



# How to Develop an Asset Management Policy

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# Presenters



## **Kari Shea, Principal, CPA**

Government Practice

*Assurance*

*Accounting service consulting*



## **Thomas Kempa, Manager, CPA**

Governmental Practice

*Assurance*



## **Scott Patton, Sr. Manager**

Governmental Practice

*Operations Practice Leader*



# Moderator

Rebecca Schnirman



# Administration



# Overview of today's discussion

- Asset Management Framework
- Pre-capitalization
- Capitalization
- Construction in progress and infrastructure
- Donated and intangible assets
- Disposals and impairment





# Asset Management Framework



# Capital Asset Definition

Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

*GASB Statement No. 34, para. 19.*



Building



Inventory



# Assessment Framework



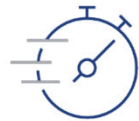




# Where we see challenges



Duplicated Efforts



Cycle Time



Searching and Indexing



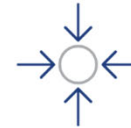
Internal Process Controls



Role Ambiguity



Recognize Past Practices



Multiple Sources of the Truth



# Assets: Soup to Nuts





# Who is involved?

- **Council/ Commission/ Board**
  - Evaluation/ Policy
  - Authorization
- **Departments (DPW, IT, Facilities, Utilities, etc.)**
  - Identify needs
  - Analysis
  - Business operators
- **Finance**
  - Enacting and enforcing policy
  - Budget, financial models, asset valuation
  - Bonding



# Polling question 1

Which of the following is NOT a capital asset?

- A. Vehicles
- B. Land
- C. Buildings
- D. Cheetos



# Pre-capitalization





# 1: Evaluate Asset Needs

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Share perceptions Establish policy	Evaluate operations Create processes	Review evaluations Long range policy

- Capacity analysis
- Condition ratings (Ex: PASER ratings)
- Policies and asset principles



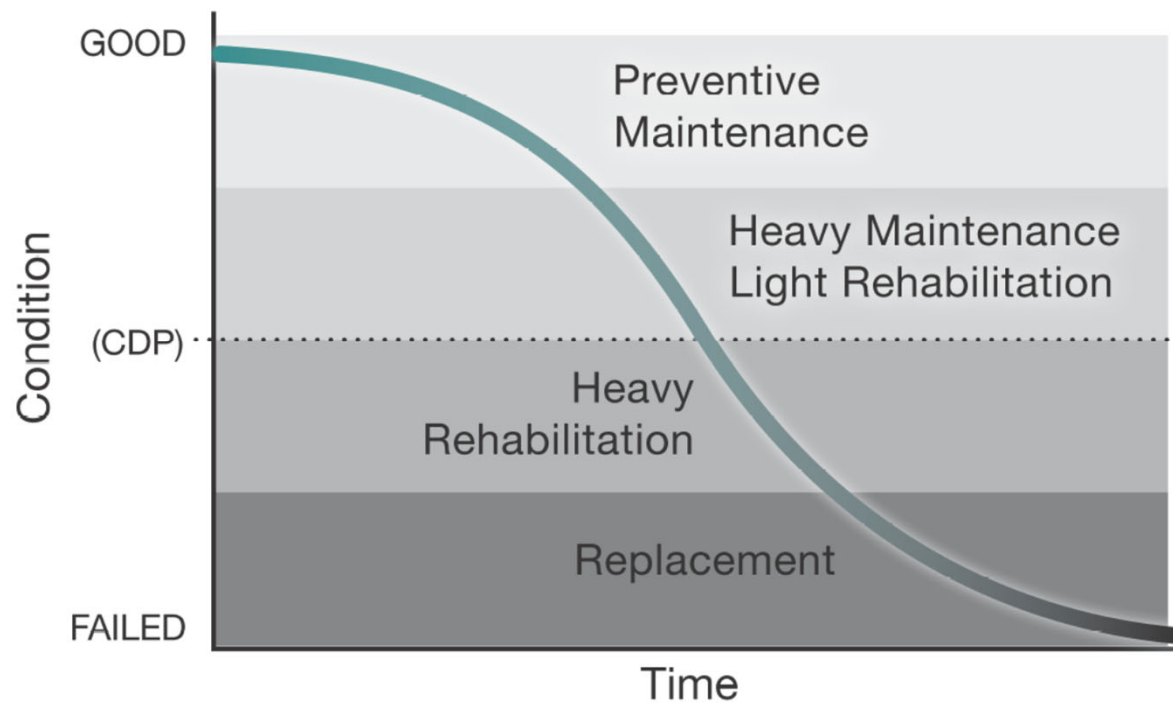
## 2: Develop Asset Strategies

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Authorize strategies	Develop plans Implement strategies	Evaluate plans Support cost analysis Advise Council

- Capital improvement plan (CIP)
- Replacement schedules
- Planned maintenance schedules
- Asset condition evaluation schedules



# Asset lifecycle



Michigan Local Technical Assistance Program: "Transportation Asset Management for Local Officials"



