State of Arizona Accounting Manual

INTRODUCTION

IT resources represent a significant investment for the State. They also present some unique challenges in terms of identification and reporting. Additionally, the category of IT resources extends beyond computers to include telephones and other communication resources. Furthermore, considerations beyond accounting require that all IT resources be recorded and reported. Finally, unlike other categories of resources, IT resources may be either tangible (hardware) or intangible (software).

POLICY & PROCEDURES

1. *General*.

1.1. IT resources include any hardware or software used to electronically or digitally manipulate, process or store data.

1.2. All IT resources with a cost exceeding two hundred fifty dollars ($250) must be treated as a stewardship resource and entered into FAM for the purpose of identification and tracking.

2. *Hardware*.

2.1. Hardware (i.e., a computer hardware system or subsystem, or a computer component, or a communication server) with a single-unit cost of five thousand dollars ($5,000) or more must be capitalized and depreciated over its useful life as prescribed in the State's Capitalization, Depreciation, Amortization and Posting Tables.

2.2. Hardware (i.e., a computer hardware system or subsystem, or a computer component, or a communication server) with a single-unit cost of less than five thousand dollars ($5,000) is to be treated as a current period expense.

2.3. Computers and similar hardware devices are aggregations of potentially interchangeable, reusable and independently operable components, so the determination of whether the costs of a given hardware device cost meets the capitalization threshold can be problematic. In general, agencies should adopt a unitary approach. If a computer, though an assemblage of separate components, is intended to be used as a unit, it should, for capitalization purposes, be treated as a single resource. This unitary approach should be extended to computers, file servers, web servers and similar devices. It should not be extended to the peripheral devices (workstations and printers) attached to local or wide area networks (LANs or WANs), since each workstation or printer, though attached to and communicating with the network, can and is intended to be operated independently.

2.4. A piece of computer hardware that extends the useful life or expands the capacity of the IT resource to which it is added, should be treated as a betterment, extending the useful life of the resource, increasing the annual depreciation of the resource or both.

Example: A $120,000 high-speed storage device is added to a two-year-old mainframe computer that cost $3,000,000 and originally had a five year useful life. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was $1,800,000 ($3,000,000 – ($3,000,000 / 60 x 24)). Monthly depreciation expense for the remainder of the computer's useful life is $40,000 (($1,800,000 + $120,000) / (60 – 24 + 12)).

3. *Software*.

3.1. Software is to be either capitalized or expensed depending upon its cost.

3.1.1. The cost of software includes its base acquisition cost plus the cost of any incremental efforts required to bring the software to its expected level of service.

3.1.2. If the cost of software meets or exceeds the monetary thresholds prescribed in the State's Capitalization, Depreciation, Amortization and Posting Tables, the software must be capitalized and amortized over its applicable useful life.

3.1.3. If the cost of software is less than the monetary thresholds prescribed in the State's Capitalization, Depreciation, Amortization and Posting Tables, the software is to be expensed.

3.2. Internally developed software.

3.2.1. If more than minimal incremental effort (i.e., more than thirty percent (30%) of the base acquisition cost of the underlying programs acquired by purchase, license or donation) is expended for software before it is ready for its expected level of service capacity, it is to be treated as internally developed software.

3.2.1.1. Activities characterized as configuration are to be included as part of the base acquisition cost.

3.2.1.2. Activities characterized as customization are to be excluded from the base acquisition cost and should be treated as part of the incremental effort.

3.2.1.3. In determining the costs of incremental efforts, third-party contract costs, direct labor and associated employee related expenses, and other direct costs should be included; allocation of indirect costs or overhead should be excluded.

3.2.2. There are several stages in the internal development of software and websites and the costs incurred during those stages should be treated differently.

3.2.2.1. Costs incurred during the preliminary project stage should be expensed.

3.2.2.2. Costs incurred during the application development stage should be considered for capitalization when incurred after all of the following conditions have been satisfied:

3.2.2.2.1. The preliminary project stage has been substantially completed.

3.2.2.2.2. The specific object of the project, including its intended service capacity, has been demonstrated.

3.2.2.2.3. The technical feasibility of the project has been demonstrated.

3.2.2.2.4. The intention and ability to complete or continue development has been demonstrated. The intention and ability to complete or continue development can be exhibited by a commitment to fund the project.

3.2.2.3. Costs incurred during the post-implementation stage, such as annual maintenance fees, should, unless such costs constitute a betterment, be expensed.

3.2.3. Costs incurred during the application development stage that are to be capitalized should be accumulated as Development in Progress until the project is implemented. Upon implementation, project costs should be transferred from Development in Progress to Intangible Assets, at which time amortization of the costs of the project should begin.

