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Chapter 13 – Asset Management

13.1 Introduction

The State of Delaware has a significant investment in capital assets such as land, land improvements, buildings, machinery, equipment, and infrastructure. These assets have initial useful lives that extend beyond a single reporting period. The States financial management and accounting system's Asset Management (AM) module is used to improve financial reporting, accountability, and operational efficiencies in managing these capital assets,

The State maintains its capital asset management system in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board's (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB 34 requires that governments depreciate their exhaustible capital assets, and that asset reporting is part of the annual GAAP package.

In addition to reporting requirements, complete and accurate capital asset records can help managers identify under-utilized buildings or surplus assets that can be reassigned for more productive use. Accurate records can also help identify replacement and/or renovation needs of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long term capital planning.

13.2 Segregation of Responsibilities for Asset Management

The Division of Accounting (DOA) is responsible for managing capitalized assets in the State's financial management and accounting system. Individual Organizations are responsible for managing any assets that do not meet the State's capitalization thresholds (non-capitalized assets). However, DOA is available to support Organizations in this effort. Organizations should contact DOA with any asset management questions. Organizations should refer to **Section 13.4** for the State's capital asset capitalization thresholds.

13.2.1 Division of Accounting's Asset Management Responsibilities

DOA develops, implements, and maintains uniform capital asset policies, procedures, reports, manuals, directives, instructions, and systems. All policies are periodically reviewed and updated, as needed.

13.2.2 Organization Asset Management Responsibilities

All State Organizations are responsible for executing and adhering to the State's capital asset accounting and reporting policies, procedures, guidelines, and standards. While DOA is responsible for managing capital assets, Organizations retain full responsibility for managing non-capital assets. Organization officials must:

1. Establish internal written procedures and controls necessary to implement and monitor applicable asset management accounting and reporting policies, guidelines, and standards. Organizations should refer to Chapter 2 – Internal Controls for more information.

2. Assign responsibilities to specific individuals for the various asset accounting and reporting functions.

3. Ensure the timely, accurate, and complete processing and recording of all asset-related transactions in conformance with applicable State requirements.

4. Ensure proper retention of source documents and records pertaining to assets for audit purposes. Records should be maintained for the life of each asset and for seven years thereafter. Asset documentation is maintained in accordance with standard accounting guidelines and is subject to examination. Refer to section 13.10 for additional information as it relates to construction projects.

5. Establish adequate procedures and controls to safeguard and physically account for general capital assets, including an annual physical inventory of all tracked assets. A physical inventory must be completed and a certification forwarded to DOA by the end of May of the current fiscal year in which the inventory was taken. Documentation must be maintained in support of each year's physical inventory until three years after the completion of a successful audit.

13.2.3 Inventory Control of Assets

Organizations are encouraged to maintain property listings of "Public Appeal" and other non-capital asset items for the purpose of safeguarding these items against loss or misuse. "Public Appeal" items are those items that are easily misplaced or stolen (e.g., personal computers, printers, tools, office equipment, etc.) Organizations should use the property listings to verify the existence, location, and condition of each asset.

Each Organization may use its own discretion when selecting items to be maintained in its non-capital asset listing. However, when establishing inclusion criteria for non-capital asset listings, Organizations should consider factors such as grant requirements, insurance provisions, and the costs and benefits of maintaining and monitoring the selected items involved.

The federal threshold for asset tracking is usually lower than the State's capital asset threshold. Organizations are responsible for (1) maintaining schedules of assets purchased with federal funds according to grant agreements, and (2) ensuring that all assets purchased under $25,000 with federal funds are properly accounted for in the Organization's non-capital asset records. Assets valued above $25,000 that are purchased with federal funds are maintained in the State's capital asset listings.

13.3 Capital Assets

Under accounting rules required by GASB Statement No. 34, all capital assets of a governmental entity must be reported at the entity-wide perspective in the Statement of Net Position at historical cost (or estimated historical cost) less accumulated depreciation.

Capital assets include land and land improvements, buildings and building improvements, vehicles, furniture, equipment, easements, infrastructure, and computer software. Computer Software-Work-In-Process and Construction-Work-In-Progress are included with non-depreciable capital assets in the Statement of Net Position.

1. Capital assets must meet the following criteria:
    - Be tangible (e.g., buildings and equipment) or intangible (e.g., easements);
    - Have an estimated life of more than one year; and
    - Be of significant value. The significant value test relates to the capital asset capitalization thresholds of an individual asset. (**Section 13.4**)
2. Capital assets are not intentionally acquired for resale, nor are they readily convertible to cash.
3. Capital assets can be obtained through direct purchase, installments, capital lease, donation, or confiscation. Capital assets obtained through direct purchase, installments, or capital lease are recorded at cost or historical cost. Capital assets obtained through donations or confiscations are recorded at fair market value, at the time of acquisition.

13.4 Capital Assets Thresholds

The asset capitalization thresholds are for financial reporting purposes only and do not supersede individual Organization policies established to maintain internal control over capital assets using a lower threshold. These thresholds define the amount per asset classification that is required to be reported in the State's financial management and accounting systems AM Module, and subsequently reported in the Annual Comprehensive Financial Report (ACFR). The thresholds are further defined by 1) State Capital Asset Thresholds, 2) Medicare Capital Assets Thresholds, and 3) Delaware Department of Transportation (DelDOT) Capital Asset Thresholds. Organizations should contact DOA for assistance or questions pertaining to the thresholds.

13.4.1 State Capital Asset Thresholds

The State's asset reporting/capitalization thresholds are established in compliance with national standards to accurately reflect the assets' respective utilities, any associated administrative and maintenance costs and to determine the relative materiality of the assets or asset groups to the State's consolidated and general purpose financial statements.