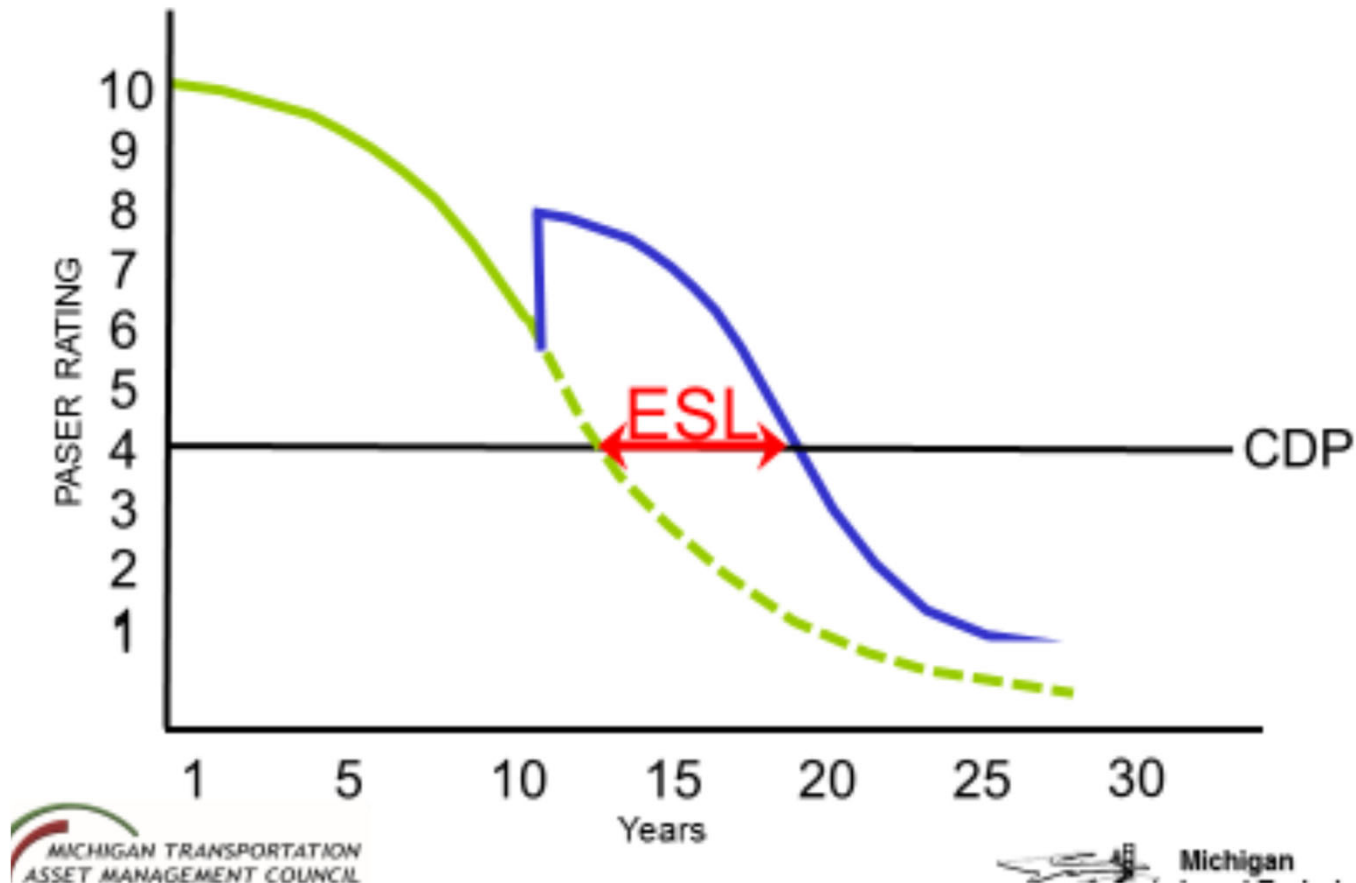
## 3: Establish Financial Justification

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Authorize purchase	Identify alternate scenarios Operational impact	Cost analysis Alternative analysis Procurement

- Total cost of ownership
- Scenario plan
- Grant opportunities
- Bonds



# Extended service life



Michigan Local Technical Assistance Program: "Transportation Asset Management for Local Officials"





# Capitalization



# Capitalization Best Practices



Based on GFOA best practice not all “tangible capital-type items with useful lives extending beyond one reporting period” are required to be capitalized using a practical application of the materiality principle



Assets with small monetary value and/or very short useful lives (ie < 2 years) can be an expense in period acquired.



Consistency should be taken into consideration



Create a system that is not difficult and costly to maintain



## Capitalization Best Practices continued...

**Governments may set a monetary criteria in the form of a “capitalization threshold” (use of a threshold is not included in GAAP)**

- A single threshold can be set for all assets – OR-
- Thresholds may be set for different capital asset classes
- Thresholds are used for the sake of efficiency and should not result in material omissions
- Keep in mind federal award threshold requirements
  
- GFOA recommendations:
  - Minimum of \$5,000 for any individual item
  - “Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district)”





# What should be capitalized?

Assets that meet the capitalization threshold

Capital expenditures that extend its life or increase functionality (capacity or efficiency)

Per GASB 34: capitalize the asset and “ancillary charges necessary to place the asset into its intended location and condition of use.”