3.2.4. Agencies must track and accumulate the costs associated with the application development phase of internally generated software (or its equivalent phase for other internally generated intangible assets), when there is more than a remote possibility that the total costs of the project under consideration will meet or exceed the relevant capitalization threshold.

3.2.4.1. These costs include the cost of any purchased base or foundation software to be modified, appropriate overhead, supplies and miscellaneous direct costs, contractor costs, as well as personal service costs and related EREs, to the extent such costs should be appropriately charged to the project under consideration.

3.2.4.1.1. When accumulating time related to construction or development in progress, all HRIS expense account and activity elements should be used in order to link time entries in HRIS to program and accounting entries in AFIS. The relationship between the cost allocation elements in HRIS and those in AFIS are shown in the following crosswalk table.

HRIS	AFIS
Accounting Unit	Agency + Function
Account	Object
Sub-Account	Budget Fiscal Year (BFY)
Activity Account Category	Agency + Program ***or*** Agency + Program + Program Phase (ADOT only) Program Period ***or*** Activity (Forestry and ADOT)

3.3. Interest costs associated with long-term obligations—such as those associated with COPs or imputed for capital leases—are not, however, to be reckoned as development costs and should not be capitalized. For software internally generated or otherwise acquired, updates and minor upgrades to software that are often included with a maintenance subscription should be expensed. Major upgrades that are or can be sold separately from the annual maintenance contract should:

3.3.1. If the software to which an upgrade appertains has been capitalized and the upgrade costs more than thirty percent (30%) of the underlying cost of the originally acquired or internally generated software, the upgrade should be treated as a betterment and capitalized.

3.3.2. If the software to which the upgrade appertains has not been capitalized, but the cost of the upgrade itself equals or exceeds the relevant capitalization threshold, the upgrade should be treated as a separate asset and capitalized.

3.3.3. Otherwise be expensed.

3.4. Irrespective of other considerations, the cost of software:

3.4.1. Used to collateralize any loan, bond or COP is to be amortized over the term of the secured instrument.

3.4.2. Subject to a capital lease is to be amortized over the term of the lease.

3.5. With respect to the acquisition, amortization or use of software, agencies must comply with:

3.5.1. Other State laws, rules or policies.

3.5.2. Federal laws, regulations or guidelines.

3.5.3. The terms and conditions of any relevant federal grant.

3.5.4. The provisions of any applicable contract.

3.6. In the case of a multi-user license involving software not requiring the use of a common data base, each user's interface or instance is to be treated as a separate unit of software for determining whether it meets the capitalization threshold.

3.6.1. Software products such as word processors and spreadsheets do not use a common data base and each instance is to be treated as a separate unit.

3.6.2. Many commercial database programs may, but are not required to, use a common database and each instance is to be treated as a separate unit.

3.6.3. Centralized systems such as those used for accounting, payroll or procurement are required to use a common database. All licenses, interfaces, seats or instances are to be considered collectively as a single system for purposes of determining whether it meets the capitalization threshold.

3.6.3.1. Each license, though part of a single system, may be separately recorded and inventoried.

3.6.3.2. The addition of a license to a previously existing software system is to be treated as a betterment.

4. Agencies should take appropriate steps to prevent the loss, theft or destruction of media containing software licensed to, acquired by or developed by the State.

5. Media of various types—CDs, DVDs, tapes, memory sticks/thumb drives/flash drives, fixed and removable storage devices, etc.—may contain confidential and/or sensitive data. Depending upon their cost, some of these devices may be capital assets, stewardship resources or IT resources. Irrespective of their cost, however, they are all to be considered data storage devices (DSDs) and they can all be used to store, move or process data.

5.1. Unless they reach the cost thresholds set forth for capital assets, stewardship resources or IT resources, DSDs need not be recorded in FAM as fixed assets.

5.2. Though not capital assets, stewardship resources or IT resources, DSDs are valuable for the information they contain or may contain. Special care must at all times be taken to assure that DSDs are properly safeguarded and that the data they contain are not shared with or transferred to those without appropriate authority to access such data or copied to unsecured media.

6. ASET should be consulted concerning any addition requirements it may have related to IT resources.

7. Information useful in dealing with IT resources can be found at the ASET website at https://aset.az.gov/it-inventory.

8. It is to be noted that long-lived resources entered into FAM that do not meet their capitalization thresholds will be treated as memo assets by AFIS. Entries will be made debiting balance sheet account 885, “Memo BSA,” and crediting balance sheet account 886, “Memo Contra BSA.” These entries will offset each other and final effect of these entries will net to zero.