INTANGIBLE ASSETS **8615**
(Revised 06/11)

An intangible asset is an asset that possesses *all* of the following characteristics:

a) Lacks physical substance. It may be contained in or on an item with physical substance (for example software stored on a compact disc) or it may be closely associated with another item that has physical substance (e.g., the underlying land in the case of right-of-way easement).

b) Is nonfinancial in nature (not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods and services).

c) Is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:

- The asset is separable, that is the asset is capable of being separated or divided from the department and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability; or
- The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the department or from other rights and obligations.

Three types of intangible assets are excluded from the policy:

- Intangible assets acquired or created primarily for obtaining income or profit. These assets should be recorded as an investment.
- Assets resulting from capital lease transactions reported by lessees.
- Goodwill created through the combination of another entity and a state department.

Intangibles are considered capital assets and are accounted for in General Ledger Account Numbers 2410 through 2494. Examples of intangible property include patents, copyrights, trademarks, easements, land use rights (timber, mineral, water),and computer software, including websites.

Software are those instructions by which computerized equipment is directed to process information. By contrast, hardware consists of tangible equipment (e.g., computer, printer, terminal, etc.).

Intangible assets are considered internally generated if they are created or produced by a department or an entity contracted by the department, or if they are acquired from a third party but require more than minimal incremental effort on the part of the department to achieve their expected level of service capacity.

For internally generated intangible assets, see SAM section 8635 for additional specific capitalization requirements.

Intangible assets will be recorded at cost. Intangible assets will be capitalized if all of the requirements set forth in SAM section 8635, if applicable, are met. Cost includes all amounts incurred to acquire or internally develop the intangible asset and to ready the intangible asset for its intended use. Typical intangible property costs include the purchase price, development costs associated with internally generated intangible assets (see SAM section 8635 for more detail), legal fees, and other costs incurred to obtain title to the asset.

Land use rights associated with property already owned by the government are considered part of the land and should not be reported as intangible assets. In contrast, land use rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as intangible assets.