- Ancillary charges are costs directly attributable to acquiring the asset such as:
  - Freight
  - Transportation costs
  - Site preparation costs
  - Professional fees
- Donated assets—ensure ancillary charges if any are recorded

Assets should be capitalized at historical cost (except donated assets, which should be capitalized at their acquisition value)



# What should be capitalized?

## Repair and maintenance considerations:

- Should be expensed
- Need to consider if repair and maintenance accounts should be reviewed at year end:
  - How knowledgeable of capital asset requirements are individuals classifying expenses during the year?
  - How do vendors identify capital vs. repair and maintenance on invoices?





# What should not be capitalized?



Item is below your capitalization threshold



Item does not meet your capitalization policy



Useful life not extended



Capacity and efficiency is unchanged



Repairs and maintenance



# What should be capitalized?



Have a robust capitalization policy that addresses key considerations to reduce ambiguity



Ensure your policies and procedures are effective and will capture all capitalization items



## Polling question 2

Which of the following is NOT recommended that jurisdictions include in their capitalization policy:

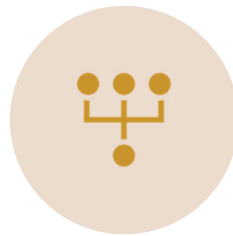
- A. Maximum threshold for any item
- B. Thresholds may be set for different asset classes
- C. Capitalization thresholds can be applied to groups of similar assets
- D. Minimum of \$5,000 for any item



# Review of Capital Asset Procedures



DO WE HAVE A TIMELINE  
IN PLACE TO PROPERLY  
RECORD CAPITAL ASSETS  
ANNUALLY?



DO WE HAVE THE RIGHT  
DEPARTMENTS/INDIVIDUALS  
INVOLVED IN THE PROCESS?



IS OUR CURRENT PROCESS  
EFFECTIVE FOR  
ACCUMULATING ALL  
ADDITIONS AND  
DISPOSALS?



IS OUR CAPITAL ASSET  
SUPPORT VALID?



# Role of the Finance Director



Suggestion from GFOA\*:

1. Asset Management Policies
2. Status of Understanding of the Asset Inventory
3. Asset Valuation
4. Business Procedures
5. Level of Service and Condition
6. Contribution of Asset to Overall Performance
7. Budgeting for Repair, Replacement, and Retirement
8. Integration of Asset Management to Financial Models Used for Planning, Budgeting, & Procurement
9. Use of Automated Tools

\*<https://www.gfoa.org/materials/role-of-the-finance-director-in-capital-asset-management>



## Capital Asset Accounting & Budgeting Best Practices

- Capital assets recorded quarterly

- Review GL accounts for items to capitalize
- Survey department heads for projects
- Review Board/Council/Commission minutes for asset purchases/disposals/donations
- Review CIP for completed projects

- Utilize capital outlay accounts

- Consider obtaining a list of ongoing projects from engineers

- Review subsequent disbursements for potential capitalization

- Capitalize retainage

- Review prior year ending CIP for capitalization





# Cadence of Capital Assets

## During the Year

- Update capital assets activity on regular intervals: monthly or quarterly
- Update the capital asset rollforward
- Have departments review fixed asset listing for any potential disposals or impairments

## End of the Year

- Complete year-end update to capital asset activity
- Update capital asset rollforward
- Perform additional internal control steps to ensure capital asset activity is complete and accurate (Next Page)
- Review repairs and maintenance accounts for assets that should have been capitalized



## How sound are current capital asset records?

### Have we reviewed our capital asset policy:

- Are thresholds appropriate? (too low?)
- Have multiple capitalization thresholds been considered?
- Are we following our policy in practice?

### Does current property record have integrity?

- Last asset inventory of database
- Has land been reviewed and updated for sales/purchases?
- Has the potential for unrecorded assets been considered?



# Inventory

**Definition (GASB 62 para. 189):**

Aggregate of those items of tangible personal property that:

- (a) are held for sale in the ordinary course of operations,
- (b) are in process of production for such sale, or
- (c) are to be currently consumed in the production of goods or services to be available for sale





# Inventory

Excludes long-term assets subject to depreciation accounting or goods that, when put to use, will be so classified

Cost for inventory may be determined using FIFO, LIFO or average cost

Not depreciated

Lower of cost or market – used when utility of inventory no longer as great as its cost (impaired in some way)

- Market means current replacement cost but:
  - Should not exceed the net realizable value
  - Should not be less than the net realizable value reduced by an allowance for an expected gain
- Typically apply lower of cost or market to each inventory item unless one end product—then method can be applied to the entire category
- Recognize a loss in the period in which the goods are impaired due to damage, deterioration, obsolescence, price change or other



# Asset Held for Resale

## Fits into the definition of inventory a & b:

Aggregate of those items of tangible personal property that:

- (a) are held for sale in the ordinary course of operations,
- (b) are in process of production for such sale, or
- (c) are to be currently consumed in the production of goods or services to be available for sale

Example: Local unit purchases property that it intends to sell or is actively trying to sell.

-show on balance sheet as an “asset held for sale” at lower of cost or market

(typically what was paid for property including any fees)

-This should be included in non-spendable fund balance if held in a governmental fund



## Polling question 3

How often does your finance department review expenditures for capitalization?

