

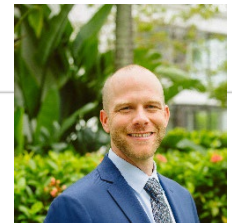
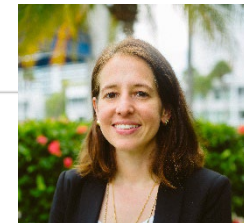


WEDNESDAY'S
News You Can Use

Capital Asset Accountability

Presented by:

Elizabeth Gordon, Matt Kwapick, Mariana Traetta, Mike Fister




Carl Vinson
Institute of Government
UNIVERSITY OF GEORGIA



Asset Compliance

Functioning asset matches ledger

An iceberg floating in the ocean, with a small tip above the water and a much larger, dark mass submerged below. The water is a deep blue, and the sky is a lighter blue with some clouds. The iceberg's tip is the visible part of the ledger, while the submerged part represents hidden or non-compliant assets.

Out of service
Off-site Storage
Replacements
On-Loan
CIP not captured
Sensitive or Control assets
Incorrect Asset Class
Poor Asset Descriptions
Ghost assets

Transfers
Split Funding
Bulk Entries
Trade-ins
Sponsor-funded
Donations
Self-Certification

Learning Objectives

Asset cost segregation, reporting, & inventory review.

Filling gaps in asset valuation.

Accurate insurance replacement costs to mitigate exposure.

Best practices for audit compliance.

Polling Question

What do you utilize for your capital asset inventory process?

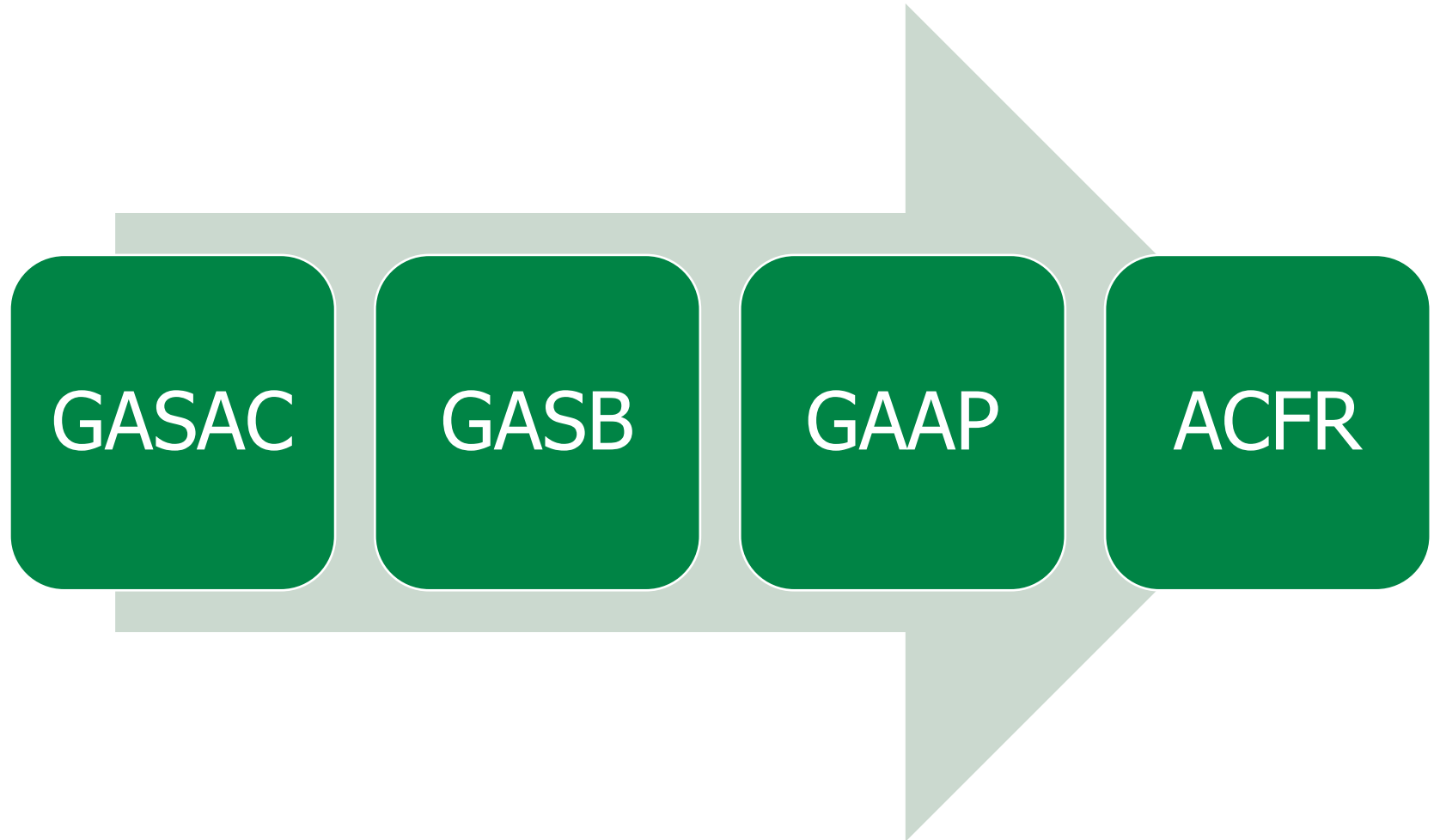
- A. Spreadsheet with an export from our financial ERP system.
- B. Asset inventory software and barcode scanners fully integrated with our financial ERP system.
- C. Asset inventory software and RFID scanning technology.
- D. Asset module that is part of our financial ERP system.
- E. Pen and paper ☹️



GASB 34 Compliance

Issued June 1999

Overview



Fund Accounting



Key Concepts

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.



