

**New Jersey Department of the Treasury
Office of Management & Budget
Financial Reporting**

Guidelines for Reporting Capital Intangible Assets (Software)

Governmental Accounting Standards Board (GASB) *Statement No. 34 Basic Financial Statements and Management's discussion and Analysis – for State and Local Governments* and *Statement No. 51 Accounting and Financial Reporting for Intangible Assets* requires New Jersey Government to report and capitalize intangible assets. GASB defines any asset with a life greater than a single reporting year a capital asset and includes software in the definition of an intangible asset. The State implemented software reporting in 2006. Under OMB Circular 11-18-OMB, each agency must enter software expenditures with a minimum cost of \$100,000 in acquisition, development, and implementation cost whether purchased or internally developed, directly into the Statewide Land and Building Asset Management System (LBAM).

Department Policy

Every reporting agency (Executive, Legislative, and Judiciary) whose financials are reported in the Comprehensive Annual Financial Report must establish a written policy designed to capture and report software expenditures in the Statewide Land and Building Asset Management System. The policy should clearly identify roles and responsibilities and be based on this document.

Establishing Cost:

Agencies should capture and report cost when management commits to the development/procurement of an application and costs are or are projected to exceed \$100,000. Agencies should report costs in to LBAM annually, not when the agency deploys the application to the users. All cost prior to agency commitment to acquire the application are expensed.

The cost to acquire or develop software include:

- Payments to vendor(s),
- Payroll
- Consultants,
- OIT services (payroll and consultants)

Payroll - Agencies should capture and report only the costs associated with programmers and their immediate supervisor. Agencies should not report administrative costs. Agencies should report a payroll cost when the agency anticipates exceeds \$66,500 in payroll cost. Once OMB adds fringe costs, the payroll cost will exceed the reporting threshold.

OIT Services – OIT annually issues a GASB Software reports. These reports, issued in late July/early August contain OIT fiscal year costs associated with software development. The agency is responsible for reviewing and entering the cost in LBAM.

OIT Projects – For statewide applications where OIT is the project lead, OIT is responsible for reporting software expenditures. Agencies should report their cost for OIT projects to OIT, who will then book the expenditures in to LBAM.

Multi-year procurement agreements:

Agencies that negotiate multi-year pricing, whether through the purchase price or in a supplemental SOW/MOA to the purchase, are responsible for entering total multi-year value of the software in to LBAM regardless if the payments are annual. **The correct accounting entry is to book the full, multi-year value of the agreement in the year acquired, and then create a payment series to offset the full value, which will report a liability to offset the increased value of the asset.** For example, an agency acquires an application for \$100,000 and has negotiated a pricing structure for five years of \$100,000 per year. The agency should enter the software record in LBAM with an acquired price of \$500,000. LBAM will automatically create a payment series based on the term and acquired price.

If the agency acquires the software for one year and intends on renewing the license annually but there is no documentation that establishes a multi-year pricing structure, then the agency should not create a software record in LBAM.

Training:

Costs associated with training are not capitalized and should not be included in the acquisition cost of any software.

Software Reporting Categories:

- A. Internally Developed - includes "purchased w/minimal effort to install"
- B. Purchased Software (includes licensing)
- C. Software Upgrades/Enhancements
- D. Maintenance Contracts
- E. Website Development/Upgrades
- F. Enterprise Resource Planning Systems (Module)
- G. Enterprise Applications/Agreements
- H. Software as a Solution(SaaS)/Cloud Based
- I. Other Licenses for databases and programming tool suites
- J. Leased Software – Operating/Capital

A. Internally Developed Applications includes "purchased w/minimal effort to install"

Minimal effort to install - GASB ruled any purchased software that requires a minimal effort to install should be reclassified at internally developed. OMB defines "minimal effort" as any installation process that requires configuration or installation on a server. Installation onto a standard PC hard drive should be classified as purchased.

For internally developed software, only costs associated with the application development phase should be capitalized. Costs associated with the Preliminary Project and the Post-Implementation/Operating stages should be expensed as incurred.

The reporting of internally developed software occurs only after the preliminary project stage is completed and if:

1. Management has authorized and committed to funding the project
2. It is considered probable that the project will be completed
3. It is implemented to the intended use
4. The cost of application is estimated to exceed the reporting threshold.

Capitalized Costs

Direct cost includes cost of materials and services consumed in developing or obtaining internal-use software, payroll, and payroll related costs devoted directly to the project. Indirect payroll costs will be calculated by OMB using the annual "Employee Benefit" Reimbursement Rates Circular Letter. Additional examples of costs include expenditures associated with the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing. Maintenance agreements are capitalized if the agency performs an upgrade and/or enhancement during the reporting period.

Non-Capitalized Costs

Agencies should not capitalize the following:

1. All research and development costs (R&D) - R&D activities include the conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of needed technology, and the final selection of alternatives.
2. Maintenance costs including ongoing support, annual maintenance agreements and training costs. Maintenance costs are capitalized if upgrades and enhancements are included installed during the reporting period.
3. General and administrative and overhead costs.

