

# Data Visibility: The Hidden Value of Wall-to-Wall Fixed Asset Inventory/ Barcode Tagging & Reconciliation

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The purpose of this paper is to discuss the benefits of maintaining fixed asset ledgers and performing physical inventories of fixed assets to validate the data contained in the ledgers. This paper will also address the issues involved with performing a physical inventory of fixed assets, cost segregation and financial reconciliation of fixed asset data.

**Val-i-date:** 1. To declare or make legally valid; 2. To mark with an indication of official sanction; 3. To substantiate; verify.

**Ver-i-fy:** 1. To prove the truth of by presentation of evidence or testimony; substantiate; 2. To determine or test the truth or accuracy of, as by comparison, investigation, or reference.

**Sub-stan-ti-ate:** 1. To support with proof or evidence; verify; 2. To give material form to; embody; b. To make firm or solid; 3. To give substance to; make real or actual.

## **Overview**

The basic objective of fixed asset accounting is to maintain tracking data and the financial impact associated with the acquisition and retirement of capital assets. In an ideal world, this objective would be fulfilled by recording detailed purchase information at the time of acquisition in accordance with Generally Accepted Accounting Principles (GAAP) and with the company's accounting practices, tracking any additions or cannibalizations to the asset and recording any transfers or retirements in a timely manner. For most companies, the ideal reality does not exist and fixed asset data is frequently constructed in summary form by group entries of multiple assets or by ambiguous information being recorded for a particular purchase. As a result:

- 1) Confidence in the data contained in the fixed asset ledgers can become compromised.
- 2) Overstatement of balance sheet accounts and excessive personal property tax and depreciation expenses occurs.

Numerous mandates exist that require maintaining accurate fixed asset data, including GAAP and various internal accounting directives. The recent legislative mandate established by the enactment of the Sarbanes-Oxley Act of 2002 escalates the importance of not only maintaining accurate financial data from a historical perspective but also the actual managerial validation that the internal controls that produce and maintain the financial data truly serve their intended purpose on an ongoing basis.

### The Life of an Asset

The simplest summary of all the accounting entries involved in the life of a fixed asset would be the creation of the fixed asset record at the time of payment for the asset, various depreciation reports generated at specified intervals and finally a retirement date upon the asset disposition. This is an accurate summary of what transpires for many assets of nominal value. However, in our current environment, many asset purchases are merely individual components of a large project and the accounting entries and events have become much more complicated. This section will discuss a common scenario that regularly occurs in many companies and the effect that the accounting practices have on the financial reporting for that company.

For this discussion, we will outline a purchase of a stamping press at a cost of \$4,000,000. The simplest scenario would be that a company orders the press and makes the full payment at the time of delivery. At this time, a new record would be created in the fixed asset general ledger reflecting the following information:

Asset No:	1234
Tag No:	1234
Acquisition Date:	04/01/2000
Purchase Amount:	\$4,000,000.00
Account:	0870
Life:	15
Depreciation Method:	MACRS
Description:	PRESS
Manufacturer:	VERSON
Model No:	0567
Serial No:	V546789
Retirement Date:	

Throughout the life of this asset, depreciation expense would be regularly calculated and reflected on the financial statements of the company. The purchase amount would also be included on the appropriate personal property tax return, typically placed in the "Machinery & Equipment" column by sorting the internal general ledger account numbers according to the format of the property rendition. The retirement date would be entered upon disposition of the asset.

Expanding on this scenario to reflect the purchase of laser controlled safety equipment two and a half years later at a cost of \$60,000 as well as the \$150,000 purchase of an extension of the conveyor system that supports the operation of the press. The most accurate method of recording these expenditures would be to create a separate fixed asset record for the safety equipment and a second record for the conveyor extension. But because these two purchases occurred in a single transaction from the same vendor, the accounting clerk created only one fixed asset record as noted below:

Asset No:	1235
Tag No:	1235
Acquisition Date:	10/01/2002
Purchase Amount:	\$210,000.00
Account:	0870
Life:	15
Depreciation Method:	SYD
Description:	PRESS UPGRADES

Manufacturer:  
Model No:  
Serial No:  
Retirement Date:

Furthermore, in the same year as the upgrades, the plant engineers also removed the original roller system used to transfer sheet metal to the die because the new conveyor extension now fills this purpose. Assuming plant engineers are focused completely on manufacturing issues, the disposal of the roller system does not get communicated to the accounting staff and, thus, no book adjustment is made.

