

by Aleisa Howell and Joel Black

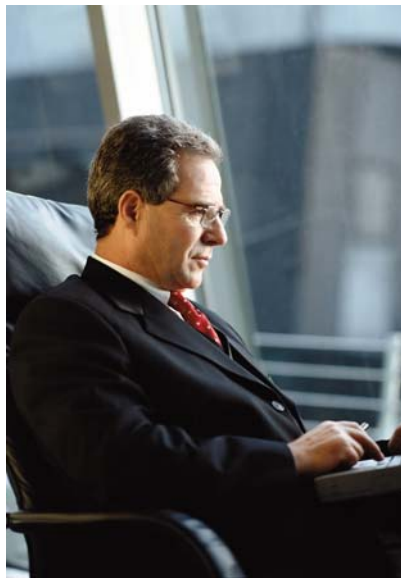
## Accounting for Software Implementations

The most significant intangible asset that we expect to see at many of our clients is the cost of implementing computer software. GASB considers a government's internal costs of implementing new computer systems or software (such as the personnel costs of employees working on the implementation) to qualify as an internally generated intangible asset. This means that not only is the external cost of purchasing software capitalizable, but the internal costs of implementing it will also be capitalizable. The Statement provides guidance on which of these costs should be capitalized - the costs during the main implementation (or development) of the software, but excludes planning costs and post-implementation costs such as training and support. These preliminary/planning and post-implementation costs should be expensed.

## Governmental Accounting Standards Board Statement No. 51 *Accounting and Financial reporting for Intangible Assets*

The Governmental Accounting Standards Board (GASB) has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The objective of this Statement is to establish accounting and financial reporting requirements for these intangible assets.

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets.



GASB 51 requires that an intangible asset be recognized in the statement of net assets (full accrual statements) only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria, and after development, should be expensed as incurred.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

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## Effective Date and Transition

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 (fiscal year ending June 30, 2010). The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34,



retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. These transition provisions can be complicated and are among the more complicated we've seen from a GASB Statement. We encourage you to call on us if you have any questions or if we can be of any help.

## Our Resources

As always, we are available as a resource to you as questions arise related to any and all GASB pronouncements. As GASB issues more pronouncements, and as the Federal government issues more opportunities and mandates, we will do our best to keep you informed.

Please contact any of our government client executives listed here, at 1-800-277-0050 if we can help.

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