State Capital Asset Reporting Thresholds	
Asset Classification	**State Requirement**
Buildings	All Buildings
Building Improvements	≥ $100,000
Easements	All Easements
Infrastructure	≥ $1,000,000
Land	All Land
Land Improvements	≥ $100,000
Leasehold improvements	≥ $100,000
Leased Assets	See specific Asset Class
Software	≥ $1,000,000
Vehicles, Furniture and Equipment	≥ $25,000
Works of Art and Historical Treasures	Not capitalized

13.4.2 Medicare Capital Asset Thresholds

All Medicare assets with a value of $5,000 or more are required to be tracked in the Medicare (MCARE) Asset Listing.

13.4.3 DelDOT Capital Asset Thresholds

DelDOT Capital Asset Reporting Thresholds	
Asset Classification	**State Requirement**
Buildings	All Buildings
Building Improvements	≥ $100,000
Infrastructure	> $1,000,000
Land	All Land
Land Improvements	≥ $100,000
Software	> $1,000,000
Vehicles, Furniture and Equipment	≥ $25,000

13.5 Capital Asset Classifications

Capital assets are segregated into the following classifications:

Classification *
Buildings
Building Improvements
Easements
Infrastructure
Land
Land Improvements
Leasehold Improvements
Leased Assets
Software
Vehicles/Furniture/Equipment
Works of Art and Historical Treasures

***Asset Category**

13.5.1 Buildings

A *building* is any structure erected to stand permanently and designed for human use or occupancy or as shelter for animals or goods. Each building is comprised of components such as framing, interior finish, roof structure and cover, and building service systems.

Building service systems are those systems and their components that provide plumbing, sewerage, heating, ventilation, air conditioning, lighting, power, elevators or escalators, and fire protection. Building service systems also include special or unique services to specific structures, such as public address or emergency power systems.

The cost of a building includes its construction or purchase costs and the costs of all fixtures permanently attached and made part of the building. Purchase costs include original purchase price, expenses for altering a purchased building to make it ready to use for the purpose for which it was acquired, and any professional fees (legal, architect, inspections, title searches, etc.)

Construction costs are those costs incurred to complete construction projects or additions (extension, expansion, or enlargement to an existing capital asset such as a second floor or new wing on a building). The construction costs should be capitalized if the costs are valued at $100,000 or more.

Building expenditures have no capitalization threshold. All building expenditures are capitalized, if the expenditures meet the criteria.

Land costs, security systems, furniture, or other equipment to furnish the building **should not** be included in the building costs. These items should be recorded separately by the appropriate asset class. When purchasing land and building together, the value of the land needs to be determined and categorized separately in the State's financial management and accounting systems AM module.

Examples of expenditures to be capitalized as buildings:

Purchased Buildings
Original purchase price
Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
Settlement Costs, including professional fees (sale commission, legal, architect, inspection, appraisal, title search, title insurance, etc.)
Payment of unpaid or accrued taxes on the building at the date of purchase
Other costs required to place or render the asset into operation

Constructed Buildings
Completed project costs
Cost of excavation or grading or filling of land for a specific building
Expenses incurred for the preparation of plans, specifications, blueprints, etc.
Cost of building permits
Professional fees (architect, engineer, attorney, appraiser, financial advisor, management fees for design and supervision, etc.)
Costs of fixtures permanently attached to a building or structure
Insurance premiums and related costs incurred during construction
Any other costs necessary to place the building or structure into its intended location and condition for use

Note: Architect fees are expensed if a decision is made to not proceed with the construction of the building.

13.5.2 Building Improvements

A building improvement's primary purpose is to increase output, lower operating costs, improve working conditions, enhance the original quality, extend the useful life, or otherwise add to the worth of future benefits or utility expected to be received from the asset. The following expenditures are examples of improvements to buildings that are capitalized, if the cost of the improvement is valued at $100,000 or more:

Building Improvements – Examples of Expenditures to be Capitalized
Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
Additions to buildings (expansions, extensions, or enlargements)
Conversion of attics, basements, etc. to usable office, clinic, research, or classroom space.
Structures attached to the building such as covered patios, garages, carports, enclosed stairwells, etc.
Structural changes such as reinforcement of floors or walls and installation or replacement of beams, rafters, joists, steel grids, or other framing.
Other costs associated with the above improvements; e.g., architectural fees, construction management fees, etc.

The following expenditures are examples that **are not** capitalized as improvements to buildings and should be recorded as maintenance expense**s**:

Examples of Maintenance Expenses –Expenditures NOT Capitalized
Adding, removing, and/or moving of walls relating to renovation projects, which are not considered major rehabilitation projects and do not increase the value of the building.
Improvement projects of minimal or no added life expectancy and/or value to the building.
Plumbing or electrical repairs.
Asbestos abatement.
Cleaning, pest extermination, or other periodic maintenance.
Interior decorations, such as draperies, blinds, curtain rods, wallpaper, etc.
Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
Maintenance-type exterior renovation, such as repainting, replacement of deteriorated siding, roof, or masonry sections.
Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities.
Moving of furniture from one building to another during construction.
Any other maintenance-related expenditure, which does not increase the value of the building.

NOTE: Expenditures for alterations are not capitalized, unless they represent extraordinary alterations or the expenditures are so major in value the entire asset is substantially rebuilt. An alteration refers to the modification or modernization of buildings and structures. Examples of alterations include installation of new entry and exit openings; closing old ones; erecting new walls, windows, and partitions; and removing old ones. Organizations should contact DOA for assistance with any questions in making these determinations.

13.5.3 Infrastructure

Infrastructure is defined as long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include highways, roads, bridges, dams, and lighting systems. GASB 34 separates infrastructure assets into *networks* and *subsystems*.

