Here to Stay: How to Effectively Manage Capital Assets

Wednesday, June 3, 2015
10:30 – 12:10
2 CPE

Moderator: Jason Beal, Beal Budgeting

Speakers: Mark Bobber, American Appraisal
Brian Caputo, City of Aurora, IL
Patrice Hilderley, City of Woodstock, ON
WHAT ARE CAPITAL ASSETS?
Overview

- Fixed Assets Overview
- Scrutiny of Fixed Assets
- Internal Controls
- Basic Policies Pertaining to Capital Assets.
- Coding and Tracking
- Use of Technology Systems
- Capital Asset and Decision Making
- Use of an Asset Management Plan
- Solutions for Effectively Managing Capital Assets
“First rule—what happens in accounting stays in accounting.”
Fixed Assets Overview

- Represents the long-term tangible assets that an organization utilizes to produce and deliver its products or services and manage the operations (useful life greater than one year)

- Typically, fixed assets fall into the following broad categories:
  - Land
  - Land improvements
  - Buildings
  - Machinery & equipment (vehicles, furniture, plant equipment, computer equipment, etc.)
  - Construction-in-progress

- Typically the largest line item on the balance sheet
Scrutiny of Fixed Assets (Past)

- From an accounting point of view, fixed assets is probably one of the simplest and most repetitive areas of accounting

- Auditors had traditionally perceived fixed assets to be a low risk area
  - Historically, little audit scrutiny

- Usually assigned to an entry level auditor:
  - Review of roll forward analysis
  - Limited reconciliation procedures
  - Vouching of current year purchases on a test basis (high dollar items)
  - Reasonable test of current year depreciation expense
The credibility of financial reporting of publicly owned companies was significantly damaged by numerous corporate financial reporting frauds in 2001 and 2002.

Two of the three largest of these cases represented the over statement of fixed assets and understatement of related expenses:

- Passage of the Sarbanes-Oxley act of 2002
- Increased testing of internal controls (Sarbanes-Oxley Section 404)
- Growth of internal audit function
- GASB 34
- Greater realization that fixed assets is typically the biggest number on the balance sheet

All has led to increased scrutiny over internal controls.
Fixed Asset Internal Accounting Controls

- Fixed asset transactions
  - Acquisition and disposal of the assets
  - Allocation of related costs to reporting periods via depreciation expense
- Internal controls over purchase and capitalization of fixed assets:
  - Issuance and approval of a PO
  - Receipt of assets
  - Receipt of invoice from vendor
  - Reconciliation of invoice to PO
  - Issuance of payment
  - Posting of asset to subledger
Fixed Asset Internal Accounting Control Deficiencies

- General fixed asset internal control deficiencies:
  - Inadequate asset descriptions in the fixed asset subledger:
    - Specific description
    - Manufacturer
    - Model
    - Serial number
  - Little use of property identification tags
  - Inconsistent application of capitalization threshold (group purchases)
  - No cost segregation for construction in progress projects
Fixed Asset Internal Accounting Control Deficiencies (continued)

- Poor communication and documentation of asset movement
  - Disposals/Retirements
  - Transfers
- Lack of identification of fixed asset impairment
- Capitalization of repairs/maintenance
- Assignment of unreasonable useful lives for depreciation calculations
- Deletion of fully depreciated assets from subledger
- Infrequent or no periodic physical inventory/reconciliation
Inaccurate Fixed Asset Record Implications

- Inaccurate financial reporting (external and internal audit issues)
  - Audit opinions can cause heartburn for management and the board

"We’re going to parachute in and do a surprise audit, but I want to keep the whole thing low key."
Inaccurate Fixed Asset Record Implications

- Inaccurate personal property tax values
  - Assessments based on current fixed asset records
  - Studies show 10-20% overpayment
  - Can be a direct cash savings
Inaccurate Fixed Asset Record Implications

- Inaccurate insurable values
  - Unexpected loss leads to claim
  - Poor data being trended can lead to bad values
- Difficulties in annual capital budgeting
- Lack of proper detail for fixed assets for mergers and/or acquisitions
- Fixed asset issues do not happen overnight. They tend to sneak up over time and “blind-side” organizations

