



Governmental Accounting Standards Board
of the Financial Accounting Foundation

July 2007

GASB Issues Accounting and Financial Reporting Guidance for Intangible Assets

The Governmental Accounting Standards Board (GASB) recently issued its fifty-first statement of governmental accounting standards, *Accounting and Financial Reporting for Intangible Assets*.

Examples of intangible assets in the governmental arena include easements (which are the right to use land for a specific purpose, such as building a highway), land use rights (such as the right to use a water source or to remove minerals or other resources from land), computer software, patents, and trademarks.

The inclusion of the concept of intangible assets in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, prompted many questions about how to identify intangible assets and, if a government has one, how to report it. The issuance of this new Statement is intended to provide clear and consistent answers to those critical questions.

The Board believes the requirements in this statement will improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets, and foster enhanced comparability among state and local government financial statements.

The Nature of Intangible Assets

Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance—in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature—that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

How Should Intangible Assets Be Reported?

The standard generally requires intangible assets to be treated as capital assets, following existing authoritative guidance for capital assets, although certain intangible assets are specifically excluded from the scope of the statement. One key exclusion relates to intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit. Such intangible assets should be treated as investments.

The standard also provides guidance for issues specific to intangible assets. For instance, to report the historical cost of an intangible asset in the financial statements, the asset has to be *identifiable*. That means that the asset is *separable*—the government can sell, rent, or otherwise transfer it to another party. If it is not separable, the asset has to arise from contractual or other legal rights, such as water rights acquired from another government through a contract that cannot be transferred to another party.

Internally Generated Intangible Assets

Although many intangible assets are purchased or received from other parties, some are developed internally by a government itself, such as proprietary software systems. The outlays related to developing such assets may be incurred over time, rather than being incurred at a single point in time when a purchase occurs. Accounting for such outlays presents unique challenges—including, first and foremost, when to begin recognizing the asset.

The standard specifies three circumstances that have to be met in order for outlays related to an internally generated intangible asset to begin to be reported as a capital asset:

- The government's specific *objective* for the project and the *service capacity* in which the asset is expected to be used upon the project's completion has been determined.
- The *feasibility* of completing the project so that it can be used in that capacity has been demonstrated.
- The government's *intention* to complete or to continue the development of the asset has been demonstrated.

Importantly, the standard also provides detailed guidance for applying these circumstances to computer software, a common type of internally generated intangible asset.

Indefinite Useful Life

Those intangible assets which have no legal, contractual, regulatory, technological, or other factors limiting their useful life should be considered to have an indefinite useful life. A permanent right-of-way easement, for example, should be considered to have an indefinite useful life. An intangible asset with indefinite useful life should not be amortized unless its useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

Incorporating Feedback

Based on feedback from constituents regarding the proposed version of this standard, the Board decided to ease the transition provisions that originally required retroactive reporting. The Board also clarified the descriptions of the characteristics of intangible assets to make them readily understandable in the final standard. Finally, as noted earlier, the Board added a scope exception requiring that an intangible asset acquired primarily to obtain income or profit be treated as an investment.

When Does the Standard Take Effect?

Governments are required to implement Statement No. 51 for periods beginning after June 15, 2009. Early implementation is encouraged.

- [Order Statement 51](#)
- Read the [News Release](#)
- [Read more about the Intangible Assets project](#)