Asset Classes and Key Concepts

Major Asset Classes - LAND

- Includes land under infrastructure (Right-Of-Ways)
- Best if Tracked at Parcel Detail
- Excludes Depreciable Land (Leased Land)
- DO NOT DEPRECIATE



Major Asset Classes - CIP

Construction in Progress

Projects that have begun incurring costs but not yet substantially complete by Fiscal Year end.

• DO NOT DEPRECIATE



Major Asset Classes - **BUILDINGS**

- Includes Improvements / Renovations

- Includes Restoration Costs

- Subclasses

 - Different types of construction

 - (Shed, Pavilion, Lift Station, Court House)

 - Components (roof, services, exterior)



Major Asset Classes – IOTB

Improvements other than Buildings

- Permanent and non-moveable
 - Moveable = Equipment
- Add value to land but limited useful life
 - Fences
 - Retaining Walls
 - Parking Lots
 - Landscaping
 - Monuments
 - Sport Courts
 - Ballfield lighting



Major Asset Classes – FF&E

Furniture, Fixtures and Equipment

Furnishings = Individual unit cost greater than cap threshold

Machinery and Equipment

Includes Vehicles

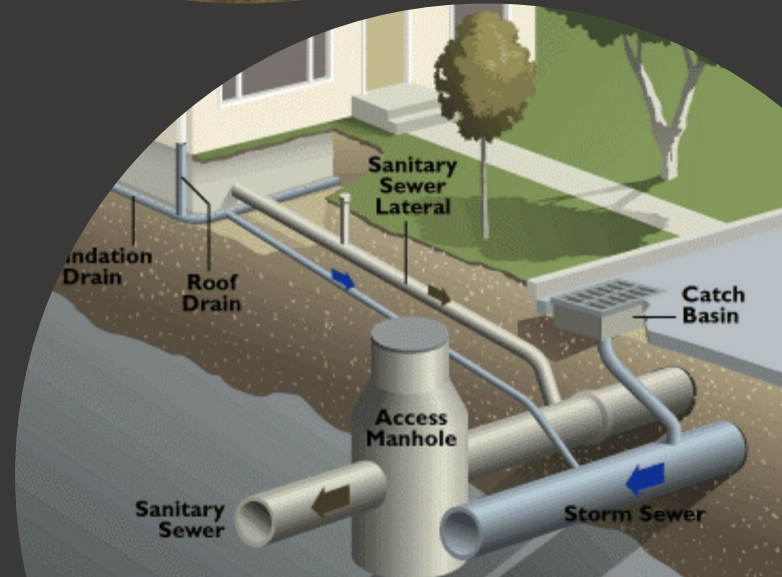
Typically broken out into sub-categories

Sub-Categories should maintain consistent useful life assignments



Major Asset Classes –Infrastructure

- *Long-lived assets, stationary in nature & normally can be preserved for a greater number of years than most capital assets.*
 - Roads / Alleys
 - Sidewalks / Paths / Bike Trails
 - Bridges
 - Tunnels
 - Drainage Systems
 - Water and Sewer Systems
 - Lighting and Electrical Systems
 - Traffic Signals, Crosswalk systems, Beacon systems

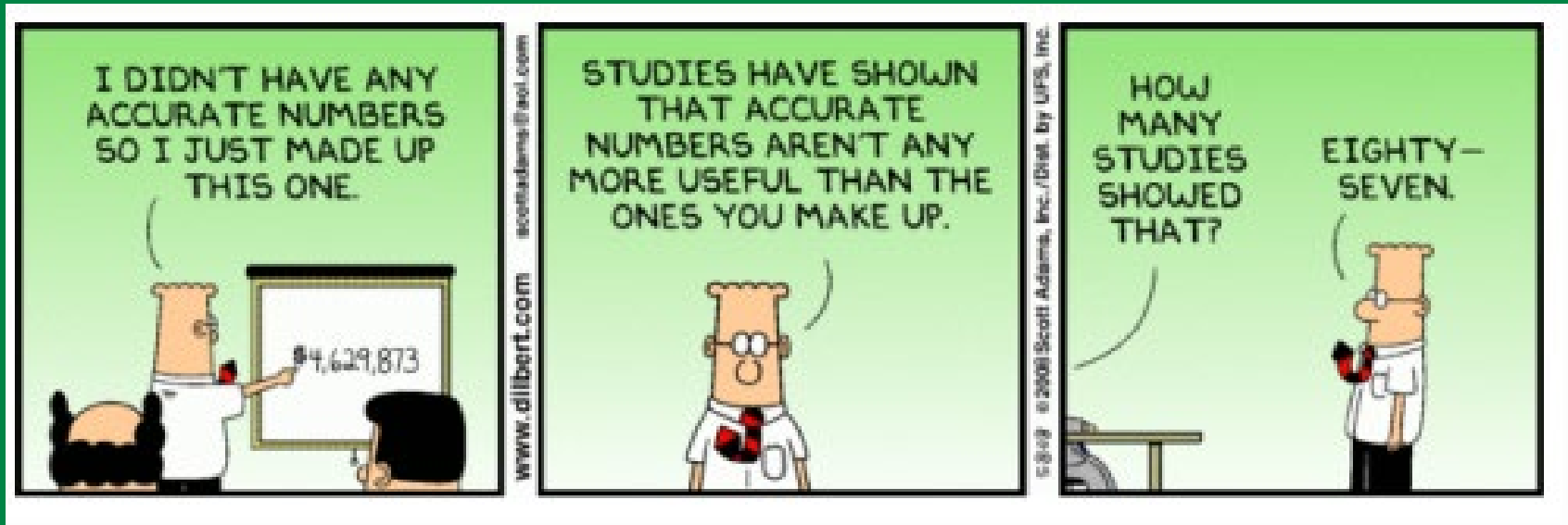


Polling Question



We just completed a \$115m WWTP renovation, I should:

