

Volume No. 1—Policies and Procedures	TOPIC NO	30325—Cardinal
Section No. 30300—Asset Classification	TOPIC	Software and Other Intangible Assets
	DATE	July 2022

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Overview

Introduction

The purpose of this CAPP topic is to establish the policies by which agencies and institutions identify and report intangible assets as defined under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (**GASB No. 51**). Note: The use of the word “agency” or “agencies” throughout the remainder of this CAPP topic includes both agencies and institutions of higher education.

Agencies should ensure that internal policies and procedures capture the appropriate information in FAACS (or the agency’s internal capital asset accounting system, if applicable) for inclusion in the Annual Comprehensive Financial Report (ACFR).

Additionally, agencies should refer to the *Authoritative Literature / Guidance for Preparation of GAAP Basis Fund Financial Statement Templates* on DOA’s website at www.doa.virginia.gov for additional financial reporting guidance to be considered when ensuring the appropriate information is captured for ACFR reporting.

This CAPP topic supersedes all prior capitalization limit exceptions and exemptions previously authorized by the Department of Accounts related to software or other intangible assets. The thresholds and other criteria described herein apply only to intangible assets and not to other types of capital assets.

Refer to Section 31300 for information related to Subscription-Based Information Technology Arrangements (SBITA). Unlike traditional purchased or developed software, a SBITA conveys control of the right to use another entity’s information technology (IT) software, alone or in combination with tangible IT assets, for a period of time as specified in the contract in an exchange or exchange-like transaction. SBITAs frequently allow for remote access to software applications or cloud storage

Policy

General

Intangible assets are defined as assets having *all* of the following characteristics:

- a. **Lack of physical substance.** Intangible assets are assets that do not have a physical existence. However, an intangible asset may be contained within an asset having a physical presence, such as, computer software contained on compact discs, hard-drives or tape media. Intangible assets may also be associated with other assets having a physical existence, such as, land in the case of a right-of-way easement or mineral rights.

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Policy, Continued

General,
continued

- b. **Non-financial in nature.** Intangible assets are non-financial in nature, and are not in a monetary form similar to cash or investment securities. Further, they are neither claims nor a right to assets in monetary form similar to receivables nor prepayments for goods or services.
- c. **Useful lives or benefit periods exceeding one or more years.** Intangible assets as described in this CAPP topic are considered to have a useful life that is greater than one year. Intangible assets having a useful life of one year or less are not subject to the provisions of this CAPP topic.

Intangible assets consist of three, broadly-defined types as described below:

1. **Intangible assets generally defined as “software.”** Software intangible assets include computer “programming” or “coding language” that provide the necessary instructions for the computer hardware to perform a desired task or series of tasks. Software intangible assets include purchased “off the shelf” software, including all necessary modifications, software specifically developed by an outside contractor, and software developed internally by agency personnel, or acquired through any combination of the above. Software intangible assets are expected to be found at nearly every agency in the Commonwealth.
2. **Intangible assets associated with real property.** These include “land use rights” such as easements, right-of-ways, water rights, timber rights and mineral rights that provide specific benefits related to the real property upon which the right applies. “Land use rights” may be defined generally as rights that provide the right to control the use of the real property (right of way) or provide other benefits derived from the real property (mineral rights, etc.)

If an agency **actually owns the associated land** and the recorded land valuation already includes the “land use rights,” the intangible asset’s portion associated with the land **should not be reported separately** as it is already included in the land valuation. This type of intangible asset would likely be found at agencies that have significant land or roadway infrastructure assets.

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Procedures, Continued

Examples,
continued

Websites are considered software, and agencies should determine whether the website(s) meet the description of internally generated computer software. The outlays associated with internally generated website(s) development should be capitalized based on the Application Development Stage expenditures for the website(s) utilizing the \$100,000 statewide capitalization threshold for ACFR reporting. The agency must utilize the appropriate capitalization threshold if individual financial statements are prepared.

Agencies may develop software that has multiple modules, including financial reporting, procurement and human resources. These modules may be developed on individual timelines and will likely become operational at different points. Generally, each module has its own development cycle as it relates to the Application Development Stage and Post-Implementation Stage, and therefore, the guidance for internally generated software should be applied to each module of the system rather than the system as a whole.