“Every CEO needs someone to protect the blind side, Federman. Do you have a problem with that?”
Capital Asset Inventory – Current Approach

- Many companies have never performed a fixed asset inventory
- Some companies perform the service in house, which is challenging:
  - Working with poor descriptions on the current records
  - Lack of experience in conducting an inventory
  - Staff have other responsibilities so appropriate time is not allocated
  - Typically done in a book to floor approach
  - Fear of reporting unrecorded retirements
  - No reconciliation or review of asset quantities
- Some companies do perform more comprehensive inventories
Example of Potential Issue

Example purchase:

- Asset No: 4567
- Tag Number: 12345
- Description: Office Furniture
- Acquisition Date: 6/1/2012
- Life: 180 months
- Depreciation Method: Straight Line (1/2 and 1/2)
- Cost: $200,000.00
- Depreciation (12/31/14): $33,333.00
Example upgrade:

<table>
<thead>
<tr>
<th>Asset No:</th>
<th>4568</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tag Number:</td>
<td>12346</td>
</tr>
<tr>
<td>Description:</td>
<td>Executive Conference Table</td>
</tr>
<tr>
<td>Acquisition Date:</td>
<td>6/1/2014</td>
</tr>
<tr>
<td>Life:</td>
<td>180 months</td>
</tr>
<tr>
<td>Depreciation Method:</td>
<td>Straight Line (1/2 and 1/2)</td>
</tr>
<tr>
<td>Cost:</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>Depreciation (12/31/14):</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

* Overstatement of $3,000 in cost and approximately $100 in depreciation and $2,900 in net book value (retirement of original table)
SUCCESSFUL TECHNIQUES
CAPITAL ASSETS DEFINED

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.*
FINANCIAL REPORTING OF CAPITAL ASSETS

- Must be reported by major class either on the face of the financial statements or in the notes.
- Major classes are not defined by GAAP.
- Assets being depreciated/amortized and those not being depreciated/amortized must be reported separately.
- Intangibles should be broken down into separate classes if significant.
Depreciation is generally reported by function in the government-wide statement of activities.

Allocate depreciation between functions if asset provides services through multiple functions.

Depreciation on infrastructure may be reported as functional expense of department associated with related capital outlays or maintenance.
Depreciation related to governmental activities not allocated to functions:
  o Report as general government expense or
  o Report as unallocated depreciation expense.
FINANCIAL REPORTING
OF CAPITAL ASSETS
(continued)

• Summary of significant accounting principles:
  o Capitalization threshold.
  o Methodology for estimating historical cost.
  o Extent of infrastructure reporting for items exempt from mandatory reporting.
  o Methodology used for calculating depreciation or amortization expense.
  o Estimated useful lives for depreciating or amortizing capital assets.
FINANCIAL REPORTING
OF CAPITAL ASSETS
(continued)

- Detailed note disclosures:
  - Separate reporting for governmental and business-type activities.
  - Separate reporting for depreciable and non-depreciable assets.
  - Recorded value by major class.
  - Changes in recorded value by major class.
  - Accumulated depreciation by major class.
  - Changes in accumulated depreciation by major class.
  - Depreciation expense for governmental activities by function.
  - Asset impairments.
  - Assets leased to others under operating leases.
TYPICAL CLASSES OF CAPITAL ASSETS

- Land (not depreciated).
- Buildings.
- Improvements other than buildings.
- Furnishings, machinery, and equipment.
- Infrastructure.
- Works of art and historical treasures (generally not amortized).
- Construction in progress (not depreciated).
- Other capital assets.
CAPITALIZATION

- Capitalize the asset and “ancillary charges necessary to place the asset into its intended location and condition of use.”
- Capitalization threshold: minimum dollar threshold at which outlays are recorded as assets (and, in many cases, depreciated) rather than recorded as an expense of the period.
- GFOA recommends establishing a threshold of not less than $5,000.
AURORA, ILLINOIS