A *network* of assets is a group of assets that provide a particular type of service for a government. An example of a network of infrastructure assets would be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

A *subsystem* of a network of assets is composed of all assets that make up a similar portion of segment of a network of assets. Interstate highways, state highways, and rural roads would each be considered a subsystem of the network of all the roads of a government.

Most buildings should not be considered infrastructure assets for purposes of GASB 34, with the exception of buildings that are an ancillary part of a network or infrastructure assets. Examples of buildings that may be an ancillary part of a network or subsystem include road maintenance structures, such as shops or garages associated with a highway system.

Certain assets, which may appear to meet the definition of infrastructure assets, may be more technically considered land or building improvements, which are directly related to a capitalized asset (land or building). These assets include roadways, walks, parking lots, lighting systems, fencing, docks, piers, boat ramps, telecommunications cabling, etc. These assets are ancillary capital assets (ancillary to another asset i.e., land, building or a group of buildings) that increase the level of service of an existing capital asset.

The State has elected to use the modified approach for reporting infrastructure assets. The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system.
- The assets are being preserved and documented at or above condition levels established by the government.

Under the modified approach, infrastructure assets are required to be capitalized. However, they do not need to be depreciated if they meet the two requirements noted above. Expenditures made to maintain these assets are to be expensed in the period incurred, while expenditures for additions and/or improvements are capitalized.

The majority of the State's infrastructure assets is maintained by DelDOT and includes roadways, bridges, and traffic management devices. At the current time, only DelDOT reports infrastructure assets. DelDOT is responsible for the written policies and procedures to manage infrastructure assets in conformity with GASB 34. DelDOT's policies and procedures are to include:

- Identification of eligible infrastructure assets that are comprised of either a network or subsystem. The modified approach shall be applied to all assets within that network or subsystem.

- Establishment and documentation of minimum acceptable condition levels for each element of the network or subsystem.

- Reference documents that detail replicable condition assessments and the frequency in which assessments are completed.

- Reference documents that detail annual estimates to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the State.

In addition to acquisition costs, the following ancillary charges would be included in the cost of infrastructure:

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
- Survey fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

13.5.4 Land

Land is considered real property. Land has no minimum dollar threshold. Therefore, all land must be recorded as a capital asset in the State's financial management and accounting systems AM module. Rights-of-way are not capitalized; however, land purchased for highway construction is capitalized.

Land that is purchased with the intent to resell is accounted for as inventory. Each "parcel" of land owned by the State is recorded as a separate asset (exclusive of buildings). If property is purchased that includes a building(s), the value of the land must be separated from the total cost and recorded as a separate asset.

In addition to acquisition costs, the following charges would be included in the cost of land:

Land – Examples of Expenditures to Capitalize
Legal and title fees
Professional fees of engineers, attorneys, appraisers, financial advisors, etc.
Surveying fees
Appraisal and negotiation fees
Damage payments
Site preparation costs (clearing, filling, and leveling)
Costs related to the demolition of unwanted structures at the time of the acquisition with the intention of using the cleared land
Assumption of any liens, mortgages, or encumbrances on the property

13.5.5 Land Improvements

Land improvements are physical changes or attachments to the land that have limited lives and; therefore, are recorded separately from land and are depreciated. Land improvements meeting the $100,000 per unit historical cost threshold will be capitalized and entered into the State's financial management and accounting systems AM module. Land improvements include, but are not limited to:

Land Improvements – Examples of Expenditures to Capitalize
Paving (parking lots, driveways, parking barriers, roadways)
Curbing
Sidewalks
Fences
Retaining walls
Landscaping of non-temporary nature, including signage (A special item is the ongoing cost of landscaping. This is a period cost, not a fixed asset, and so should be charged to expense as incurred.)
Boat ramps, piers and docks
Utility distribution systems
Swimming pools
Septic systems
Paths and trails
Golf course
Playgrounds, recreation areas and athletic fields (including bleachers)
Water impoundment structures or attachments (dam, liner, other water control structures)
Outside sprinkler systems

Fencing and gates
Lighting systems
Fountains
Plazas and pavilions
Tennis courts

13.5.6 Leasehold Improvements

Leasehold improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter. The capitalization threshold for leasehold improvements is $100,000. Improvements made in lieu of rent should be expensed in the period incurred.

13.5.7 Leased Assets

The State leases some assets through lease purchase agreements. The State has elected not to capitalize these leases due to the relative immateriality of these assets to the financial statements of the State taken as a whole. In many cases, the State does not take possession of the asset at the end of the lease term. If a capital asset is transferred to a State Organization at the conclusion of a lease, the asset is added to the State's financial management and accounting systems AM module based on the costs incurred to purchase the asset, including interest costs.

Assets purchased via lease purchase agreements are entered into State's financial management and accounting system after final payment has been made on the lease. *A lease purchase asset's in-service date* is the date of final payment, when the asset becomes State property. Lease purchase assets valued at or above $25,000 are tracked in the State's capital asset listing.

13.5.8 Intangible Assets

Intangible assets are governed by GASB 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 (including licenses.) Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance – in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature – that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

13.5.8.1 Easements

An *easement* is a non-possessory interest in land owned by someone else, which entitles the owner of the interest to a limited use or enjoyment of the land and to protection from interference with its use. The landowner retains fee title to the property, while the easement holder maintains the rights to control development of the land. The State's purchase of such easements is reported in the State's financial management and accounting system's AM module.

For example, a conservation easement is a legal agreement between a landowner and a conservation organization. The easement places permanent restrictions on future uses of the property to protect its agricultural character. Conservation easements prohibit residential or commercial development and uses or practices, which would be destructive to the agricultural value and productivity of the land.