- A. Capitalize it as one line item for \$115m building renovation.
- B. Separate and capitalize individual structures, process equipment, and land improvements, retire any assets taken out of service as result of renovation.
- C. Not capitalize it, it is a renovation not an addition or new building.
- D. Divide the cost by number of structures touched and capitalize those values as building renovation.

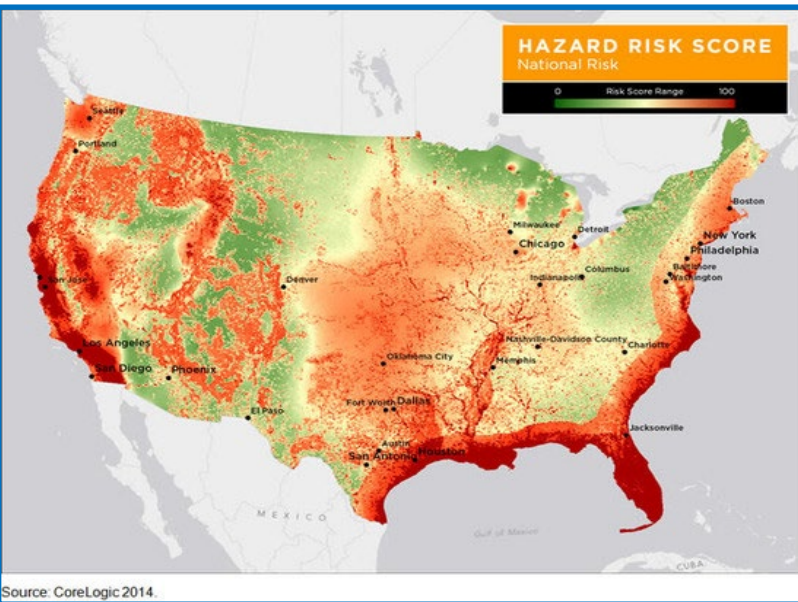


Accurate Insurance RC

Why?

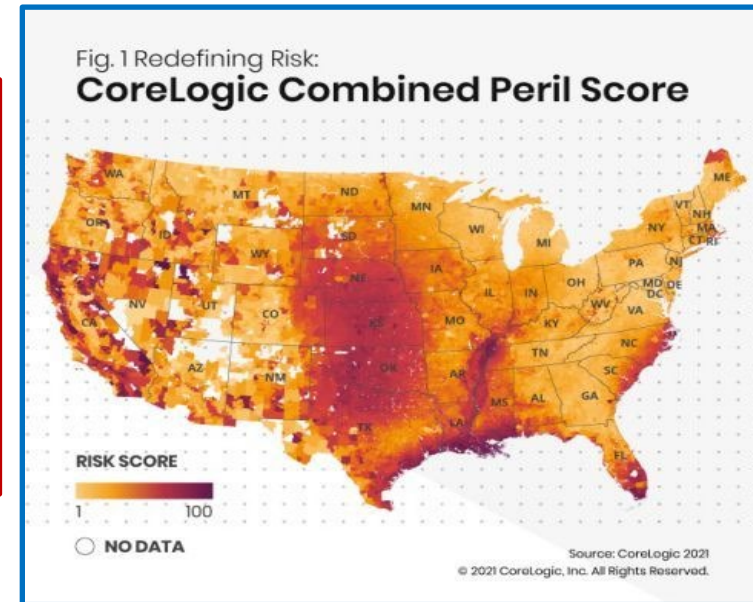
Unprecedented Events

- Traditional Coastal Concerns ('20-'22 worst 3 consecutive)
- Wildfire Losses – 2020/21 record years; more ongoing
- Convective Storms – Recent derechos \approx \$Bs in losses
- CA Tropical Storm AND 5.1 Quake 8-20-23... really???



Major Risks:

- Flood
- Surge
- Hurricane
- Wind
- Wildfire
- Quake
- Hail
- Tornado
- SL Wind
- Sinkhole



Insured property losses from Hawaii wildfires estimated at \$3.2B: KCC

Posted On: Aug. 15, 2023 4:49 PM CST Matthew Lerner

BUSINESS INSURANCE.



Why?



Underwriters taking more notice of secondary perils as losses rise: Best

Secondary peril events like **wildfires, tornadoes, and severe thunderstorms** now comprise a larger portion of insured losses, meaning both personal and commercial lines property underwriters must take this rising risk into accounts when modeling potential losses and setting rates, according to a recent report from AM Best.

Advisen Front Page News - Monday, January 24, 2022

BUSINESS INSURANCE.