- A. Monthly
- B. Quarterly
- C. Year-end only
- D. When we have capacity





# Construction in Progress & Infrastructure



## 4: Design

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Authorize design Authorize budget Establish policy	Propose design	Evaluate costs Procurement policies

- Total cost of ownership
- Asset standards (ex: LEED certification, electronic vehicles, etc.)



## 5: Install

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
None	Accept asset	Enter asset into ERP Capitalize asset

- Change orders
- Punch list



## 6: Operate

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Operational budget	Manage asset	Depreciate

- Service records
- Segmentation

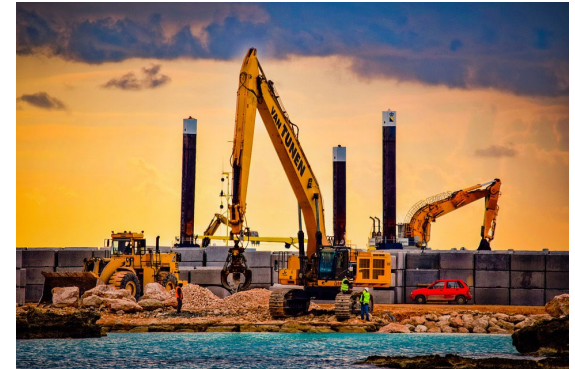




# Construction in Progress

## General

- Construction in Progress (CIP) is a temporary classification for capital assets that are under construction
- CIP can include a range of items
  - Construction projects
  - Road construction
  - Water and sewer system projects
  - Land improvements
  - Vehicles receiving significant improvements
- CIP account holds the capitalized cost until the asset is placed into service





# When and what should be capitalized?

Begin capitalizing costs after management has selected an option and authorized the construction

- Do not capitalize preliminary expense such as feasibility studies

Capitalize costs include but not limited to the following

- Cost of Construction
- Architect and engineering services
- Equipment Rentals
- Design and supervision costs
- Permits
- Insurance costs related to construction





## **GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period***

### **Pre-GASB No. 89 Treatment of Interest Cost**

- **Interest costs incurred related to and during a construction project was required to be capitalized for funds on the full accrual basis of accounting**

### **Post-GASB No 89 Treatment of Interest Cost**

- **Interest costs incurred can be expensed**

- Effective for all reporting periods beginning after December 15, 2020 (2021 if applying GASB 95)
- Early adoption is allowed!



# Construction in Progress

## Placed into Service

- Once an asset is placed in service, all costs associated with it that are stored in the construction work in progress account should be shifted into whichever capital asset account that most appropriate for the asset.
- After being placed into service, start depreciating the assets according to capitalization policy.



# Construction in Progress

## Common Issues

- CIP that has been placed into service during the year improperly remains in CIP at year-end
  - Cause of Issue: CIP is tracked and recorded manually
  - Solution: Ensure a detail review of items in CIP is performed at the beginning of year and end of year to identify all CIP that needs to be placed into service
- Retainage has not been updated at year-end
  - Cause of Issue: Retainage that is tracked and recorded manually
  - Solution: Review retainage general ledger for any unchanged amounts



## Polling question 4

What method does your finance department use to track the expenditures for individual construction projects?

- A. Manually through excel
- B. Project codes within ERP/Accounting Software
- C. Other
- D. Maintained by a third party



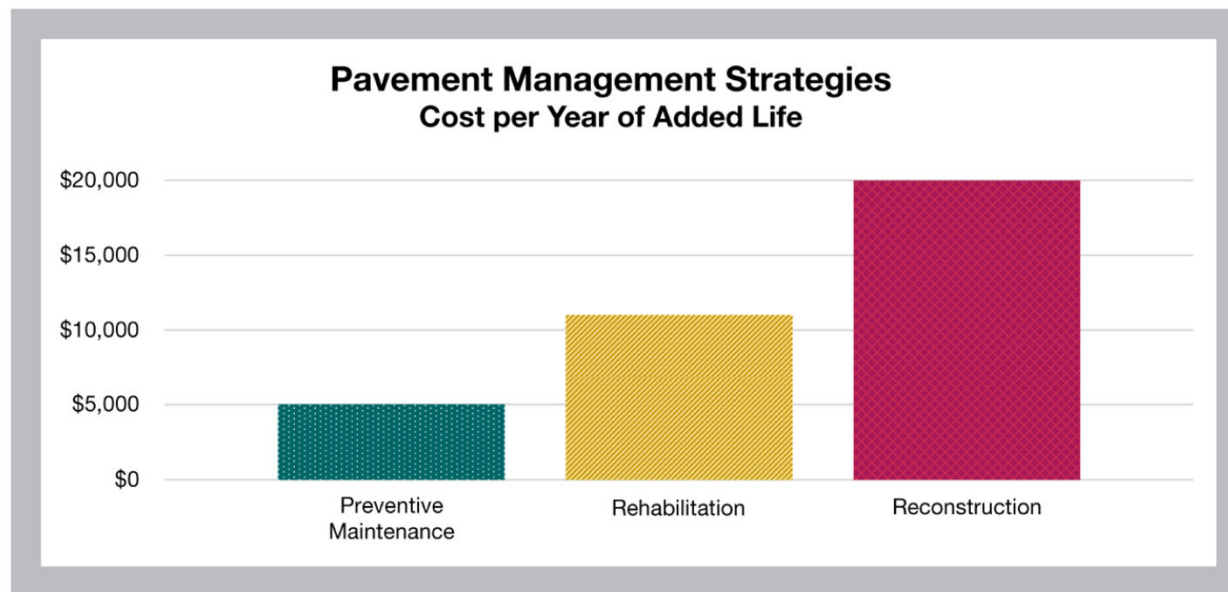
# 7: Capital Repair and Maintenance

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Authorize operating budget Emergency policy	Improve assets	Capture changes in asset value