In addition to acquisition costs, the following ancillary charges would be included in the cost of easements:

Easements - Examples of Expenditures to Capitalize
Legal and title fees
Professional fees of attorneys, appraisers, financial advisors, etc.
Surveying fees
Appraisal and negotiation fees

13.5.8.2 Software

The State recognizes Organizations purchase computer software for many of the same reasons they purchase other capital assets, including reducing costs, improving efficiencies, strengthening internal controls, and improving customer service. All computer software with a useful life of one year or more and purchased or put in service with a cost of $1,000,000 or more must be tracked as a capital asset for reporting purposes. The software is amortized over an estimated useful life of five years.

Note: Software maintenance agreements are to be expensed in the period incurred.

Computer software that is acquired through a cloud-based subscription may be tracked as a capital asset for reporting purposes if the term of the agreement is greater than 12 months. Any new or amended agreements for cloud-based software for a term greater than 12 months must be submitted to DOA by all Organizations upon receipt of the fully executed document to ensure inclusion in the ACFR. These contracts must be submitted to: DOA_Audit_Support@delaware.gov.

13.5.9 Vehicles/Furniture/Equipment

Costs of vehicles/furniture/equipment include the total purchase price after discounts, plus any trade-in allowances, transportation charges, installation costs, and any other costs required to prepare the asset for its intended use.

Vehicles/Furniture/Equipment - Examples of Expenditures to be Capitalized
Original contract or invoice price
Freight charges
Import duties
Handling and storage charges
In-transit insurance charges
Sales, use, and other taxes imposed on the acquisition
Installation charges
Charges for testing and preparation for use
Costs of reconditioning used items when purchased
Parts and labor associated with the construction of equipment
Any other normal or necessary costs required to place the asset in its intended location and condition for use.

Note: Warranties and maintenance agreements are considered annual upkeep costs and are to be expensed in the period incurred. However, if incidental items such as extended warranties or maintenance agreements are included in the total cost of the capital asset on the purchase order or invoice, then the incidental charges are considered part of the asset. If the incidental items are listed as a separate line item on the purchase order or on the invoice, then the incidental charges are expensed in the period incurred.

An asset with associated component parts that are necessary to the functioning of the asset is considered to be one asset when the life and utility of the component parts are mainly dependent on that of the asset.

For example, a mainframe central processing unit (CPU), with a cost of $24,000 and its associated cables with a cost of $1,500, would qualify for financial reporting since their combined cost exceeds the $25,000 financial reporting threshold. Assets with associated component units that qualify for financial reporting are reported as one asset, and the component parts are included in the description of the asset.

Also included are assets with associated attachments (e.g., a collator installed in a copy machine.) Attachments purchased at the same time as the asset are considered part of the asset because their life and utility coincide with that of the asset. Attachments obtained subsequent to the purchase of the asset are not considered to be associated with that asset. Therefore, such attachments are accounted for as separate assets, if they meet the capitalization criteria.

For example, if a copier with a cost of $26,000 and a collator with a cost of $12,000 are purchased *at the same time*, they are considered associated assets. Since their combined cost exceeds the $25,000 threshold, the copier is reported at a cost of $38,000 and the collator is included in the description of the asset. The same assets purchased at different times are not considered associated assets. The copier is reported at a cost of $26,000 and tracked as a capital asset, but the collator is not reported or tracked as a capital asset, since its cost does not meet the $25,000 threshold. (The collator may, however, need to be tracked in the non-capital asset registry (NOCAP) based upon other Organization or federal requirements.)

Vehicles, furniture, and equipment that cost $25,000 or more that have a useful life of one year or more are recorded in State's financial management and accounting system. Vehicles, furniture, and equipment include, but are not be limited to:

Examples of Vehicles/Furniture/Equipment
Cars
Trucks
Construction machinery
Computers (i.e., processing units, tape drives, disk drives)
Printing presses and reproduction equipment
Tractors
Buses
Telecommunications equipment
Furniture

Equipment vs. Vehicle: A vehicle is a fixed asset that can move itself under its own power. Cars and trucks should be classified as vehicles. Travel trailers, horse trailers, etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment.

13.5.10 Works of Art and Historical Treasures

GASB 34 does not define what or how many works of art, historical treasures, and similar assets constitute a "collection." Therefore, the definition is left to professional judgment. The State of Delaware defines collections of works of art, historical treasures, and similar assets as one or more inexhaustible items, which are held for public education, educational purposes, or research for enhancement of public service, rather than for financial gain.

Each Organization should be diligent in identifying collections that need to be reported. The listing below includes, but is not limited to, examples of possible historical treasures, works of art, and similar assets.

- Paintings, photography, maps, manuscripts, libraries, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia located at various State museums and office buildings.

- Monuments and statues on display at various sites around the State.

For clarification purposes, the following definitions are used regarding collections of works of art and historical treasures:

- *Exhaustible collections or items* – are items whose useful lives are diminished by display or educational or research applications.

- *Inexhaustible collections or items* – are items where the economic benefit or service potential is used up so slowly the estimated useful life is extraordinarily long. Because of its cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

GASB 34 states that capitalized exhaustible collections should be depreciated over their estimated useful lives. Inexhaustible collections do not require depreciation.

GASB 34 states that governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at the date of donation (estimated if necessary), if they are held as a collection. However, GASB 34 provides an option for governments to not capitalize works of art and historical collections (and later additions to those collections) if **all** of the following conditions are met. The collections are:

- Held for public exhibition, education, or researching furtherance of public service, rather than financial gain;

- Protected, cared for, and preserved; and

- Subject to an Organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

This exemption does not apply to collections already capitalized as of June 30, 1999, even if they meet the above conditions for exemption from capitalization. These collections will continue to be capitalized, along with all future additions to the collection.