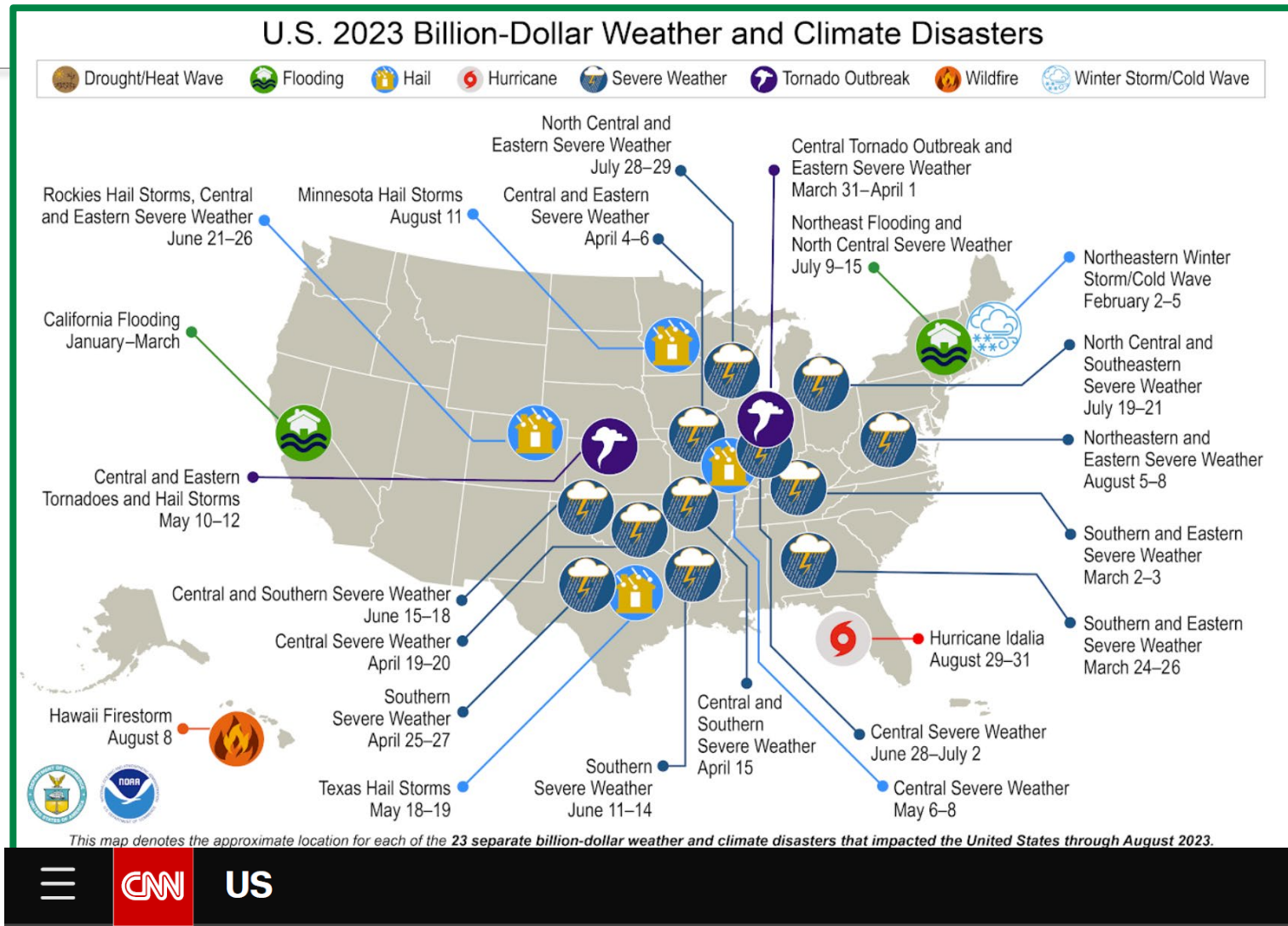
Natural hazards insured losses estimated at \$140B in 2022: Gallagher Re

Posted On: Jan. 30, 2023 1:53 PM CST

Note: Secondary perils, including drought, windstorms and floods across the globe, caused \$73 billion in insured losses (52%)



Why?



Number of billion-dollar weather disasters in US blows through annual record with four months left in the year
 Published 11:00 AM EDT, Mon September 11, 2023

