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Property, Plant, and Equipment
<u>Disclosure Requirements</u>

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Smart people learn from their mistakes. But the really sharp ones learn from the mistakes of others.

Examples of Matters for Further Consideration

We noted certain disclosures were not complete. Specifically, property and equipment did not include a description of the method used in computing depreciation.

A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets was not disclosed in the financial statements.

In a compilation with disclosures engagement, the financial statements did not contain disclosure of balances of major classes of depreciable assets at the balance sheet date and depreciation expense for the period.

The gain or loss on asset disposition was not recorded in income from continuing operations.

The gain on sale of a long-lived asset should be included in income from continuing operations. If a subtotal such as "income from operations" is used, it should include the amount of the gain. A review engagement did not include the gain on sale of an asset as part of income from continuing operations.

The gain on sale of a long-lived asset that was not a discontinued operation was not included in income from continuing operations as required by standards but was included in other income after the subtotal "income from operations."

We continue our reporting on Matters for Further Consideration (MFC) in peer review with our initial look at the MFCs for 2021 peer reviews pertaining to the disclosure requirements related to property, plant, and equipment (PP&E). We noted an above-average amount of MFCs related to PP&E disclosures. Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 360, *Property, Plant, and Equipment*, provides guidance for presentation and disclosure of long-lived assets.

> Illustrative disclosures presented in this report are not a substitute for the original authoritative accounting guidance. Accountants and practitioners are urged to refer directly to applicable authoritative pronouncements to help ensure compliance with required disclosure standards. The CPEA is not providing assurance that these illustrative disclosures comply with authoritative pronouncements and are not recommending or endorsing these examples.

<u>General Disclosures</u>

FASB ASC 360-10-50-1 provides the general disclosure requirements for property, plant, and equipment. According to that guidance, because of the significant effects on financial position and results of operations of the depreciation method or methods used, a reporting entity must provide disclosures in the notes to the financial statements, as follows:

- The amount of depreciation recognized as an expense during the accounting period
- The balances of major classes of depreciable assets at the balance sheet date categorized by nature or function
- The amount of accumulated depreciation either by major classes of depreciable assets or in total at the balance sheet date
- A description of the depreciation methods for each major class of depreciable assets

The following is an example of these disclosure requirements from American Outdoor Brands Corporation.

Note 3 – Significant Accounting Policies

Property, Plant and Equipment — We record property, plant, and equipment, consisting of land, building, improvements, machinery, equipment, software, hardware, furniture, and fixtures, at cost and depreciate them using the straight-line method over their estimated useful lives. We charge expenditures for maintenance and repairs to earnings as incurred, and we capitalize additions, renewals, and betterments. Upon the retirement or other disposition of property and equipment, we remove the related cost and accumulated depreciation from the respective accounts and include any gain or loss in operations. A summary of the estimated useful lives is as follows:

Description	**Useful Life**
Building and improvements	10 to 40 years
Software and hardware	2 to 7 years
Machinery and equipment	2 to 10 years

We include tooling, dies, and fixtures as part of machinery and equipment and depreciate them over a period generally not exceeding ten years.

Note 8 – Property, Plant, and Equipment

The following table summarizes property, plant, and equipment as of April 30, 2018 and 2017 (in thousands):

	April 30, 2018	**April 30, 2017**
Machinery and equipment	$251,706	$242,479
Software and hardware	43,097	39,526
Building and improvements	29,908	28,110
Land and improvements	3,845	3,573
	328,556	313,688
Less: Accumulated depreciation and amortization	(198,545)	(170,538)
	130,011	143,150
Construction in progress	29,114	6,535
Total property, plant, and equipment, net	$159,125	$149,685

Depreciation of tangible assets and amortization of software expense amounted to $30.0 million, $29.2 million, and $27.8 million for the fiscal years ended April 30, 2018, 2017, and 2016, respectively. The large increase in construction in progress is due to the costs incurred for the purchase of land and costs related to the design and construction of our national logistics facility.