The State of Delaware has elected not to capitalize collections placed in service starting in fiscal year 2010 to expedite the completion of the State's ACFR each year. By not capitalizing collections, the State also has reduced the amount of time and effort required by State Organizations to maintain this information in the State's financial management and accounting systems AM module.

In order for the State to be exempt from the capitalization requirements in GASB 34 for works of art, historical treasures, and similar assets, all Organizations holding such assets must have in place a policy concerning those assets. These policies should include language stating that all collection items donated to the Organization or purchased with State funds are:

- Held for public exhibition, education, or researching furtherance of public service, rather than financial gain;
- Protected, cared for, and preserved; and
- Subject to an Organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

13.6 Property Inventory

The State requires Organizations to conduct a physical property inventory each year. Inventory results are reconciled to the State's property records, and any required adjustments to property records, as a result of the inventory, must be completed by the last working day of May.

State Organizations are required to maintain documentation to illustrate the physical inventory was performed. Organizations are required to submit a certification verifying that such inventory has been conducted to the Director of Accounting no later than the last working day of May of each year.

For property liability purposes, all building acquisitions, new occupancies, improvements, renovations, additions, and demolitions to State-owned property must be reported by Organizations to OMB's Insurance Coverage Office on a Property Inspection Form. The form can be found at http://inscov.delaware.gov/forms. The Organization responsible for the asset is responsible for completing and submitting the form to OMB when the asset is placed in or out of service. Coverage of buildings with damage claims may be denied if the Property Inspection

Form, documenting the value and details of the property, has not been submitted to the Insurance Coverage Office.

13.7 Depreciation

All capitalized assets are depreciated using the straight-line method of depreciation, except those assets that are considered inexhaustible such as land, works of art, historical treasures, and similar assets. Depreciation is calculated monthly in the State's financial management and accounting systems AM module, based on the date the asset was available for use or placed in service.

Historically, the State uses its capital assets well beyond their useful lives, and little value, if any, remains when an asset is retired. No residual or salvage value is used in the depreciation calculations.

Depreciation is expensed on a monthly basis. When a capital asset is deemed lost, obsolete, sold, stolen, or otherwise disposed, all accumulated depreciation is expensed and the capital asset is retired from the active capital asset listing.

The estimated useful lives of capitalized assets are as follows:

State Capital Asset Schedule of Useful Life

Asset Classification	Useful Life
Buildings and Building Improvements	40 years
Vehicles	7 years
Furniture/Equipment	10 years
Land Improvements	20 years
Software	5 years
Leasehold Improvements	*

* For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

Medicare Capital Asset Schedule of Useful Life **

Asset Classification	Useful Life
Buildings	10 to 40 years
Building Improvements	5 to 40 years
Vehicles	4 to 20 years
Furniture/Equipment	4 to 20 years
Land Improvements	18 to 40 years

** State hospitals within the Department of Health and Social Services and the Veteran's Home within the Department of State are exempt from usage of the State Capital Asset Schedule of Useful Life. A longer or shorter life assignment may be used by the State hospitals for the purpose of Medicare reimbursement, with the approval of the Medicare fiscal intermediary. Such schedule of useful life is required to be documented and maintained as part of each institution's written property inventory policies.

DelDOT Capital Asset Schedule of Useful Life

Asset Classification	Useful Life
Buildings	40 years
Building Improvements	15 years
Equipment	5 to 40 years
Land Improvements	20 years
Software	5 years
Infrastructure	***

*** Refer to section 13.5.3 for depreciation information related to Infrastructure.

13.8 Asset Transactions

13.8.1 Acquiring a Capital Asset

Purchase orders are required for all assets costing $10,000 or more, including assets purchased with the PCard. It is recommended that Organizations use the State's financial management and accounting system's Receiver functionality to record asset information. Organizations should contact DOA for assistance or questions.

1. Capital assets must be recorded at the acquisition cost, which includes the cost on the vendor's invoice (plus the value of any trade-in), sales tax, initial installation costs (excluding in-house labor), modifications, attachments, accessories, and any apparatus necessary to make the asset usable and render it into service. Acquisition costs also include freight and transportation charges, site preparation costs, and professional fees.

    a. Trade-in allowances do not reduce an asset's cost base. When acquiring an asset with a trade in of an older asset, the capitalized cost is the amount paid to the vendor and the net book value of the asset traded in.

b. **The desired method of asset valuation is actual (historical) cost.** Documentation may be in the form of original invoices, purchase orders, check copies, contracts, and/or minutes, etc. If an Organization is unable to establish actual cost after a reasonable amount of effort, estimated cost data may be used. Methods available for ascertaining estimated costs include:

Methods to Ascertain Estimated Costs
Engineering studies
Catalog prices
Vendor price lists
Internal appraisal via the Purchasing Department
External appraisal
Matching to previously purchased items

c. Capital assets purchased in quantities of two or more are capitalized only after determining the unit cost of each individual asset. Only individual capital assets (quantities of one) are recorded. **Group purchases of assets are not recorded in the aggregate.**

2. Donated or confiscated capital assets are reported at the estimated fair value of the asset at the time of acquisition, plus any ancillary charges. *Donations* are defined as voluntary contributions of resources to a governmental entity by a non-governmental entity. The donated items must have a valuation by a professional to support the fair market value. The cost of the valuation is included in the value of the asset, when the asset is entered into the system.

3. Organizations must include a Vehicle Identification Number, tag number, model number and the manufacturer's name in the asset record in State's financial management and accounting system for all vehicle purchases.