Annual Cost of Construction - History



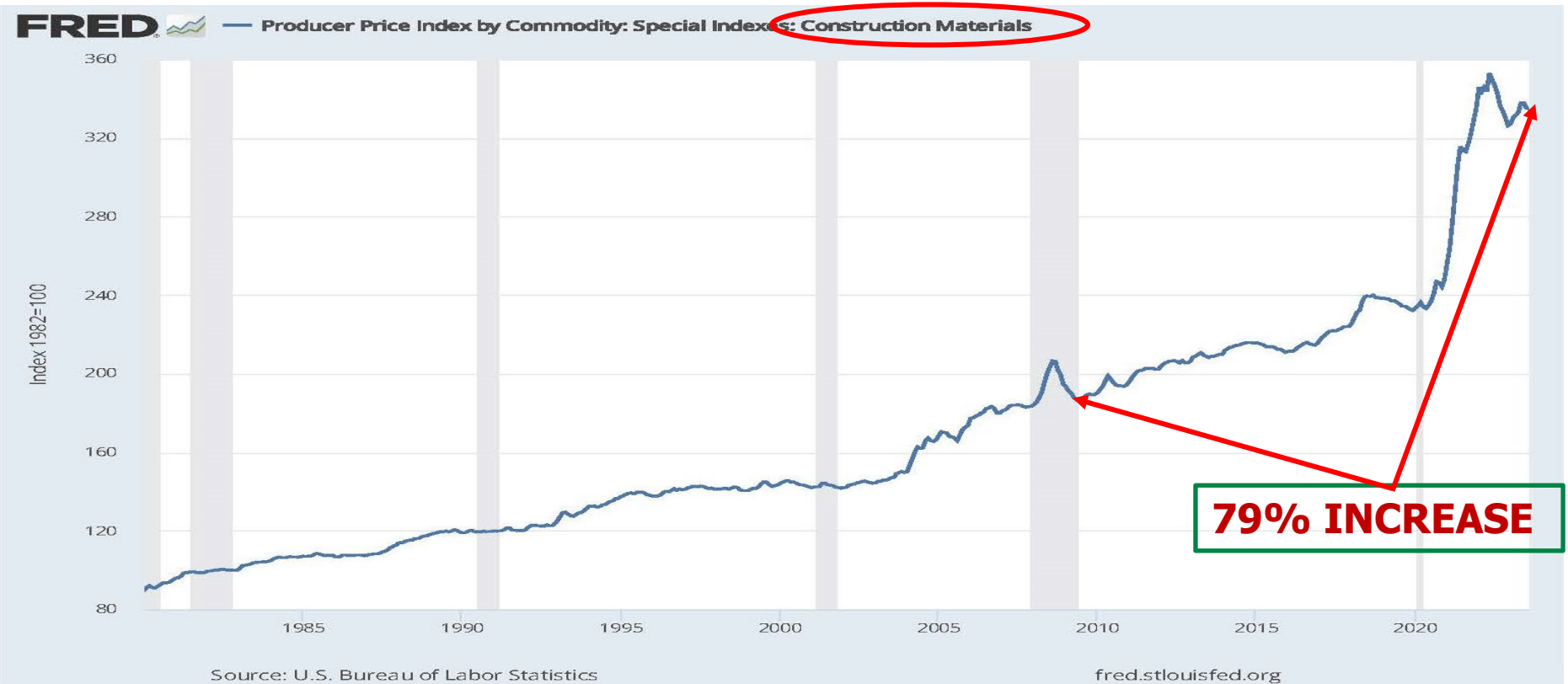
Producer Price Indexes



Annual Cost of Construction - History



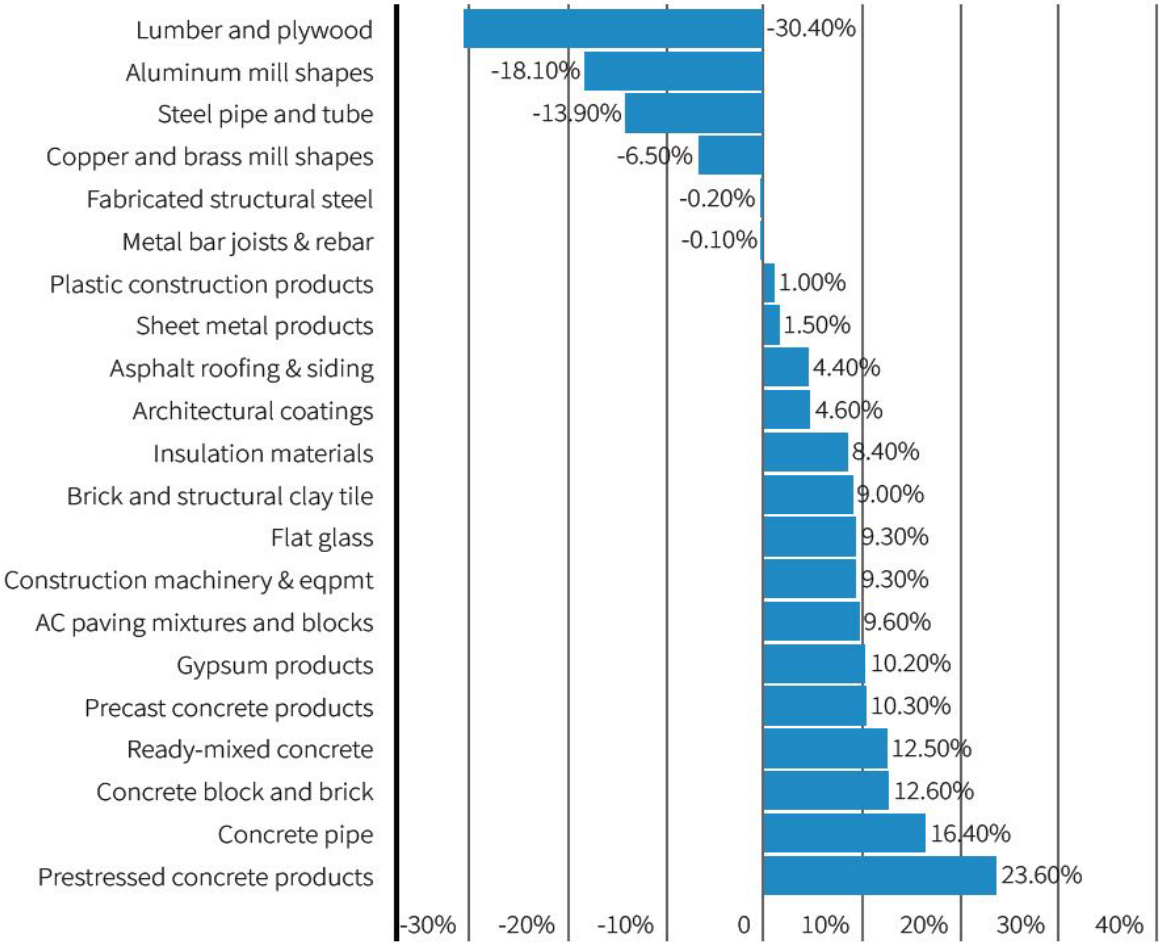
Producer Price Indexes



Cost of Construction – Component of Focus

➤ Increased
Materials Costs

Construction Materials Price Movement - Last 12 Months



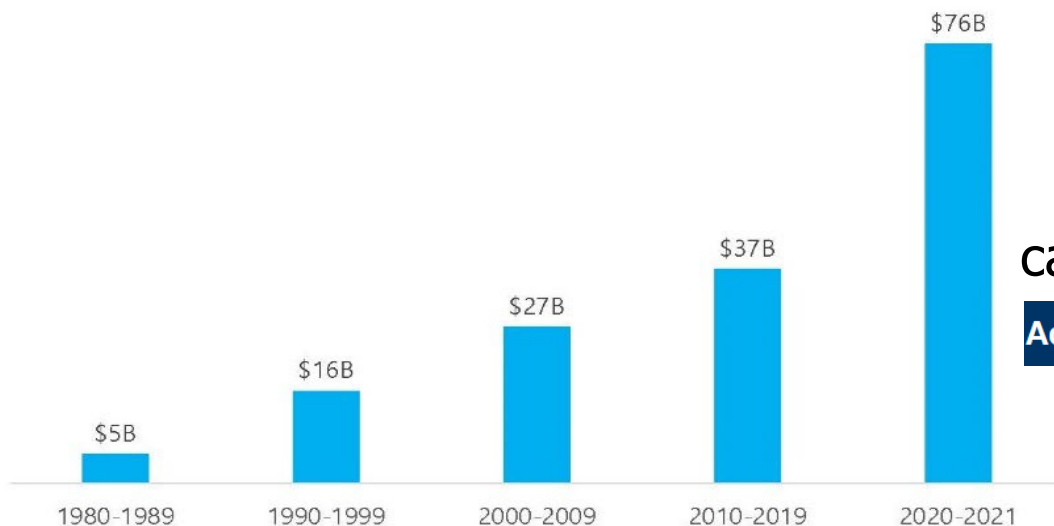
SOURCE: U.S. Bureau of Labor Statistics

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Reactions

- Ongoing **CAT loss events**
 - Wildfires / Convective Storms / Winter Storms
 - Increased **scrutiny of underwriting data** (modeled predictions)
- Claims history that suggests **ITV weaknesses** (undervalued)

FIGURE 4: SINCE THE 1980s, AVERAGE ANNUAL CATASTROPHE LOSSES IN THE U.S. HAVE RISEN AT AN EXPONENTIAL PACE.



Global Modeled Catastrophe Losses  2023 WHITEPAPER

Average (global) annual modeled catastrophe losses hit \$133B: Verisk

Advisen Front Page News - Monday, September 11, 2023

Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 and 2021 figures from Munich Re; Insurance Information Institute; University of South Carolina, Risk and Uncertainty Management Center

Reactions

INSURANCE
JOURNAL

Loss Trends for Severe Convective Storms

September 7, 2023 by L.S. Howard

Dan Dick, global head of Catastrophe Management at Aon:

“What’s interesting about these trends is when you start to tease out what’s driving the increase in claims, you realize that **overall frequency has not changed that dramatically. It’s not as if we’re getting more events,**” he said.

 About 80% of that increase is coming from exposure growth!