- Location: 35 miles west of Chicago.
- Population: 200,000.
- Annual budget: $400 million.
- One discretely-presented component unit: municipal library.
- Government-wide capital assets: $750 million.
- 12,395 items in the capital asset records.
- Prepare a capital improvement plan.
- Implemented capital assets accounting software just prior to 2014 FY.
- In general, movable capital assets are inventoried annually.
AURORA’S POLICIES ON CAPITALIZATION AND DEPRECIATION OF ASSETS

- General capitalization policy:
  - All land.
  - $100,000 for buildings, land improvements, and infrastructure.
  - $50,000 for everything else.
  - Useful life longer than one year.
- Assets donated by developers capitalized as above.
- Additions to previously capitalized infrastructure capitalized regardless of cost (unless immaterial).
AURORA’S POLICIES ON CAPITALIZATION AND DEPRECIATION OF ASSETS
(continued)

● Construction in progress capitalized if expected to surpass threshold.
● Retainage included in the cost of an asset (CIP).
● Depreciation using straight-line method.
● Half-year convention employed for depreciation.
CAPITAL IMPROVEMENTS PLAN

- Multi-year forecast of capital outlays.
- First year of plan is oftentimes the capital budget.
- Other planning processes may be inputs.
ELEMENTS OF AURORA’S CAPITAL IMPROVEMENTS PLAN

- Based upon capitalization threshold.
- But no vehicles.
- Project number.*
- Project name.
- Project manager.
- Strategic plan link.
- Project description.
ELEMENTS OF AURORA’S CAPITAL IMPROVEMENTS PLAN
(continued)

- Justification.
- Impact on operating budget.
- Prior-year costs.
- Costs for forecasted years.
- Sources of funds for forecasted years.
- Revenue and expenditure accounts for first year of plan.*
THE NEW SOFTWARE

- More efficiently manage and account for capital assets.
- Automatically records journal entries.
- Generate reports for capital asset notes in financial statements.
- Coding:
  - Group: fund (general governmental, individual proprietary funds, or library).
  - Category: general asset class (streets, water lines, etc.).
  - Asset Class: subcategory (e.g., diameter of water line).
  - Subaccount*: specific item.
SUBACCOUNT DESIGNATIONS IN THE NEW SOFTWARE

- Identify specific asset:
  - Asset, accumulated depreciation, and depreciation expense accounts.
  - Model and serial numbers.
  - Acquisition cost and year.
  - Useful life.
  - Elect half-year depreciation convention.

- Manage additions, transfers, and retirements.
CHANGES MADE/LESSONS LEARNED IN IMPLEMENTING NEW SOFTWARE

- Data conversion may be challenging.
- Less detail is easier to manage. Consolidate!
- Water and sewer lines tracked by diameter. FIFO.
- Street segments used to identify streets.
- Addresses used to identify buildings, not common names.
- Because of capitalization threshold, no street lights or traffic lights capitalized.
HELPFUL CAPITAL ASSETS
BUDGETING/ACCOUNTING PRACTICES

- Project numbers:
  - Tied to the CIP.
  - Integrated in the budget.
- Distinct account numbers for capital outlay in general ledger.
- Separate accounts for capital and non-capital vehicles.
- Accounts established to distinguish classes of capital assets.
- Contra-asset accounts to reverse capitalized costs for conversion to the government-wide level.
HELPFUL CAPITAL ASSETS
BUDGETING/ACCOUNTING PRACTICES
(continued)

- Purchasing staff looks for identification of project numbers.
- Capital assets recorded quarterly.
- Periodically obtain a list of ongoing projects from engineers.
- Review resolutions approved by City Council for capital projects to identify capital assets.
- Review subsequent FY capital outlay to identify costs recorded in the wrong period.
HELPFUL CAPITAL ASSETS
BUDGETING/ACCOUNTING PRACTICES
(continued)

- Look for retainage that should be capitalized with the asset.
REFERENCES

APPLICATION OF CAPITAL ASSET MANAGEMENT
Using Capital Asset Plans as a Tool for Planning & Decision Making

PATRICE HILDERLEY, DIRECTOR OF ADMINISTRATIVE SERVICES
CITY OF WOODSTOCK, ONTARIO

GFOA 2015 May 31-June 3
Background

• Accounting for Capital Assets is a relatively new concept for Canadian Municipalities

• Effective date for reporting Tangible Capital Assets in our financial statements was January 1, 2009
What We Did

- We counted
- We measured
- We valued
- We reported
- We complied
Why a Capital Asset Management Plan?