13.8.2 Retiring and Disposing of Capital Assets

All equipment, supplies, and materiel, including vehicles, purchased in whole or in part with State appropriated funds are considered assets of the State and not of the State Organization which holds or uses the materiel. When assets held or used by a State Organization are determined to be in excess of the Organization's needs, the Organization is responsible for notifying the Office of management and Budget (OMB)/Government Support Services (GSS) for appropriate reallocation or disposal.

29 Del. C. § 7002(a)

State Organizations receiving property from another State Organization must record the carrying value of the property, with any accumulated depreciation recognized from the original date the property was placed into State service. Any fees or other monetary consideration between State Organizations for the transfer of State-owned property is not capitalized.

When disposing of assets, Organizations must submit a Delaware Surplus Services Excess Property Declaration form to OMB/GSS. After all forms are reviewed and approved by GSS, Organizations may submit the capital asset for disposal by using the disposal worksheet within the State’s financial management and accounting systems AM module. The disposal worksheet should not be submitted until the Organization receives notification from OMB/GSS that the item may be disposed of as per State policy (item has been sold at auction or sold to scrap, and all proceeds/removal costs have been deposited.)

The disposal worksheet will not be approved and processed by DOA until all information is received from OMB/GSS. After all forms are processed by OMB/GSS, DOA personnel will process the system transactions required to dispose or retire the asset(s) listed in the capital asset listing. The disposal of non-capital assets is the responsibility of the Organizations. Organizations are responsible for maintaining documentation to support the retirement or disposal of an asset of any value.

13.8.3 Sale of State-Owned Materials and Trade-Ins

All equipment, supplies, vehicles, and materials purchased in whole or in part with State-appropriated funds are assets of the State and not of the individual Organization. When equipment, supplies, vehicles, or materials are determined by an Organization to be in excess of its needs, the Organization should report the excess to OMB's GSS for reallocation to another Organization or for disposal, using GSS's Excess Property Declaration Form.

The Delaware Surplus Services team within OMB's GSS is responsible for all federal and State surplus property programs for the State of Delaware. This program is responsible for declaring excess property, transferring excess property to another Organization or fire company, removing excess property, and disposing of excess property.

In the event an Organization decides to replace material in-kind (not excess material), the Organization may "trade-in" such material on similar material (with the exception of vehicles), or it may sell the material and credit the receipt in accordance with **29 Del. C. §6102(c) (29 Del. C. §7002(e)).** Use the following guidelines to properly record the financial transactions associated with the trade-in:

- If the purchase precedes the sale, and the sale occurs in the same fiscal year as the purchase, the proceeds of the sale are not shown as revenue. The receipt should be recorded as a decrease in expenditures charged against the appropriation.

- If the sale precedes the purchase, and the sale occurs in the same fiscal year as the purchase, the proceeds must be coded as revenue to either the General Fund, or to the spending line of the Appropriated Special Fund.

- Cash Receipts (CRs) should clearly indicate the receipt is intended as a reimbursement of a pending purchase.

- When the purchase of the replacement material is made, the revenue may be recoded as an expenditure reduction.

- Other Non-Appropriated Special Funds (NSF) may show the sale proceeds as revenue since these funds do not need legislative action to increase their appropriations.

NOTE: No reimbursement is allowed on a purchase made in a previous fiscal year. The receipt is treated as a revenue item.

Collections from the sale of vehicles and vehicle parts are credited to OMB's Office of Fleet Services, unless a non-General Fund authorization exists, requiring the proceeds of the disposal to be returned to the original source of funds **(29 Del. C. §6308A(m)(5)).**

DOF is responsible for the determination of the applicability and equity of in-kind replacements. Examples of an acceptable in-kind exchange are the replacement of a manual typewriter for an electric typewriter, or an adding machine for a calculator. An example of a non-acceptable in-kind exchange is the replacement of a typewriter with a calculator, mimeograph, photocopier, tape recorder, or dictating equipment.

Whether equipment, supplies, vehicles, or materials are "traded-in" or sold, an Equipment Reimbursement Form (AM001) must be filed with and approved by DOF, on or before the date of the purchase or the sale, whichever is earlier. A copy of the form can be found at https://extranet.fsf.state.de.us/forms/index.shtml.

Upon written request by the Organization, OMB's GSS may sell or transfer such material within the State at a mutually agreed value **(29 Del. C. §7002 (a), (e)).** If material sold has a value in excess of $100, it will be sold by public auction or competitive bids, unless GSS sells the material to another State Organization.

13.9 Impairments

According to GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, *asset impairment* is defined as a significant, unexpected decline in the service utility of an asset. The term *significant* refers to the magnitude of the impairment when compared to the service utility of the asset. An *unexpected decline* refers to a decline in the net book value of an asset that exceeds the amount expected through accumulated depreciation. The *service utility* of a capital asset is the usable capacity at the acquisition of the asset that was expected to be used to provide service (as distinguished from the *level of utilization*, which is the portion of the usable capacity that is currently being used).

13.9.1 Determining Impairment

The determination of whether a capital asset has been impaired is a two-step process. First, capital assets that have experienced events or changes in circumstances that could potentially indicate impairment should be identified. Then, these identified assets should be tested to determine if actual impairment has occurred.

In GASB 42, the emphasis is on events or changes in circumstances that are prominent and known to the government. In other words, State Organizations are not required to perform additional procedures to identify impairment beyond those already performed as part of normal operations.

The five most common indicators of potential impairment include:

1. Physical damage, such as a building damaged by fire or flood, which requires significant costs to restore the asset's service utility.

2. Changes in laws or regulations that limit or curtail the use of a capital asset, such as a water treatment plant that does not meet, and cannot be modified to meet, new standards.