The following table summarizes depreciation and amortization expense, which includes amortization of intangibles and debt financing costs, by line item for the fiscal years ended April 30, 2018, 2017, and 2016 (in thousands):

	For the Year Ended April 30,		
	2018	**2017**	**2016**
Cost of sales	$24,582	$24,744	$22,332
Research and development	557	428	1,136
Selling and marketing	619	424	221
General and administrative	25,212	23,699	14,869
Interest expense	1,105	918	2,679
Total depreciation and amortization	$52,075	$50,213	$41,237

Impairment of Long-Lived Assets Held and Used

According to FASB ASC 360-10-50-2, if a reporting entity recognizes an impairment loss on a long-lived asset or asset group classified as held and used, the notes to the financial statements must provide the following:

- A description of the asset or asset group and the circumstances of the impairment
- The amount of the impairment (unless presented on the face of the income statement) and where it is presented on the income statement
- The method used to determine fair value, such as:
  - Quoted market prices
  - Comparable prices of similar assets
  - Another valuation technique or model
- The segment to which the asset or asset group belongs, if applicable

The following is an example of these disclosure requirements from Supervalu Inc.

Note 18 – Goodwill and Long-Lived Asset Impairment Charges

In fiscal 2018, two retail asset groups, which consisted of two separate retail banners, indicated a decline in their results of operations and the cash flow projections of these two retail asset groups declined compared to prior projections. As a result, the two retail asset groups were selected for an undiscounted cash flow review. Both of these retail asset groups failed the long-lived asset recoverability test. Accordingly, a fair value assessment using the income approach was performed over each retail group's long-lived assets. The carrying value of both asset groups exceeded the estimated fair value and were reduced to the lower of the carrying value or fair value, resulting in an impairment charge of $47, within selling and administrative expenses of discontinued operations.

In fiscal 2017, one retail asset group indicated a decline in their results of operations and the cash flow projections declined compared to prior projections. As a result, the retail asset group was selected for an undiscounted cash flow review. The retail asset group failed the long-lived asset recoverability test. Accordingly, a fair value assessment using the income approach was performed over the retail asset group's long-lived assets. The carrying value of the assets within this asset group exceeded the estimated fair value and was reduced until all long-lived assets were recorded at the lower of their carrying value or fair value, resulting in an impairment charge of $41 within selling and administrative expenses of discontinued operations.

<u>Long-Lived Assets Held for Sale</u>

During an accounting period, a reporting entity may dispose of long-lived assets or classify long-lived assets as held for sale. If so, FASB ASC 360-10-50-3 requires the reporting entity to provide the following disclosures:

- A description of the facts and circumstances that resulted in the disposal or the expected disposal
- The expected manner and timing of that disposal
- The gain or loss recognized in accordance with FASB ASC 360-10-35-37 through 35-45 and FASB ASC 360-10-40-5
- If not separately presented on the face of the statement where net income is reported (or in the statement of activities for an not-for-profit (NFP) entity), the caption in the statement where net income is reported (or in the statement of activities for an NFP entity) that includes that gain or loss

- If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale -- Any loss recognized on the disposal group classified as held for sale in accordance with FASB ASC 360-10-35-37 through 35-45 and FASB ASC 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.
- If applicable, the segment in which the long-lived asset (disposal group) is reported under FASB ASC 280, *Segment Reporting*, on segment reporting.

The following is an example of these disclosure requirements from Investors Real Estate Trust where 13 of 16 apartment communities are held for sale.