Agencies may enter into a **licensing agreement for computer software** that will be considered internally generated. The payments made to the vendor are for multiple components, including use of software, development of modifications for agency operation, training users of the software routine system maintenance, and rights to future upgrades and modifications. The outlays associated with each part of the agreement should be allocated among each of the individual elements, and the guidance for internally generated software should be applied.

If an agency owns property that contains “land use rights,” such as water rights, timber rights and mineral rights, typically these are comprised as a **“bundle of rights”** that is included within the ownership rights to the tangible asset. The individual rights included in the “bundle of rights” are separable and intangible in nature; however, collectively they represent the ownership of the tangible asset. Therefore, the value of the individual rights in a “bundle of rights” included within the property ownership should remain aggregated and reported as a tangible capital asset such as land.

The above examples are illustrative only and do not represent all *possible* situations that affect intangible assets.

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Procedures, Continued

Tests for Intangible Assets

1. Does the agency have assets that meet the above intangible asset criteria?
2. Does the agency have intangible assets that have an indefinite useful life?
3. Determine if any intangible asset with an indefinite useful life has been (amortized) depreciated.
4. If the intangible asset that has an indefinite useful life has been depreciated, it must be reported. Contact DOA if the agency has any intangible assets with indefinite useful lives that have not been previously reported. DOA will provide additional guidance.
5. If the agency has other intangible assets, the agency should apply remaining tests to determine proper reporting of these intangible assets.
6. Does the agency have any intangible assets that have not been documented in FAACS, on the agency’s financial statement template, or separate communication submitted to DOA?
7. Do these assets equal or exceed the \$100,000 statewide materiality thresholds?
8. If YES, the agency should ensure that the assets are properly recorded in FAACS, on the agency’s financial statement template, or separate communication submitted to DOA. Generally, all intangible assets should be recorded in FAACS using the “infrastructure” category and new nomenclatures for intangible assets. (See CAPP Topic No. 30310.) However due to system limitations, intangible assets having indefinite useful lives (i.e., do not depreciate) cannot be entered in FAACS as “infrastructure.” Contact DOA for assistance in recording any intangible assets having indefinite useful lives or whenever there is a question about the appropriate classification and nomenclature that should be used.
9. Does the agency have assets that meet the internally generated computer software criteria?
10. If YES, the agency should ensure that the assets are properly recorded in FAACS or other financial statement directive attachment.
Agencies/institutions that do not use FAACS should record all intangible assets using the “infrastructure” category. However if system limitations exist that prevent the use of the “infrastructure” category for intangible assets having indefinite useful lives (i.e., do not depreciate) the agency/institution must identify any intangible assets that are recorded using other asset categories.

Note: Licensing arrangements obtained through a subscription based agreement government by GASBS No. 96 should be entered into LAS Plus. Refer to Section 31300

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- Capital assets purchased with federal grant funds are recorded appropriately in FAACS.
- Controls are in place to exclude the depreciation of capitalized assets purchased with Federal grant funds from the indirect cost recovery plan.
- Recordkeeping procedures exist that account for assets.
- Assets are safeguarded against damage or theft.
- A periodic inventory is performed of assets.
- Assets are recorded in a timely manner.
- Assets are adequately safeguarded and controlled.

Records Retention

General

Records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia. The retention period generally starts at the close of the fiscal period.

For pending, ongoing or unresolved litigation, audits or claims, retain documentation until completion, resolution or negotiation of settlements and retain according to standard schedules. Provide for the periodic destruction of records not subject to permanent deposit in accordance with policies and procedures established by the Records Management Section, Virginia State Library and Archives.

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DOA Contact

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Subject Cross References

References

- CAPP Topic No. 30105, *Introduction*
- CAPP Topic No. 30305, *Capitalized or Controlled Assets*
- CAPP Topic No. 30310, *Asset Categorization*
- CAPP Topic No. 30505, *Physical Inventory*
- CAPP Topic No. 31105, *Federal Requirements*
- CAPP Topics Under Section 31300, Subscription-Based Information Technology Arrangements (SBITA) Accounting*
- CAPP Topic No. 70325, *Data Entry*