3. Technological development or evidence of obsolescence.

4. A change in a manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.

5. Construction stoppage due to lack of funding.

A decrease in the use of capital assets is not, in itself, considered a separate indicator of impairment unless it is associated with one of the items listed above.

13.9.2 Measuring Impairment

The amount of impairment for capital assets that are permanently impaired and remain in service must be calculated, net of insurance recoveries, and recognized as an expense. The carrying value must also be decreased by the calculated amount of the asset's impairment.

GASB 42 discusses several methodologies for calculating the amount of a capital asset's impairment. The following are the methods for measuring impairment:

- **Restoration Cost Approach** – Under this approach, the amount of impairment is derived from estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.

- **Service Units Approach** – This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or circumstance. The amount of impairment is determined by evaluating the service provided by the capital asset before and after the event or change in circumstance.

- **Deflated Depreciated Replacement Cost Approach** – This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

The relationships between the types of impairment and the methodology used to calculate the impairments are outlined below:

Type of Impairment	Method Used to Calculate the Amount of the Impairment
Physical Damage	Restoration Cost Approach
Changes in legal or environmental factors	Service Units Approach
Technological change	Service Units Approach
Change in manner or duration of use	Service Units Approach or Deflated Depreciation Replacement Cost Approach

13.9.3 Accounting for Impairments

Assets that are impaired and taken out of service permanently should be carried at the lower of carrying value or fair value, with no further annual depreciation expense. Capital assets impaired from construction stoppage should also be reported at the lower of carrying value or fair value.

State Organizations should assess their capital assets at least annually to determine if they have any impaired capital assets with material carrying values. DOA must be notified if any assets have been determined to be impaired by the common indicators above. DOA will make the determination as to which method will be used to calculate and report the asset values in the State's ACFR.

Organizations should contact DOA for assistance in identifying and managing impaired assets.

13.10 Work-In-Progress – Future Assets

The State does not capitalize Construction-Work-In-Progress (CWIP) and Software-Work-In-Process (SWIP). The underlying future assets are tracked in the State's financial management and accounting system's AM module only when the assets are put into service.

State's financial management and accounting system is available for tracking the costs of all projects including projects that will not meet the capitalization thresholds. Requirements for tracking costs are as follows:

1. Project costs totaling $1 million and over – must use the State's financial management and accounting system's Project Costing module to record all costs associated with the project (**Chapter 4 – Budgeting, Section 4.8 Project Costing**);

2. Repair or upgrade projects totaling $1 million and over – which increase the utility of the underlying asset or extend the asset's estimated useful life are considered Minor Capital Improvement Projects or Major Capital Improvements for budgeting purposes. These projects must use Project Costing;

3. Project costs totaling $100,000 up to $1 million – must use the State's financial management and accounting system's program codes (major or minor) to record all costs associated with the project or can use Project Costing;

4. Project costs under $100,000 can be coded in the regular manner of expenses but can use program codes or Project Costing.

13.10.1 Construction-Work-In Progress (CWIP)

Paid contract labor, material, and overhead costs of a construction project must be tracked in accordance with the requirements previously noted. Cumulative expenditures to all vendors involved in the project are tracked and documented if the expenditures meet the criteria for construction items.

Expenditures should be recorded to the following accounts:

- 55007 Construction/Building Services – for architectural, engineering, legal and other professional service costs
- 58100 Land Improvement – for construction costs that will meet the capitalization criteria as a land improvement
- 58200 Buildings – for construction costs for projects that will be capitalized as a new building
- 58300 Building Improvements – for construction costs for projects that will be capitalized as an improvement or addition to an existing capitalized building

When the project is completed, construction costs are aggregated as acquisition costs for the asset(s), and allocated to one or more of the major asset classes, such as buildings and/or land improvements.

Documentation to support Construction-Work-In-Progress must be maintained throughout the project in order to properly value the asset when construction is completed. Construction-Work-In-Progress information is usually maintained by OMB. However, any Organization that has responsibility for construction projects must follow the proper record management procedures. For a complete listing of documents to be maintained for CWIP, Organizations should refer to **Section 13.10.2 External Construction Program Filing System**.

At the close of the fiscal year, Organizations and OMB are responsible for reporting Construction-Work-In-Progress balances to DOA for inclusion in the State's financial statements. Organizations should provide all Construction-Work-In-Progress information for Organization-proprietary projects to DOA in the Organization's annual GAAP package.

Each local school district and Delaware Technical and Community College is responsible for the tracking and reporting of any educational Construction-Work-In-Progress projects, including additions, improvements, and renovations to existing buildings. The school's or college's Business Manager will report Construction-Work-In-Progress balances in the State's annual GAAP Package for inclusion in the State's financial statements. All documentation relating to the school's construction projects will be maintained at each school for audit purposes, until completion of a successful audit.

Completed construction projects are entered into the State's financial management and accounting systems AM module by DOA. The Organization responsible for the construction project must notify DOA that construction is complete and that the asset is ready to be placed into service. The asset must be added to the State's Capital asset listing in the same fiscal year that the project is removed from the Construction-Work-In-Progress list.

Asset values can be changed after the original capital asset has been added to the Capital asset listing. Any unpaid bills or retainage fees paid after the asset is transferred from the CWIP list to the Capital asset listing may only be added to the recorded value of the asset by DOA personnel. Organizations should contact DOA personnel for assistance.

Projects requiring Construction-Work-In-Progress tracking must meet the following criteria:

- The Project is intended to produce a capital asset upon completion.
- The estimated total cost of the project at completion is $100,000 or greater.
- The project must not have a final inspection, in service, or occupancy date prior to the close of the fiscal year.