> During fiscal year 2017, we incurred a loss of $57.0 million due to impairment of 16 apartment communities and two parcels of unimproved land. We recognized impairments of $40.9 million, $5.8 million, $4.7 million, and $2.8 million, respectively, on three apartment communities and one parcel of unimproved land in Williston, North Dakota, due to deterioration of this energy-impacted market, which resulted in poor leasing activity and declining rental rates during the three months ended July 31, 2016, which should generally be a strong leasing period. These properties were written down to estimated fair value based on an independent appraisal in the case of one property and management cash flow estimates and market data in the case of the remaining assets. The properties impaired for $40.9 million, $4.7 million, and $2.8 million are owned by joint venture entities in which, at the time of impairment, we had an approximately 70%, 60%, and 70% interest, respectively, but which are consolidated in our consolidated financial statements. We recognized impairments of $2.9 million on 13 properties and one parcel of land in Minot, North Dakota. These properties were written down to estimated fair value based on management cash flow estimates and market data and, in the case of the 13 properties, our intent to dispose of the properties.
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> During fiscal year 2016, we incurred a loss of $6.0 million due to impairment of one office property, one healthcare property, two parcels of land, and eight apartment communities of which approximately $440,000 is reflected in discontinued operations. See Note 10 for additional information on discontinued operations. We recognized impairments of approximately $440,000 on an office property in Eden Prairie, Minnesota; $1.9 million on a healthcare property in Sartell, Minnesota; $1.6 million on a parcel of land in Grand Chute, Wisconsin; $1.9 million on eight apartment communities in St. Cloud, Minnesota; and $162,000 on a parcel of land in River Falls, Wisconsin. These properties were written down to estimated fair value during fiscal year 2016 based on receipt of individual market offers to purchase and our intent to dispose of the properties or, in the case of the Grand

Chute, Wisconsin, the sale listing price and our intent to dispose of the property. The Sartell, Minnesota property was classified as held for sale at April 30, 2016.

Disposition of an Individually Significant Disposal Component

There may be circumstances in which a long-lived asset (disposal group) includes an individually significant component of a reporting entity that either has been disposed of or is classified as held for sale but does not meet the criteria for presentation as a discontinued operation in accordance with FASB ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*.

Practice Note: The FASB ASC Master Glossary defines a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

In such circumstances, in addition to the disclosures above, related to long-lived assets held for sale, additional disclosures are required in accordance with FASB ASC 360-10-50-3A. The required disclosures depend on the type of organization, as follows:

If the reporting entity is a public business entity or an NFP conduit bond obligor, it must provide both of the following disclosures:

- The business entity's pretax profit or loss (or the NFP entity's change in net assets) from the individually significant component of the entity, for the following accounting periods:
    - For the period in which the entity has disposed of or classified the disposal group as held for sale
    - For each prior period presented in the income statement or the statement of activities
- The business entity's pretax profit or loss (or the NFP entity's change in net assets) attributable to the parent entity, if the individually significant component of the entity includes a noncontrolling interest, for the following accounting periods:
    - For the period in which the entity has disposed of or classified the component of the entity as held for sale
    - For each prior period presented in the income statement or the statement of activities

All other entities must disclose the business entity's pretax profit or loss (or the NFP entity's change in net assets) from the individually significant component of the entity (the entity must disclose the amount for the period that it disposes of the assets or component of the entity or classifies them as held for sale). In addition, if the individually significant component of the entity includes a noncontrolling interest, the reporting entity must disclose the business entity's pretax profit or loss (or the NFP entity's change in net assets) attributable to the parent entity.

Disposal Gain or Loss

The guidance for presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group) is set forth in FASB ASC 360-10-45-5. According to this guidance, a reporting entity must present a recognized gain or loss on the sale of a long-lived asset or disposal group as provided in FASB ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, on its income statement as part of continuing operations before income taxes unless the sale represents discontinued operations. If the reporting entity also presents a subtotal for income from operations, the entity must also show the pre-tax gain or loss on the sale as part of this subtotal. Further, as discussed in the SEC interpretation at FASB ASC 360-10-S99-1, such amounts also should not be included as an adjustment to depreciation expense.

Conclusion

We hope this report is helpful in understanding the disclosure requirements related to property, plant, and equipment. And, as always, the CPEA is available to answer our members' questions.

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