



County of Riverside
OFFICE OF THE AUDITOR-CONTROLLER
 STANDARD PRACTICE MANUAL

SECTION:		5	SUBJECT: INTANGIBLE ASSETS - SOFTWARE	
POLICY NUMBER:		508	CATEGORY: CAPITAL ASSET POLICIES	
REVISED DATE:		12/1/24	APPROVED BY: <i>Ben J. Brait</i>	

PURPOSE: To establish standard guidelines for County departments, agencies, and special districts for the accounting of intangible assets.

SCOPE: Applies to County departments, agencies, special districts, and authorities that are governed by the Riverside County Board of Supervisors.

POLICY: County departments, agencies, special districts, and authorities must account for intangible assets in compliance with GAAP and Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*.

PROCEDURE: Below is the information on the criteria for properly recording intangible assets as well as the process and documentation needed to record intangible assets in the PeopleSoft Asset Management module (AM module).

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GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007 and establishes accounting and financial reporting standards for intangible assets.

Intangible assets are property which lack physical substance and are nonfinancial in nature but give valuable rights to the owner. An intangible asset will be capitalized if it has an expected useful life of at least one year and a cost of at least \$5,000.

INTANGIBLE ASSETS EXAMPLES:

1. Computer Software
2. Easements
3. Water Rights
4. Timber Rights
5. Patents
6. Trademarks
7. Copyrights

COMPUTER SOFTWARE:

Commercially, available computer software that is purchased or licensed and placed into operation without modification requiring more than minimal incremental effort (that is, the computer software is not considered internally generated) and software that is for internal use meets the description of an intangible asset per paragraph 5 of GASB Statement No. 51.

For software to be considered for internal use, it must meet the following tests:

- The software must be acquired, internally developed, or modified solely to meet the department/county’s internal needs, and
- During the software’s development or modification, the department/county must not have a substantive plan to market the software externally to other organizations.
- Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally used (GASB Statement No. 51 par. 9).
- Websites should be considered computer software if the website meets the description of internally generated computer software mentioned above.

Because the capitalization threshold for capital assets is a unit acquisition cost of at least \$5,000 in fair value and an estimated useful life of greater than one year, annual fees and maintenance costs are expensed, whether fees are paid monthly or annually. If there is an agreement requiring annual installment payments over the life of the contract and the capital asset has a useful life greater than one year, both an intangible asset and a long-term liability representing the obligation should be recorded (e.g., computer software licenses for the right to use) (GASB Implementation Guide Z.51.21).

Intangible assets that are internally developed can only be capitalized once all of these have been met:

- Specific objective and nature of service has been determined
- Technical or technological feasibility demonstration
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the software.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred. The above criteria should be considered to be met only when both of the following occur:

- The activities noted in the preliminary project stage are completed.
- Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

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Activities involved in developing and installing internally generated computer software and the specifics of each stage can be grouped into the following steps:

1. Preliminary Project Stage: **Cost activities should be expensed.**
 - Conceptual formulation of alternatives
 - Evaluation of alternatives
 - Determination of existence of needed technology
 - Final selection of alternatives
 - Selecting vendors and consultants (*Commercially available software that is purchased or licensed and modified using more than minimal incremental effort before being put into operation should be considered internally generated*).

2. Application Development Stage: **Cost activities should be capitalized.**
 - Design of chosen path, including software configuration and software interfaces
 - Coding
 - Data conversion to make computer software operational.
 - Installation of hardware
 - Testing, including parallel processing phase

Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.

3. Post-Implementation/Operation Stage: **Cost activities should be expensed.**
 - User training
 - Application maintenance

INTERNALLY GENERATED SOFTWARE ALREADY IN OPERATION

Capitalize expenditures if modification results in any of the following:

1. An increase in functionality (computer software is able to perform tasks that it was previously incapable of performing).
2. Increase in efficiency (an increase in the level of service provided by the computer software without the ability to perform additional tasks).
3. Extension of estimated useful life

Additionally, the modification should meet the capitalization threshold of \$5,000. Upgrades and enhancements are defined as modifications to existing internal-use software that also result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized it must be probable that those expenditures will result in additional functionality.

Departments that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred. Further, general and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

USEFUL LIFE

The useful life of an intangible asset from contractual or other legal rights should not exceed the period limited by contractual or legal provision. Intangible asset will have indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset.

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DEPARTMENT ROLES:

Acquisition of Capital Equipment:

- 1) Record intangible asset in the AM module
- 2) Complete AM-5 Capital Assets Form - Acquisition, Betterment & Capital Leases Form
- 3) Refer to SPM 501 for capitalization thresholds

AUDITOR-CONTROLLER’S ROLES:

- 1) Review and verify AM-5 form and transactions recorded in system
- 2) Issue capital asset tags (if necessary)
- 3) Process transactions in PeopleSoft Financial System

RECORDS MANAGEMENT ROLES:

Department

Retain all capital asset supporting documentation for at least 7 years as it relates to capital assets information reported on “Schedule Q – Construction in Progress” and any other records that are not submitted to the Auditor-Controller.

Auditor-Controller

The Auditor-Controller is the official Department of Record for all AM Forms and its supporting documentation that are submitted. The documentation is filed in accordance with the County’s General Records Retention policy which states to keep the current year plus the 7 past years.

SECURITY ROLES:

In order to perform the functions discussed above the following roles must be requested:

Department:

Capital Asset Processor – this role will allow you to:

- Add capital asset information
- Update some capital asset information

Auditor Controller:

Asset Reviewer Auditor-Controller Only – this role will allow you to:

- Adjust, re-categorize, transfer, and dispose capital asset information
- Review and process transactions

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CAPITAL ASSETS FORM
Acquisition, Betterment & Leases
 OFFICE OF THE AUDITOR-CONTROLLER
Complete and return to the Auditor-Controller's Office, Mail Stop #1050.

SPM FORM
 AM-5
 (POLICY #504)

**** Indicates optional field**

ASSET ID: _____

DEPARTMENT		BUSINESS UNIT		
FUND	DEPT ID	PROGRAM *	CLASS *	PROJ/GRANT *
CATEGORY Select	ACCOUNT	COST	Notes	
BOOK Select	FINANCING CODE	LOCATION	Require County issued tag? <input type="checkbox"/> Yes <input type="checkbox"/> No	
ACQUISITION DATE		IN SERVICE DATE		
VENDOR CODE:		VENDOR NAME		
MANUFACTURER	SERIAL NUMBER		MODEL	
ASSET DESCRIPTION:				
DEPRECIATION METHOD Straight Line		USEFUL LIFE (in months)	SALVAGE AMOUNT	
PURCHASE AUTHORIZATION		VOUCHER		
For Betterments Only:				
BETTERMENT DESCRIPTION				
TOTAL BETTERMENT VALUE				
For Financed Purchases Only:				
LEASE ID#	LIABILITY AMOUNT (PRINT)			
ATTACH THE FOLLOWING AND CHECK THE BOX FOR EACH ATTACHMENT PROVIDED:				
<input type="checkbox"/> P.O.s <input type="checkbox"/> Property schedules <input type="checkbox"/> Amortization schedules <input type="checkbox"/> Financing agreements				

Prepared by: _____ Phone: _____
 Date: _____ Dept: _____

Auditor-Controller's Use

System Updated By:	Initials	Date

June 2024

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