# From Projects to Depreciable Assets: Mastering Projects & Grants, Transactions, and Asset Conversion in Modern ERP Systems

By

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# Agenda

- Considerations When Creating Projects/Grants
  - Tracking costs by funding source
  - Budgetary impact
  - Life of activity
- Project/Grant Compliance & Communication
  - Status updates to governance & public at large
  - Performance/financial reporting requirements
- Transaction Recording
  - Transaction "tagging" versus expanding chart of accounts
  - Cost allocations
  - Correction of miscoded transactions
- Capital Asset Conversion
  - GASB Statement No. 51 & 96 considerations
  - Aggregating capital outlay
  - Converting CIP to a depreciable asset

# Considerations When Creating Project/Grant

- Funding sources
  - Tracking costs by funding source – reserves, grant funded, interfund transfers, other sources
  - Budgetary impact – including project/grant information in annual budget preparation process & multi-year capital improvement plan
  - Life of activity – project/grant or segment?
    - Segment consideration: Ongoing activities that typically do not have a finite start and end date

# Budget Considerations

- Alignment with Strategic Goals
  - Ensure project or grant budgets support the municipality’s long-term strategic plan and community priorities
- Funding Sources
  - Identify dedicated revenues, grants, or available reserves, debt proceeds & other funding sources
- Cost Estimates & Contingencies
  - Develop realistic estimates for personnel, materials, and overhead
  - Include contingency funds for inflation, supply chain issues, or scope changes
  - Forecast funding availability across the project lifecycle

# Funding Considerations

- Cash Flow & Timing
  - Align budget schedules with anticipated revenue collection and grant drawdown timing
  - Monitor timing gaps between expenditures and reimbursements
- Debt Issuance Options
  - Traditional bank loan versus public bond issuance
  - Interim financing options – line of credit, commercial paper program
  - Other financing options on qualifying projects – example: State Revolving Fund (SRF) loan

# Project/Grant Communication

- Stakeholder Involvement
  - Collaborate across departments to capture full cost impact
  - Engage elected officials and the public for transparency
- Status updates to governance & public at large
  - Consider posting project & grant status info on entity's website for public to digest; pull data from ERP real time
- Project & Grant Info to Auditors
  - F/S audit considerations – generate SEFA directly from ERP system
  - Grant compliance audit – auditor review support directly in ERP system

# Project/Grant Compliance

- Performance/financial reporting requirements
  - OMB's Compliance Supplement Part 3 – Compliance Requirements includes L. Reporting
  - Requires that specific reports be filed and includes additional requirements that apply to those reports
  - Leverage technology to assist with providing reminders to prepare and submit required performance & financial reporting

# Project/Grant Compliance & Communication

- Performance/financial reporting requirements, continued
  - Other compliance requirements: capture and demonstrate compliance within ERP system
    - Cash Management – Requires recipients to minimize the time between receipt and uses of federal funds when awards provide for advance payments. When funds are provided on a reimbursement basis, program costs must be paid for with the entity's funds before the entity requests payment from the federal awarding agency or pass-through entity
    - Equipment & Real Property Management – Requires organization to maintain an adequate equipment and property management system for its federal award programs and related activities
    - Matching, Level of Effort, Earmarking – Requires that an organization receiving federal funds contribute its own resources to programs funded in some specified ratio to resources provided by the funding source
    - Subrecipient Monitoring – Requires recipients to monitor the activities of the subrecipient as necessary, identify to the subrecipient certain award information and requirements, evaluate each subrecipient's risk of noncompliance for purposes of determining appropriate monitoring, and ensure accountability of for-profit entities for the use of federal funds provided to them

# Transaction Recording

- Transaction "tagging" versus expanding chart of accounts
  - Creating new funds, departments, and/or accounts within the general ledger chart of accounts is cumbersome, results in an overly expansive COA, and fails to efficiently report cumulative transactions associated with a single project or grant that spans multiple fiscal years
- Cost allocations
  - Certain grant agreements provide for not only personnel costs but also fringe benefits and other indirect costs to be charged to the grant and subject to reimbursement; how to leverage your ERP system to process efficiently and accurately
- Correction of miscoded transactions
  - Transactions get coded to wrong project/grant or segment or to none; how to leverage your ERP system to make corrections efficiently and accurately

# Capital Asset Conversion

- GASB Statement No. 51 & 96 considerations
  - According to GASB 51: Developing and installing internally generated computer software consists of three stages:
    - Preliminary Project Stage
    - Application Development Stage
    - Post-implementation/Operation Stage
  - Costs related to activities in the application development stage should be capitalized; costs in preliminary project and post-implementation/operation stage should be expensed as incurred
  - According to GASB 96: Developing and installing SBITA consists of three stages:
    - Preliminary Project Stage
    - Initial Implementation Stage
    - Operation and Additional Implementation Stage

# Capital Asset Conversion, Cont.

- GASB Statement No. 96 considerations, continued
  - Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred Costs related to activities in the application development stage should be capitalized; costs in preliminary project and post-implementation/operation stage should be expensed as incurred
  - Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
  - Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

# Capital Asset Conversion, Cont.

- Asset Conversion
  - How to efficiently capture project related costs and record CIP – timing/frequency, completeness considerations
- CIP to depreciable asset conversion
  - When/how to convert CIP to a depreciable asset

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# Capital Asset Accounting System Perks

- Asset Additions
  - New Asset, Add to Existing Asset (Parent/Child), CIP Conversion, Expense Reclass
  - Decrement Capital Outlay transaction
- Depreciation
  - Run depreciation with minimal button clicks
- Disposals & Transfers & Expense Reclass
  - Transfer considerations: Proprietary to Proprietary versus Proprietary to/from Governmental Fund
- Inventory
  - Asset scanning – easy access, review scan history, minimal equipment
- Reporting
  - Addition detail, disposal detail, asset listing, depreciation detail, asset rollforward

# Benefits of Enterprise Asset Management (EAM) System

- Centralized tracking of all assets (buildings, vehicles, equipment, infrastructure)
- Automated work order generation and scheduling
- Streamlined preventive and predictive maintenance programs.
- Reduced downtime through proactive monitoring
- Better budgeting and forecasting of capital replacement needs.

# Question #1

- Are library books depreciable capital assets?

# Answer #1

- If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library holdings consist of a large number of books with modest values, group or composite depreciation methods of Statement 34) may be appropriate. In certain situations, library books may be considered works of art or historical treasures and could be reported using the provisions in paragraphs 27–29of Statement 34.

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# Question #2

- Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of $5,000 for equipment. If the government purchases 100 computers costing $1,500 each, should the computers be capitalized?

# Answer #2

- Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. In this example, if the $150,000 aggregate amount (100 computers costing $1,500 each) is significant, the government should capitalize the computers.

# Do We Have Time for More Q&A?
# Where to Go?

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