U.S. hurricanes over the last 30 years through year-end 2022 have cost insurers approximately **\$555 billion (trended to 2023 dollars)**. “If I calculate just severe convective storms, which includes tornadoes, hailstorms and straight-line wind events, the trended loss over the same period through the first half of 2023 cost insurers \$526 billion,” Dick continued.

Reactions

Underinsured Properties Are Crushing Reinsurers. Why Proper Valuations Will Be a Focus for Years to Come

Given the factors currently buffeting the property market, businesses need to get much sharper on valuations.

By: Alex Wright | March 8, 2023



“Every time we put a submission out in the marketplace, we are **asked by the underwriter about the client’s process for calculating replacement costs**,” said Michael Rouse, U.S. property practice leader at Marsh. **“They want to know how their property portfolio has changed year on year, how they do a valuation of their building and contents**, and what their business interruption procedure is.”

“It all starts with an accurate valuation,” said Michael LaRocca, head of property and specialty for North America at Swiss Re. **“That allows us to model for expected losses** and therefore ensure the insured receives the best coverage.”

Reactions

AMWINS

2023 / Q1

State of the Market

Q1 2023

“Carriers say insurance to value (ITV) is off by 30% or more. The difference in valuation that markets feel is needed varies greatly by region and occupancy. Carriers will be addressing this with renewals, and accounts **where values have remained unchanged and/or unsupported will see their rates increase dramatically** or, in some cases, their submissions will fall to the bottom of the pile..”