- We realized all of the work had to be more than an accounting exercise
- We wanted the opportunity to build on the tools we were already using
- There were Provincial and Federal requirements to access infrastructure funding
Our Story

- Woodstock is a small city in Southwestern Ontario with a population of 38,000
- Operating Budget – $65 million
- Capital Budget – $16 million
- Net book value of Capital Assets reported on our financial statements is $160 million
Our Priorities

• We wanted a plan that would provide a roadmap to the future
• We initially focused on our road infrastructure to meet government funding requirements
• We decided to build on existing tools and our Capital Asset data base
2014 City of Woodstock Asset Management Plan
Our plan answers the following questions

• What do we own and where it is?
• What is it worth – value & replacement cost?
• What needs to be done to maintain, rehabilitate or replace?
• When do we need to do it?
• How much will it cost?
• How do we ensure resources are available when we need them?
Replacement Cost by Asset Category in 2013 Dollars
Total: $220,633,881

- Road Network, $153,831,720 (70%)
- Storm Sewer Network, $56,117,727 (25%)
- Bridges & Culverts, $10,684,434 (5%)
State of the Infrastructure – Asset Condition

Road Condition by Area (m²)

City of Woodstock
Identify Risk

Likelihood of Failure x Consequence of Failure
## Project Prioritization - Roads

<table>
<thead>
<tr>
<th>Consequence of Failure</th>
<th>Probability of Failure</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
<td>35 Assets</td>
<td>18 Assets</td>
<td>12 Assets</td>
<td>7 Assets</td>
<td>2 Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>166,398 m²</td>
<td>66,584 m²</td>
<td>65,385 m²</td>
<td>26,383 m²</td>
<td>7,860 m²</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$7,450,363.05</td>
<td>$2,281,266.91</td>
<td>$1,850,111.19</td>
<td>$1,092,011.52</td>
<td>$303,966.98</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>78 Assets</td>
<td>69 Assets</td>
<td>53 Assets</td>
<td>25 Assets</td>
<td>15 Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>283,471 m²</td>
<td>281,797 m²</td>
<td>193,289.3 m²</td>
<td>121,442 m²</td>
<td>70,310.5 m²</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$8,726,383.63</td>
<td>$9,659,671.73</td>
<td>$6,106,288.56</td>
<td>$4,817,982.93</td>
<td>$2,627,099.29</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>474 Assets</td>
<td>191 Assets</td>
<td>233 Assets</td>
<td>86 Assets</td>
<td>88 Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>990,777 m²</td>
<td>438,325 m²</td>
<td>506,802 m²</td>
<td>190,497 m²</td>
<td>215,010 m²</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$32,585,978.43</td>
<td>$16,383,211.16</td>
<td>$14,479,245.36</td>
<td>$7,181,210.96</td>
<td>$9,140,424.17</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>5 Assets</td>
<td>1 Asset</td>
<td>2 Assets</td>
<td>1 Asset</td>
<td>No Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>37,620 m²</td>
<td>8,322 m²</td>
<td>10,144 m²</td>
<td>6,960 m²</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$752,026.31</td>
<td>$139,393.62</td>
<td>$53,442.72</td>
<td>$133,476.98</td>
<td>N/A</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>16 Assets</td>
<td>6 Assets</td>
<td>6 Assets</td>
<td>4 Assets</td>
<td>5 Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>22,210 m²</td>
<td>9,143 m²</td>
<td>9,321 m²</td>
<td>7,352 m²</td>
<td>2,270 m²</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$638,139.13</td>
<td>$137,957.83</td>
<td>$173,971.47</td>
<td>$146,897.50</td>
<td>$60,677.74</td>
</tr>
</tbody>
</table>
# Infrastructure Report Card