- Preventive maintenance, rehabilitation, reconstruction
- Scheduled maintenance
- Requests for service
- Emergency response



# An ounce of prevention







# Donated & Intangible Assets



# Donated Capital Assets

## Valuation of Donated Asset

- Record donations at acquisition value on the date of donation
- Acquisition value is the price that would be paid to acquire an asset at that date
- Donated assets were previously required to be measured at fair value (prior to GASB 72)

## Recording a Donated Asset

- No entry is recorded on the modified accrual fund level
- The following entry is recorded in the full accrual funds.
  - Debit: Capital Assets
  - Credit: Capital Contribution (Revenue Account)
- On the cash flow statements, this would be considered a noncash transaction

## Depreciation Expense

- Calculated in the same manner as for other capital assets



# Intangible Assets

## Definition and Authoritative Guidance

- An intangible asset is an asset that possesses all the following characteristics:
  - Lack of physical substance
  - Nonfinancial nature
  - Initial useful life extends beyond more than one year
- Intangible are classified as capital assets and generally follow similar rules except for where GASB has explicitly stated otherwise
- GASB's authoritative guidance comes from Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*



# Intangible Assets

## Common Types of Intangibles

- Right-of-way easements
- Other types of easements
- Land use rights
- Computer Software (includes the following):
  - Purchased
  - Licensed
  - Internally generated

## Items that are not Intangibles

- Capital leases (financial in nature)





# Intangible Assets

## General Capitalization Criteria

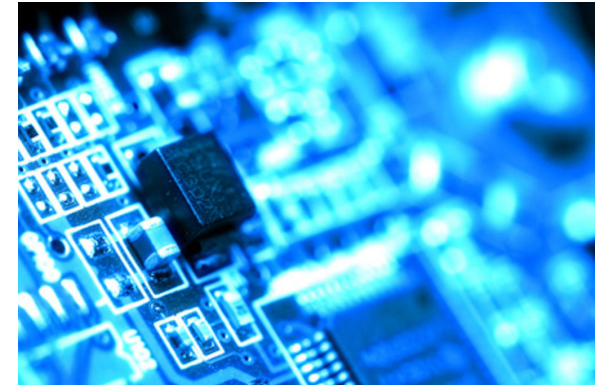
- Intangible assets follow the same provisions as capital assets as appropriate:
  - Capitalize cost on for the full accrual basis of accounting
  - Systematically expense the costs of an asset over its useful life
  - Evaluate for impairment
- For intangible assets, GASB 51 provides additional guidance for specific situations:
  - Internally developed software
  - Patents, copyrights and other items



# Intangible Assets

## Capitalization of Internally Developed Software

- Activities are categorized into three stages
- The stage determines whether the costs should be capitalized or expensed
  - Preliminary project stage (Expense)
  - Application development stage (Capitalize)
  - Post-implementation/operational stages (Expense)





# Intangible Assets

## Stages of Internally Developed Software



- Stage 1: Preliminary project stage (Expense)
  - Conceptual formulation and evaluation of alternatives
  - Determination of existence of needed technology
  - Final selection of alternatives



# Intangible Assets

## Stages of Internally Developed Software



- Stage 2: Application development stage (Capitalize)
  - Stage 2 begins when:
    - Preliminary project stage is complete
    - Demonstration of technical feasibility
    - Management has authorized and commits to funding the project
  - Capitalize the following costs:
    - Coding
    - Installation for Hardware
    - Testing
    - Data conversion, if necessary to make operational
  - Can include both internal and external costs





# Intangible Assets

## Stages of Internally Developed Software



- Stage 3: Post-implementation/operational stages (Expense)
  - Application training
  - Maintenance
  - Data conversion, if not necessary to make operational



# Intangible Assets

## Modification to existing capitalized software

Modifications are only capitalized as assets under certain circumstances:

- An increase in the functionality of the software
- An increase in the efficiency of the software
- An extension of the estimated useful life of the software

Minor updates and upgrades that are part of regular maintenance should be expensed



# Intangible Assets

## Amortization

- Existing guidance for depreciation of other capital assets generally applies to amortizing of intangible assets
  - Intangible assets should be amortized over their useful life
  - Intangible assets with indefinite useful lives should not be amortized



## Polling question 5

Have you had to book internally developed intangible assets before?