What you can control:

Each Organization is Unique - Decision Driven by:

- Underwriting Desires (internal)
- Composition of Insureds (internal/external)
 - Relative Size
 - Recent Loss History
 - Membership Stability Y-o-Y (Pools)
 - Economy / New Construction – much vs. little
- Budget / Board Appetite (internal)
- (re)Insurance Requirements (external)
- National / Local Construction Cost Changes (external)

Industry Ave: 3 – ~~7~~ Years

Specific Policy Language / Coverage

“Typical” Appraisal Exclusions:

- Site Preparation
- Foundations / Footing (below lowest occupied level)
- Underground Plumbing



What you can control:

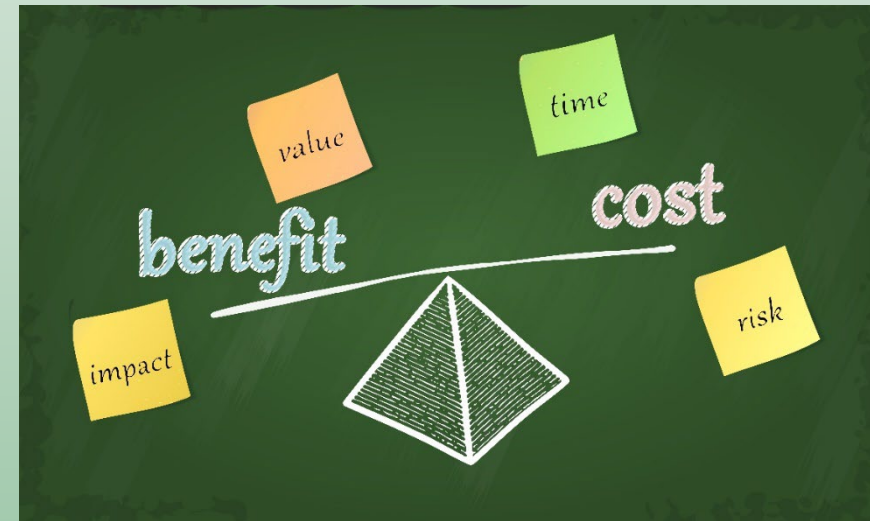
Appraisal Threshold for Structures:

- Lower Threshold = Higher Investment
- What's the Cost???

To Appraise.... vs. To Omit

HCA's Clients Range:

\$0 (all) to \$1.0 million



What you can control:

Appraisal Threshold for Structures:

- Average-sized City – (9) Lift Stations not on SOV
- > \$250k in just this one...
- Frequently missed:
 - Lift / Pump Stations (incl Generators)
 - Park & Other Remote Exposures
 - Major Additions; Significant Renovation Data



What you can control:

**Replacement
Cost Value**

**Reproduction
Cost Value**

"Replacement Cost is..." ???



"...what your POLICY says!"

**Actual
Cash Value**

Where do the values come from???

Variety of Sources

2021-23 Y-O-Y Changes \approx 10% - 20% Increases!

ENR
Engineering News-Record

RSMMeans data
from **GORDIAN**

AMERICAN
CITY & COUNTY


Mortenson


CoreLogic

Handy Whitman Index
of Public Utility
Construction Costs

Turner Building Cost Index

CUMMING
Building Value Through Expertise

BNI Building News
A DESIGN COST DATA COMPANY
DATA YOU CAN TRUST

 **BUREAU OF LABOR STATISTICS**
Producer Price Indexes

RLB Rider
Levett
Bucknall

Polling Question

How many of you are part of regular insurance valuation appraisal cycle?

- A. Regular appraisal cycle provided by my risk pool.
- B. Regular appraisal cycle we contract out independently or complete internally.
- C. No recent appraisals but we regularly trend our values.
- D. No appraisals or I do not know.





Best Practices for Audit Compliance

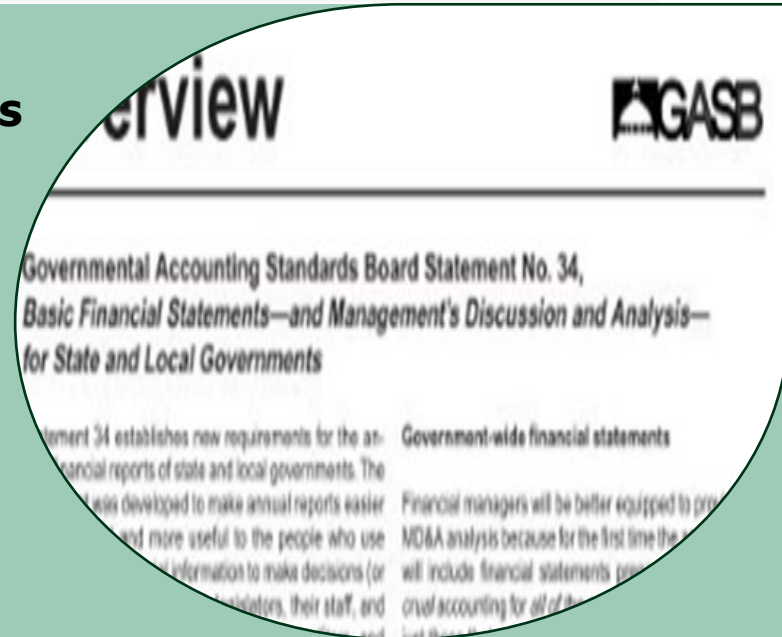
Elizabeth Gordon – Capital Asset Accountant

Dekalb County



Understand Requirements

- **Regulatory requirements and changes**
- **Internal documented Policy and Procedures**
 - Thresholds
 - Useful Lives
- **Establish a compliance culture**
 - Identify contacts within organization
 - Communicate mission and regulations
 - Invite feedback and involvement in the process
 - Understand common challenges
 - Develop a win-win
- **Address difficult areas**
 - Training
 - Provide data that may assist their needs
 - Involve all stakeholders to demonstrate value



Understand Requirements

Georgia Department of Audits and Accounts Audit Report For Fiscal Year Ended June 30, 2023

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2023

took the time needed and all assets were thoroughly reviewed before retiring them from asset management. Assets that were not located on the sample list were those that were remaining for the department custodians to review but were unable to be confirmed in time to retire them before fiscal year end. In addition, problems in which departments did not consistently notify the finance department to update or remove assets in the financial system persisted and could be attributed to overall staff turnover and a lack of communication and coordination.

