Intangible Assets
 GASB Statement No. 51

Effective July 1, 2009, The State of Georgia is required to implement Governmental Accounting Standards Board Statement No. 51. To prepare for this implementation the State Accounting Office (SAO) requests that each state organization complete this survey. The purpose of the survey is to determine the existence of certain intangible assets at state organizations. We believe the eight (8) categories listed below represent the material categories of intangible assets owned by the State. Please identify all that apply to your organization and submit the completed survey no later than June 15, 2009. Any questions may be directed to Consuelo Ravelo at cravelo@sao.ga.gov or Alan Skelton at askelton@sao.ga.gov

Name _____ Title _____

Agency/Organization _____

Email Address _____ Phone _____

Do you have these intangible assets? Please circle your response for each category and provide a corresponding value for each "Yes" response. Also, please circle whether the value provided is net book value (NBV) or historical cost. If the cost is not known, provide an approximate value, marked estimate.

VALUE

| | | | | |
|--|-----|----|----------------|-------|
| 1) Internally Generated Computer Software | Yes | No | NBV/Historical | _____ |
| 2) Easements | Yes | No | NBV/Historical | _____ |
| 3) Water Rights | Yes | No | NBV/Historical | _____ |
| 4) Timber Rights | Yes | No | NBV/Historical | _____ |
| 5) Mineral Rights | Yes | No | NBV/Historical | _____ |
| 6) Patents | Yes | No | NBV/Historical | _____ |
| 7) Trademarks | Yes | No | NBV/Historical | _____ |
| 8) Copyrights | Yes | No | NBV/Historical | _____ |
| 9) Other | | | | _____ |

Comments: _____