A project is considered **complete** when it is ready for its intended use and the status is changed to "in service" in State's financial management and accounting system. For example, when a new building has received an occupancy certificate or the building is ready for its intended use, the Organization should remove the project from Construction-Work-In-Progress list and change the status of the project to “in service”. Organizations should then notify DOA of the change in status, so the asset may be added to the State's capital asset listing.

For example, if a building is ready for occupancy in May, but the employees do not move in until the following April, the building asset should be established in the State’s financial management and accounting systems AM module in May. State Organizations should contact DOA for guidance if employees have questions as to whether or not a project is complete.

Costs not considered Construction-Work-In-Progress are:

Costs Not Considered Construction-Work-In-Progress
Audit Fees
Non-Construction Insurance Costs
Furniture Purchases
Equipment Purchases
Unpaid Bills
Encumbered Funds

13.10.2 Construction-Work-In Progress Program Filing System

Follow the procedures to effectively manage and control the use of funds allocated to construction projects in State Organizations. Keep all paper documents pertaining to construction separate and apart from all other General or Special Fund accounts. All projects within any given year’s program should have a separate, well-identified file.

Establish a centrally located Construction File, external to State’s financial management and accounting system, to include, but not necessarily be limited to, the following:

1. Copy of authorizing legislation for construction and a copy of any supplemental legislation affecting construction programs.

2. Copy of major capital improvement planning budget, as approved by the Delaware Economic Development Office, the State Architect, and the General Assembly.

3. Construction plans and specifications for projects covered by the Architectural Accessibility Act **(29 Del. C., c73)** must be submitted to the State Architectural Accessibility Board for review and approval prior to the start of construction. Construction and renovation projects funded through the Capital Improvement Program, General Fund (GF) operational monies, or through bonds guaranteed in whole or in part by the State of Delaware fall within the purview of this Act.

4. Paper files and additional supporting documentation for each individual project to be retained include:

a. Division of Facilities Management Review and Approval;

b. Architectural Accessibility Board Review and Approval;

c. Professional Services Contract;

d. Legal Determinations;

e. Construction Contract;

f. Performance, Labor, and Material Bonds;

g. Contractors' Insurance Certificates are current by the expiration date, if a job is still in progress at such expiration date;

h. Purchase Orders, Payment Vouchers, and Books of Account, including any Department of Technology and Information reports, ledgers, or any other type of accounts used and any significant backup;

i. Change Orders, including any significant backup;

j. Job Meeting Minutes of any board, commission, committee, etc., having to do with planning, approving, or authorizing use of construction monies, if such entities exist;

k. Correspondence Detailing Significant Project Activities;

l. Certificate (Substantial Completion) and Permits (Building, Occupancy), including County or Regulatory Organization Signoffs;

m. Release of Liens and Affidavit of Contractor's Payment of Indebtedness;

n. Guarantees and Warranties;

o. Liquidated Damage Assessment;

p. Instructions to Bidders and Job Specifications;

q. Bidders' Proposal;

r. Subcontractors' Listing;

s. Letter of Award

t. Project-Related Shop Drawings;

u. Code or Specification Required Certificates, Reports, Permits, or Inspections (Concrete, Geotech, Steel, etc.); and

v. Special Reports (Engineering, Cost Analysis).

13.10.3 Software-Work-In-Process (SWIP)

The standard for capitalizing the costs of software developed or obtained for internal use is the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Uses.

The standard for capitalizing the costs of software obtained through a cloud-based subscription arrangement is GASB Statement 96, Subscription-Based Information Technology Arrangements.

Under both standards, software projects are divided into three stages:

- Preliminary Project Stage;
- Application Development Stage/Implementation Stage; and
- Post-Implementation Operation (or Production)/Additional Implementation Stage.

Software projects with an estimated value of $1,000,000 or more are capitalized. Only costs associated with the **Application Development Stage** are capitalized. These costs include the following activities:

Application Development Stage – Examples of Costs
Design of chosen path, including software configuration and software interfaces
Coding
Installation of hardware
Testing, including parallel processing phase
Vendor costs for commercially purchased software
Contractors or employee costs to implement and install commercially purchased software
Contractors or employee cost to design, program, install, and implement internally developed software
Salaries and fringe benefits costs for employee time spent directly coding and testing
External direct costs of material and services consumed in developing or obtaining software, such as fees paid to third parties for services and costs incurred to obtain the software from third parties

As per the noted requirements, the Project Costing module must be utilized. When a project is complete, the State Organization responsible for the project changes the status of the project in the system's Project Costing module to in-service. In-service is when the end user begins using the software. **(**Organizations should refer to **Section 13.10.** of this chapter.**)**

Expenditures should be recorded to the following accounts:

- 55051 Consultants – for all professional service costs
- 55061 Temporary Employment Service – for temporary workers required throughout the development stage
- 55073 Computer Services – for costs of developing the software
- 58800 Computer Equipment/Software – for costs of software development or purchase of additional software products required to ensure the functionality of the developed software

Costs that are associated with the **Preliminary Project Stage** and the **Post-Implementation Operation/Production Stage** are not capitalized. These costs are to be expensed as incurred.

Preliminary Project Stage – Examples of Costs
Conceptual formulation of alternatives
Evaluation of alternatives
Determination of existence of needed technology
Final selection of alternatives

Post-Implementation Operation/Production Stage – Examples of Costs
Training
Application maintenance

Costs of reengineering activities associated with new or upgrade software applications are not to be capitalized. General and administrative costs related to software development **are not** capitalized. These costs include heat, electric, rent, security, building maintenance or secretarial expenses. Cost of upgrades and enhancements to computer software are capitalized only if the upgrades or enhancements provide additional functionality, and the cost exceeds $1,000,000.