Effect:

The [redacted] is not complying with SAO policies. Without the proper controls over capital assets, including maintaining a complete and accurate capital asset listing, there is a risk that the financial statements for internal and external reporting do not accurately reflect the true value of the capital assets.

Processes:

- Expense review (frequency depends on volume)

- Quarterly

- Monthly

- Annual

- Communication with end users (Departments)

- Understand details of what costs include

- Forms/Spreadsheets for collecting details of exactly what you need

- Expense vs Capitalize – get details

- Record as much detail as possible

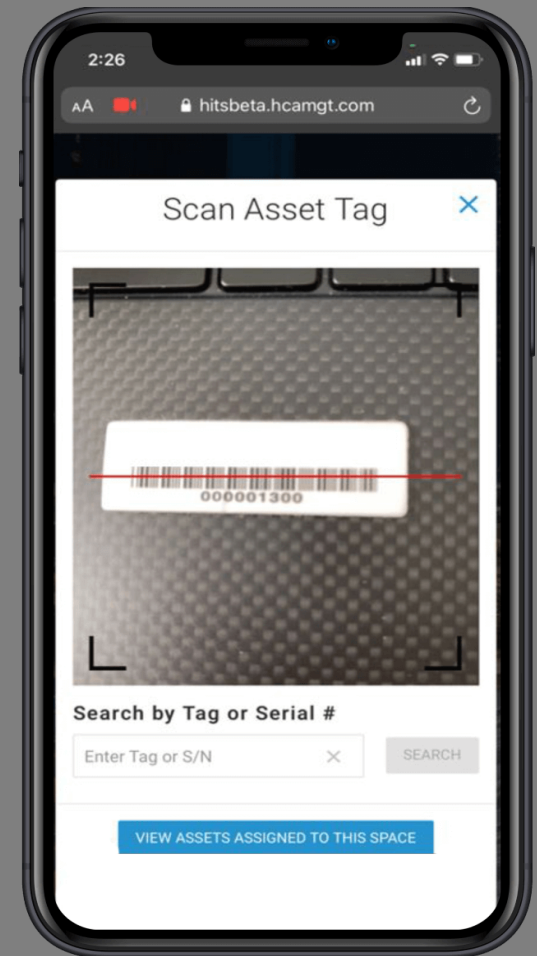
- Need clear descriptions for future retirements / adjustments

- CIP review



Perpetuation of Compliance:

- Inventory cycle of equipment
 - Centralized / Decentralized / 3rd Party
 - Self-Certification = RISK
- Technology used
 - Spreadsheets
 - Inventory software / handheld scanners
 - RFID tags (large entities, lots of FFE)
- Adjustments to Policy / Procedures
- Communication to stakeholders



Perpetuation of Compliance:

Asset Additions

- Review of departmental coding of equipment account/expense codes
- Review of acquisition documents - costs should be reflected appropriately
 - Should be done by person with knowledge of Property Accounting
 - Costs incurred to place asset in service capitalized
 - Identifiable to specific asset
- Construction and renovation projects (REVIEW CIP)
- Bulk purchases
- Updates to existing assets and partial payments



Perpetuation of Compliance:

Dispositions

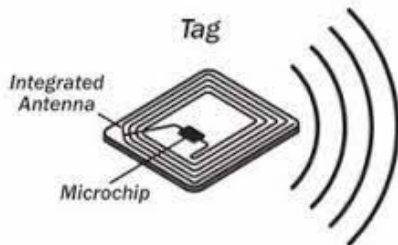
- Disposition forms (Electronic or Paper)
 - Validation against records?
 - Proper approvals (IT, Safety, Accounting, Grants)
- Clear communication of requirements to Departments
- Accurate and timely updates to financial system



Perpetuation of Compliance:

Sensitive or Control items

- Under capitalization threshold, but need to be tracked
 - High Risk
 - Data Sensitive
 - Laptops, plotters, tablets
- Part of annual inventory?
- Tagging and tracking? RFID?



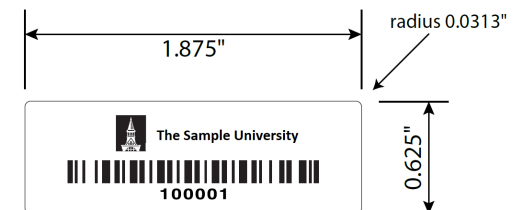
RFID Technology

Process

- ❖ **Passive:** No battery, antenna responds to Radio Frequency emitted from scanner (does not actively emit signal).
- ❖ **Read Range:** 2-8' can be read through wood or plastic, not metal

Benefits

- ❖ Fewer disruptions to operations
- ❖ Fewer staff needed to conduct inventories
- ❖ Ability to account for multiple items at a time
- ❖ Estimated average of 30-40% reduction in time
- ❖ No human error for data input
- ❖ No interference with other equipment – passive signal



Polling question

We complete our capital asset verification:

- A. Every two years per the state mandate.
- B. Every year, just capital assets
- C. Every year including sensitive items and capital assets
- D. Every two years including sensitive items and capital assets.



QUESTIONS?

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Thank You!



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