Change Orders.

OMB defines a change order as a substantial deviation from the original programming design during the development period. If a deviation occurs, the agency should open a new LBAM software record and report the expenditures associated with the changes separately.

Multi-year software development

Generally, agencies should close an LBAM software record within three years of commitment if more than 75% of the original application specifications are in production and the agency does not anticipate completion within one year. The agency should then open a new LBAM software record and report remaining development cost.

Modifications to existing software applications.

Agencies modification of existing software must be entered in to LBAM when the estimated cost equals or exceeds the \$100,000 threshold and the modifications extend the useful life of the application. This includes fringe cost so, employee salary development cost of \$66,500 will exceed the \$100,000 when OMB adds the fringe costs.

B. Purchased Software (includes licensing)

Commercial applications that satisfy the reporting threshold must be entered in to LBAM. A per unit cost should not be considered. Specialization, customization, or/and configuration expenditures associated with the application should be included in the acquired price and classified as an internally developed software.

C. Software upgrades/enhancements

Agencies are required to report upgrades and enhancements of all software that satisfy the reporting threshold and extend the useful life of the application. If the upgrade is included in the maintenance contracts, then the agency reports the annual cost of the maintenance contract and any employee cost associated with the upgrade/enhancement. If agency performs the upgrade using only internal staff, then the agency must report the upgrade when salary cost exceeds \$66,500. Once OMB adds the fringe cost, the cost will exceed the \$100,000 threshold.

D. Maintenance Contracts

Annual maintenance contracts are not reported in LBAM unless, the contract satisfies the reporting threshold of \$100,000 and the agency has upgraded and/or installed patches and fixes that extend the useful life of the program in the reporting period. For example, if an agency upgrades the application because of defects or age, then the agency must report the software.

E. Website Development/Upgrades

Agencies must report the cost of website development/upgrades when the cost exceeds the \$100,000 reporting threshold. If agency uses internal staff and salary cost exceeds \$66,500 then the agency should create a LBAM record since once OMB adds the fringe cost, the cost will exceed the \$100,000 threshold.

F. Enterprise Resource Planning Systems (Module)

Enterprise Resource Planning (**ERP**) is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources. ERP software integrates all facets of an operation — including product planning, development, manufacturing, sales and marketing — in a single database, application and user interface. Generally, these agreements are multiyear and almost always exceed the reporting threshold. Agencies should create a software record in LBAM accordingly.

G. Enterprise Applications/Agreements

Enterprise Application software is considered to be software designed to be used by larger businesses and often requires dedicated teams to customize and analyze the data and to handle upgrades and deployment. Generally, these agreements are multiyear and almost always exceed the reporting threshold. Agencies should create a software record in LBAM accordingly.

H. Software as a Solution (SaaS)/Cloud Based

Software as a Service is a software delivery method that provides access to software and its functions remotely as a Web-based service. When the cost exceeds the reporting threshold, Agencies should create a software record in LBAM accordingly.

I. Other Licenses for operating systems, database software, and programming tool suites

Agencies procure and use applications such as Oracle, Sequel, .NET, Oracle Forms, etc in support of multiple software applications and periodically upgrade these applications to latest version. A procurement of additional licenses should be reported in LBAM if it exceeds the \$100,000 threshold. Agencies should report database licensing and programming suites the initial procurement or when an upgrade occurs.

When deploying a software application that requires licensing for database or programming tool suites and the database license and programming suites can be used for other application acquisition, then the database license and programming suite software should not be reported under the deployed application. If the cost of the database licenses or programming tool suites exceed the threshold, then the agency should create a separate LBAM software record.

J. Leased Software – Operating/Capital

Currently, the Executive Agencies are not permitted to lease software. For non-Executive Agencies that engage in a software lease agreement, please contact OMB Financial Reporting at 609-292-3175 for additional instructions.



State of New Jersey

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August 17, 2018

Steve Sagnip
Financial Reporting
Office of Management and Budget
PO Box 221
33 West State St – 6th Floor
Trenton, NJ 08625-0221

Dear Mr. Sagnip,

In accordance with Generally Accepted Accounting Principles and the Governmental Accounting Standards Board, the Office of Information Technology certifies the following representations:

1. In accordance with OMB Software Reporting Guidelines, the Office of Information Technology has created a policy for the capture and accurate reporting of annual software expenditures in LBAM.
2. In accordance with Circular 18-13-OMB and the Office of Information Technology software reporting policy [insert policy number], all qualified software expenditures occurred in Fiscal Year 2018 (July 1, 2017 through June 30, 2018), have been entered into LBAM.
3. In accordance with Circular 18-13-OMB and the Office of Information Technology software reporting policy [insert policy number], the agency has reviewed Fiscal Year 2017 software entries into LBAM for accuracy and updated the records accordingly.

If you have any questions, please contact me at (609) 777-1466.

Sincerely,

Name, Chief Technology Officer

Cc: Erin Zippel