**The City of Woodstock**

1. Each asset category was rated on two key, equally weighted (50/50) dimensions: Condition vs. Performance, and Funding vs. Need.
2. See the “What condition is it in?” section for each asset category for its star rating on the Condition vs. Performance dimension.
3. See the “How do we reach sustainability?” section for each asset category for its star rating on the Funding vs. Need dimension.
4. The ‘Overall Rating’ below is the average of the two star ratings converted to a letter grade.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Condition vs. Performance</th>
<th>Funding vs. Need</th>
<th>Overall Grade</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Network</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>The majority, 60%, of the municipality’s road network is in good to excellent condition, with the remaining 40% in fair to critical condition. The average annual revenue required to sustain Woodstock’s paved road network is approximately $4,926,000. Based on Woodstock’s current annual funding of $3,056,000, there is an annual deficit of $1,870,000.</td>
</tr>
<tr>
<td>Bridges &amp; Culverts</td>
<td>C+</td>
<td>F</td>
<td>D</td>
<td>About 77% of the municipality’s bridges &amp; culverts are in good to excellent condition. The average annual revenue required to sustain Woodstock’s bridges &amp; culverts is $198,000. Based on Woodstock’s current annual funding of $62,000 there is an annual deficit of $136,000.</td>
</tr>
<tr>
<td>Storm Sewer Network</td>
<td>B+</td>
<td>F</td>
<td>D+</td>
<td>Over 96% of the municipality’s storm sewer mains and SWM facilities are in good to excellent condition. About 74% of catch basins and manholes are in good to excellent condition. The average annual revenue required to sustain Woodstock’s storm sewer network is approximately $710,000. Based on Woodstock’s current annual funding of $306,000 there is an annual deficit of $404,000.</td>
</tr>
</tbody>
</table>
## Infrastructure Funding Deficit

### Table 1. Summary of Infrastructure Requirements & Current Funding Available

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Average Annual Investment Required</th>
<th>2013 Annual Funding Available</th>
<th></th>
<th>Annual Deficit/Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Taxes</td>
<td>Gas Tax</td>
<td>Capital Reserve</td>
</tr>
<tr>
<td>Road Network</td>
<td>4,926,000</td>
<td>1,963,000</td>
<td>1,093,000</td>
<td>0</td>
</tr>
<tr>
<td>Bridges &amp; Culverts</td>
<td>198,000</td>
<td>62,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Storm Sewer Network</td>
<td>710,000</td>
<td>306,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,834,000</strong></td>
<td><strong>2,331,000</strong></td>
<td><strong>1,093,000</strong></td>
<td>0</td>
</tr>
</tbody>
</table>
Good things about the Asset Management Plan

- It is forward looking
- It provides a common focus for staff and politicians
- It can lead to political commitment
- It identifies funding shortfalls
- It gives citizens have a better understanding of the **What** and **Why**
Decision Making Tool

- It identifies what needs to be done first
- It balances competing priorities
- It helps determine budget allocation
Financial Strategies

- What is our funding deficit?
- How do we finance future capital projects?
- Should we build reserves for future needs?
- Should we set targets for debt?
- Are our user fees sufficient going forward?
Mitigation Opportunities

• How do we extend the useful life of our assets in the most cost effective manner?
• Can road resurfacing extend the life of the road
• Encourages innovative thinking
Is it Working?

- We were able to get Council buy-in to increase our contributions to capital reserves
- We established new reserve specifically for asphalt resurfacing
- We reallocated funds to provide more dollars for resurfacing projects rather than rehabilitation
What needs to be done?