A. Yes

B. No



# Disposals and Impairment





## 8: Retire

PRIMARY ROLES		
Council/Commission/ Board	Department	Finance
Disposal policy	Recommend disposal	Oversee disposal



# Disposals of Capital Assets

## Criteria for a Disposal

- A capital asset should be reported as disposed of when the asset has been:
  - Sold
  - Traded in
  - Donated
  - Lost, stolen or destroyed
  - Scrapped
  - Demolished



# Disposals of Capital Assets

## Accounting for Disposal in Modified Accrual Funds

- For a modified accrual fund, a journal entry should only record the proceeds received from the disposed asset
  - Journal entry would be the following:

Debit: Cash	XX	
Credit: Proceeds from sale of asset		XX

- Proceeds from sale of assets would be classified on the income statement as an Other Financing Sources





# Disposals of Capital Assets

## Classification in Modified Accrual Funds – Governmental Funds

- Proceeds from sale of assets would be classified on the income statement as an Other Financing Sources

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2020

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 5,238,822	\$ -	\$ 244,565	\$ 896,750	\$ 6,380,137
Charges to other funds	935,192	-	-	-	935,192
State and federal sources:					
Federal grants	-	-	-	103,471	103,471
State sources	1,431,948	748,744	370,518	26,000	2,577,210
Charges for services	493,260	-	-	-	493,260
Fines and forfeitures	1,810	-	-	-	1,810
Licenses and permits:					
Cable franchise fees	359,632	-	-	-	359,632
Other licenses and permits	268,748	-	-	-	268,748
Investment gain	18,768	64	412	8,519	27,763
Other revenue	189,129	-	-	-	189,129
<b>Total revenue</b>	<b>8,937,309</b>	<b>748,808</b>	<b>615,495</b>	<b>1,034,740</b>	<b>11,336,352</b>
<b>Expenditures</b>					
Current services:					
General government	2,727,723	-	-	-	2,727,723
Public safety	5,613,890	-	-	196,301	5,810,191
Public works	2,060,166	412,527	1,148,135	-	3,620,828
Community and economic development	212,400	-	-	107,032	319,432
Recreation and culture	956,314	-	-	-	956,314
Capital outlay	-	-	-	1,214,005	1,214,005
Debt service	28,809	-	-	900,844	929,653
<b>Total expenditures</b>	<b>11,599,302</b>	<b>412,527</b>	<b>1,148,135</b>	<b>2,418,182</b>	<b>15,578,146</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(2,661,993)</b>	<b>336,281</b>	<b>(532,640)</b>	<b>(1,383,442)</b>	<b>(4,241,794)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	2,640,588	-	224,623	543,796	3,409,007
Transfers out	(50,000)	(224,623)	(28,390)	-	(303,013)
Proceeds from equipment loan	-	-	-	911,355	911,355
<b>Sale of capital assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,941</b>	<b>3,941</b>
<b>Total other financing sources (uses)</b>	<b>2,590,588</b>	<b>(224,623)</b>	<b>196,233</b>	<b>1,459,092</b>	<b>4,021,290</b>
<b>Net Change in Fund Balances</b>	<b>(71,405)</b>	<b>111,658</b>	<b>(336,407)</b>	<b>75,650</b>	<b>(220,504)</b>
<b>Fund Balances - Beginning of year</b>	<b>1,958,330</b>	<b>791,432</b>	<b>1,094,378</b>	<b>1,389,890</b>	<b>5,234,030</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,886,925</b>	<b>\$ 903,090</b>	<b>\$ 757,971</b>	<b>\$ 1,465,540</b>	<b>\$ 5,013,526</b>



# Disposals of Capital Assets

## Accounting for Disposal in Full Accrual Funds

- For a full accrual fund, a journal entry should be recorded to remove the carrying value of the asset, record cash proceeds (if any were received), and a gain or loss on sale of asset
  - Gain on sale of asset will be recorded when the cash received is greater than the carrying value of the asset
  - Loss on sale of asset will be recorded when the cash received is less than the carrying value of the asset
  - No gain or loss on sale of asset would be recorded when the cash received is equal to the carrying value of the asset



# Disposals of Capital Assets

## Gain on Sale of Asset

- Example: A capital asset with a cost basis of \$100,000 and accumulated depreciation of \$50,000 (carrying value of \$50,000) and was sold for \$75,000. Since the cash received was greater than the carrying value, a gain on sale of asset should be recorded.
  - Journal entry would be the following:

Debit: Cash	\$75,000	
Debit: Accumulated Depreciation	\$50,000	
Credit: Capital Asset		\$100,000
Credit: Gain on sale of asset		\$25,000



# Disposals of Capital Assets

## Loss on Sale of Asset

- Example: A capital asset with a cost basis of \$100,000 and accumulated depreciation of \$50,000 (carrying value of \$50,000) and was sold for \$25,000. Since the cash received was less than the carrying value, a loss on sale of asset should be recorded.
  - Journal entry would be the following:

Debit: Cash	\$25,000	
Debit: Accumulated Depreciation	\$50,000	
Credit: Capital Asset		\$100,000
Debit: Loss on sale of asset	\$25,000	



# Disposals of Capital Assets

## Classification in Full Accrual Funds – Proprietary Statement

- Gain or Loss on sale of assets would be classified as a nonoperating revenues (expenses)

### Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2020

	Enterprise Funds			Governmental Activities	
	Water and Sewer	Land Preserve	Nonmajor Enterprise - Golf Course and Practice	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenue</b>					
Customer billings	\$ 5,322,098	\$ -	\$ -	\$ 5,322,098	\$ -
Greens fees	-	-	703,373	703,373	-
Equipment rentals	-	-	272,725	272,725	-
Charges for services	-	-	-	-	2,121,870
Miscellaneous revenue	-	233,518	174,058	407,576	-
Rubbish collections	-	11,430,342	-	11,430,342	-
<b>Total operating revenue</b>	<b>5,322,098</b>	<b>11,663,860</b>	<b>1,150,156</b>	<b>18,136,114</b>	<b>2,121,870</b>
<b>Operating Expenses</b>					
Cost of water and sewer	1,546,399	-	-	1,546,399	-
Operations and maintenance	343,342	2,462,016	865,616	3,670,974	-
Supplies	12,751	184,361	187,722	384,834	-
Other services and charges	181,424	15,220,616	404,742	15,806,782	1,886,777
Depreciation	1,286,821	4,853,882	231,999	6,372,712	-
<b>Total operating expenses</b>	<b>3,370,737</b>	<b>22,720,885</b>	<b>1,690,079</b>	<b>27,781,701</b>	<b>1,886,777</b>
<b>Operating Income (Loss)</b>	<b>1,951,361</b>	<b>(11,057,025)</b>	<b>(539,923)</b>	<b>(9,645,587)</b>	<b>235,093</b>
<b>Nonoperating Revenue (Expense)</b>					
Property taxes - Sewage disposal system	484,739	-	-	484,739	-
Investment income	132,283	1,969,401	1,136	2,102,820	15
Interest expense	(146,866)	(21,497)	(3,950)	(172,313)	-
<b>Gain on sale of assets</b>	<b>-</b>	<b>371,990</b>	<b>-</b>	<b>371,990</b>	<b>-</b>
Nonoperating grants	107,814	-	-	107,814	-
<b>Total nonoperating revenue (expense)</b>	<b>577,970</b>	<b>2,319,894</b>	<b>(2,814)</b>	<b>2,895,050</b>	<b>15</b>
<b>Transfers Out</b>	<b>-</b>	<b>(3,105,994)</b>	<b>-</b>	<b>(3,105,994)</b>	<b>-</b>
<b>Change In Net Position</b>	<b>2,529,331</b>	<b>(11,843,125)</b>	<b>(542,737)</b>	<b>(9,856,531)</b>	<b>235,108</b>
<b>Net Position (Deficit) - Beginning of year</b>	<b>21,453,600</b>	<b>(6,954,358)</b>	<b>(1,707,860)</b>	<b>12,791,382</b>	<b>1,119,003</b>
<b>Net Position (Deficit) - End of year</b>	<b>\$ 23,982,931</b>	<b>\$ (18,797,483)</b>	<b>\$ (2,250,597)</b>	<b>\$ 2,934,851</b>	<b>\$ 1,354,111</b>



# Disposals of Capital Assets

## Classification in Full Accrual Funds – Government-Wide

- Gain on sale of assets would be classified as general revenues
- Losses should be grouped with program expenses



## Polling question 6

Who is responsible for identifying disposals at your organization

- A) Department Heads
- B) Procurement
- C) Capital Asset Accounting Manager
- D) Combination of Team Members

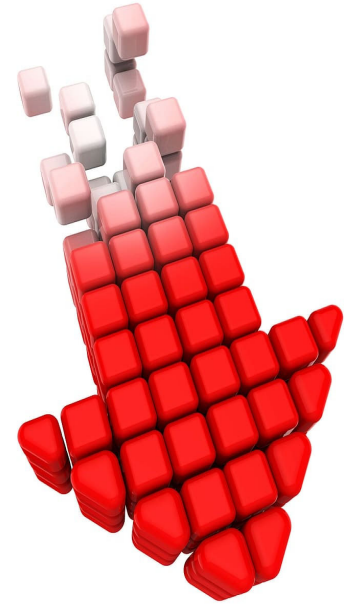




# Impairment

## Definition and Guidance

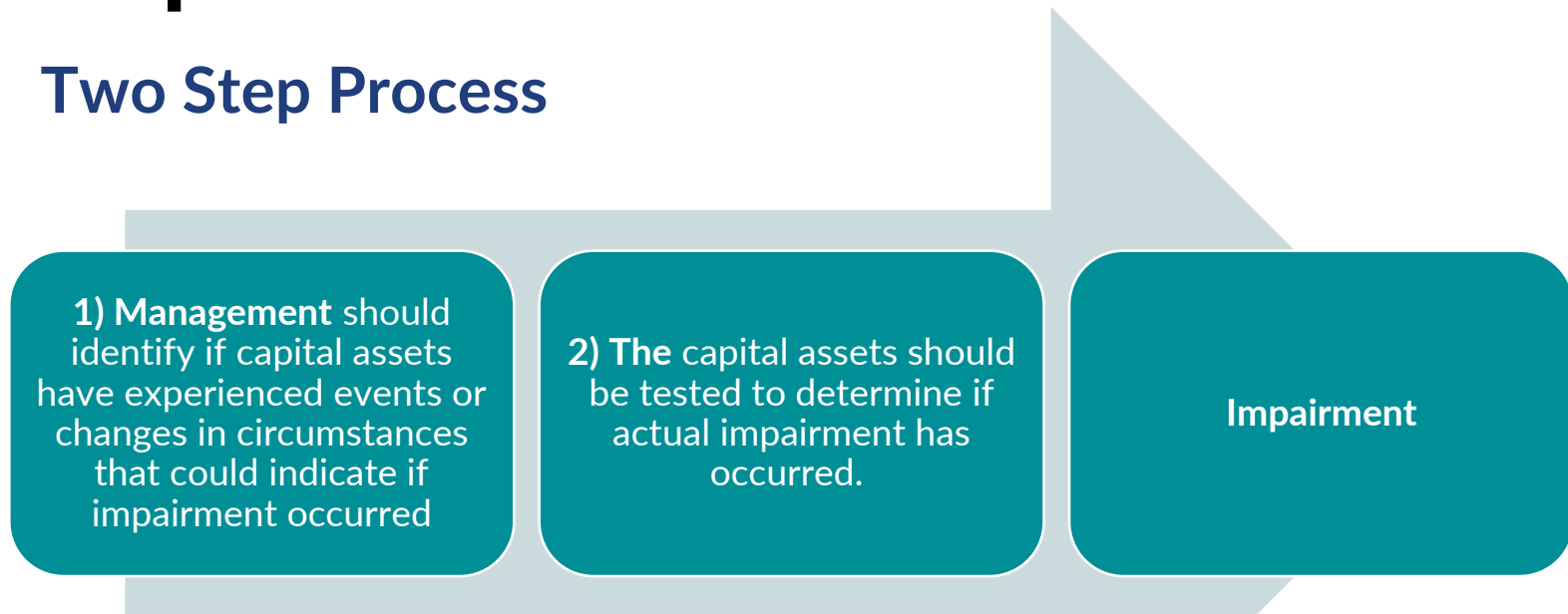
- A capital asset is considered impaired when there is a significant, unexpected decline in the service utility of an asset.
- In other terms, there has been a decrease in usable capacity of an asset.
- No. 42, *Accounting and Financial Report for Impairment of Capital Assets and for insurance recoveries*





# Impairment

## Two Step Process



Note - Impairment should be self-evident and therefore not take any special or extraordinary effort to identify



# Impairment

## Potential Indicators of Impairment

- Physical damage to asset
- Changes in legal or environmental factors
- Technological changes or obsolescence
- Changes in manner or duration of use
- Construction stoppage

One or more of the indicators does not automatically prove that impairment has occurred. These are only signs of impairment!





# Impairment

## Recognition of Impairment

- After a capital assets is deemed to be potentially impaired (based on the previous 5 indicators), it must be assessed if the asset is **actually** impaired
- Capital assets in question need to meet the following two criteria to be considered impaired:
  - The decline in service utility or the cost of restoration is significant
  - Decline in service utility is unexpected
- Impairments are considered permanent in nature
  - If the impairment is only temporary, there should be **NO** adjustment to the carrying value of the capital assets



# Impairment

## Calculating an Impairment

- Once a capital asset has been determined to be impaired, the carrying value of the asset should be decreased and the loss should be recorded as an expense (net of any insurance recoveries) in full accrual funds.
- There are three methods for calculating the amount of impairment
  - Restoration Cost Approach
  - Service Unit Approach
  - Deflated Depreciated Replacement Cost Approach



# Impairment

- Watch for impairment indicators

- Physical damage to asset
- Changes in legal or environmental factors
- Technological changes or obsolescence
- Changes in manner or duration of use
- Construction stoppage

- Impairments should be self-evident

- Impairments are typically caused by major events e.g. technology changes, damage from large weather events

- Book only permanent impairments

- Do not book temporary impairments!



# Key Takeaways

- **Asset management is a continual process**
- **Ensure the right people are engaged in asset management procedures**
- **Ensure you have a timeline for proper GL recording and that you review policies and procedures regularly**
- **Ensure capital assets are properly recorded by considering all potential situations (impairment, disposals, CIP etc.) annually**





# Contact your presenters



## **Kari Shea, CPA**

Principal, Government Assurance and Consulting

248-223-3287

Kari.Shea@plantemoran.com



## **Thomas Kempa, CPA**

Manager, Governmental Assurance

313-496-7237

Thomas.Kempa@plantemoran.com



## **Scott Patton**

Sr. Manager, Government Management Consulting

248-223-3503

Scott.Patton@plantemoran.com

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# Q&A



# Plante Moran Firm History & Services



1924

*year founded*



3,100+

*staff*



26

*offices worldwide*



25+

*industries served*



50

*states with clients*



102

*countries with clients*



45+

*services available*



27

*languages spoken  
firmwide*



# Florida Clients & Associations

## County Clients (11)

- Broward County
- Charlotte County
- Collier County
  - Lee County
- Miami-Dade County

## Special Districts (8)

- Broward County Metropolitan Planning Organization
- Emerald Coast Utilities Authority (ECUA)
- Hillsborough Area Regional Transit Authority (HART)
- Hillsborough County Aviation Authority (HCAA)
- Solid Waste Authority of Palm Beach County



## Municipal Clients (25)

- |                          |                       |
|--------------------------|-----------------------|
| City of Ft. Lauderdale   | City of Coral Springs |
| City of Gainesville      | City of Delray Beach  |
| City of Hallandale Beach | City of DeLand        |
| City of Hollywood        | City of Pinellas Park |
| City of Miami            | Town of Jupiter       |
| City of West Palm Beach  | Village of Wellington |