• We need to expand the plan to include all of our capital assets
• We need to do more work on condition ratings
• We need a better tie in with other data bases
• We need to ensure annual updates
In Closing

Remember:

If you don’t know where you are going you will wind up somewhere else

Yogi Bera
CONCLUSION
Policies and Procedures Analysis

- Diagnostic service:
  - Analysis of fixed asset internal control policies and procedures
  - Identifies process improvement opportunities
  - Track life cycle of an asset throughout your organization
  - Identify key personnel involved in life cycle
  - Enforce/enhance/create policies and procedures
Fixed Asset Inventory  (Best Practice Approach)

- Conduct a full wall to wall inventory every 3-5 years using a floor to book approach:
  - Large companies with multiple locations may want to consider a cyclical approach
- Conduct inventory consistent with the current fixed asset capitalization threshold
- Complete in shortest time frame possible to minimize asset movement (purchases, transfers, disposals)
Record all key data elements and create consistency:

- Locational data including building, department, room, etc.
- Descriptive data including manufacturer, model, serial number
- Affix property identification tags, preferably bar coded, to facilitate future fixed asset inventory work
Reconciliation Process

- Simply put in this context "the comparison of an inventory record to a client's fixed asset accounting records"

- The reconciliation process will identify the following:

  • Matched Assets - Items inventoried and traced to the fixed asset accounting records
  
  • Unrecorded Additions - Items inventoried, but not located in the fixed asset accounting records
  
  • Unrecorded Retirements - Items located in the fixed asset accounting records, but not inventoried
This comprehensive detailed approach occurs in the following steps:

- Tag/serial number matches
- Additional manufacturer and model number comparisons
- Additional description, location and department number comparisons
- Analysis of additions by fiscal year with estimated acquisition dates on the inventory file
- Analysis and allocation of bulk entries or group purchases to individual assets (computer equipment, furniture, manufacturing equipment, etc.)
- Follow up department visits
### Allocation of Group Purchases

**Example (assuming straight line ½ and ½ and 12/31/2014 reporting date)**

**Original**

<table>
<thead>
<tr>
<th>Description</th>
<th>Tag</th>
<th>Date</th>
<th>Life</th>
<th>Cost</th>
<th>Accumulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 computers</td>
<td>various</td>
<td>6/1/2013</td>
<td>3</td>
<td>$4,500.00</td>
<td>$2,250.00</td>
</tr>
</tbody>
</table>

**Allocated**

<table>
<thead>
<tr>
<th>Description</th>
<th>Tag</th>
<th>Date</th>
<th>Life</th>
<th>Cost</th>
<th>Accumulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Desktop</td>
<td>10001</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
<tr>
<td>Computer Desktop</td>
<td>10002</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
<tr>
<td>Computer Desktop</td>
<td>10003</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
<tr>
<td>Computer Desktop</td>
<td>10004</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
<tr>
<td>Computer Desktop</td>
<td>10005</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
<tr>
<td>Computer Desktop</td>
<td>10006</td>
<td>6/1/2013</td>
<td>3</td>
<td>$750.00</td>
<td>$375.00</td>
</tr>
</tbody>
</table>

$4,500.00 $2,250.00
Audit Trails

- Regardless of the approach utilized, a consistent audit trail should be utilized:
  - Identifies the disposition of each asset during reconciliation
  - Considered a "best practice" by auditors as it provides the greatest level of detail and support of the inventory and reconciliation process
  - Source codes are a simple method:
    - Code "A" - Allocation
    - Code "C" - Client supplied information
    - Code "M" - Matched assets
    - Code "N" - Unrecorded additions
    - Code "R" - Unrecorded retirements
Capital Budgeting Analysis

- Internal policies and procedures
- Economic useful life
  - Age/condition assessment
  - Functional obsolescence
  - Industry life guidelines
  - Proprietary depreciation curves based on classifications
- Replacement Cost at End-of-Life Cycle
  - Yearly analysis
  - Department or cost center
  - Asset classifications
Capital Budgeting Analysis (continued)

Total Capital Expenditures Per Year ($)

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Thank you

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Please provide feedback on the session

Quick Text Feedback

1. *Step 1* - Text “GFOA” to 22333

2. *Step 2* - Did the session meet your expectations for being high quality and relevant to your job?
   - Exceeded Expectations – Text “W5EXC”
   - Met Expectations – Text “W5MET”
   - Did Not Meet – “W5NOT”

To provide more detailed evaluation on the session or full conference to go www.gfoa.org/evals