In 2003, the plant controller must conduct a physical inventory of the fixed assets located at the plant in accordance with the internal accounting policies of this company. The simplest means of fulfilling this responsibility would be to generate reports that sort the fixed assets by department and distribute these reports to the various department supervisors for their verification of the assets contained in the reports. Suppose that the press department has a newly hired supervisor who promptly starts the inventory as required. Identifying the actual "VERSON PRESS" is easily accomplished, particularly with the inclusion of serial and model number data in the fixed asset record. However, "PRESS UPGRADES" does not provide adequate identifying information as to what asset this might represent, so the press supervisor contacts the plant controller for advice on resolving this situation. As the controller inspects the press with the supervisor to resolve the "PRESS UPGRADES" issue, the controller becomes acutely aware that the "PRESS" is actually a very complex asset.

In order for this press to be installed: the previously existing parts room had to be removed, an 18 foot deep concrete pit had to be constructed to support the infrastructure of the press, a very powerful electrical service had to be installed, separate hydraulic mules were placed next to and connected to the press, safety railings were imbedded into the concrete foundation, several computers were linked to the plant's production and quality control systems, software dedicated to the press operation was installed on the computers, modular furniture was provided within the press area and a crane was attached to the ceiling over the press to permit the installation and removal of dies used in the press. All of these assets were part of the original purchase of the "PRESS" but because they are so integral to a successful press installation, they were not treated as separate assets for accounting purposes. Further investigation by the plant controller revealed that a \$15,000 expense, representing training for the press operators to run and maintain the press, was also included in the original capitalized cost. Numerous issues arise from the facts displayed in the above scenario:

- 1) Many assets were physically connected in an integrated manner to function as a stand-alone manufacturing process and were accounted for as one individual asset. Although this may be logical at the time of purchase, the accounting staff will likely be impeded in the future from isolating the costs of each unique component and to validate that all components of the original purchase are still in operation.
- 2) The ability to perform a physical inventory of the assets associated with this purchase will be very difficult since so many individual assets were included in the single fixed asset record created. The information included in this particular asset record is not adequate for identifying individual assets that were part of the original purchase.

- 3) Different types of assets are included in this purchase that should be separately capitalized and classified for both accounting and property tax purposes. The cost of the “PRESS” should be segregated into multiple asset records to reflect the correct classification of each individual asset as real or personal property, machinery, furniture, computer equipment or as a tangible asset vs. an intangible expense.
- 4) Because so many individual assets are part of the “PRESS”, it can be reasonably expected that the assets will not all have the same life expectancy (i.e., components will be disposed of at different intervals of time). Accounting personnel will have no basis to “retire” the original cost associated with the disposed individual assets due to the lack of isolated component costs.

Given the facts of this circumstance, this company will be impacted as follows:

- 1) The original asset record will overstate the actual cost still in existence.
- 2) In turn, depreciation expense will be misstated.
- 3) The actual value in existence will be overstated on the personal property tax return causing excessive tax expense.

The scenario that was just described was intended to demonstrate the actual complexity involved in tracking the fixed assets of a given entity. This example relies on very basic transactions to demonstrate the ease to which the true portrait of a population of fixed assets can be incorrectly reflected and have an adverse and material impact on the financial performance of a company. In reality, the acquisition of fixed assets within an organization must follow very extensive internal procedures to obtain various levels of approval before the asset purchase is finally consummated. Many assets are purchased as individual components of a “project” that requires the acquisition of many assets. Instead of obtaining internal corporate approval to acquire many individual assets, approval is granted to spend capital and to proceed on developing the project as a whole. For this reason, once a “project” like the press scenario described above is fully operating, it is often perceived as one asset and treated accordingly for accounting purposes.

### **Inventory and Financial Reconciliation Procedures**

#### **“Hunt & Peck” Method of Inventory & Reconciliation**

Most companies have an internally established requirement to perform a physical inventory of fixed assets on a cycle basis (e.g., 3-yr; 5-yr, etc.). The purpose of this requirement is to validate the internal controls that ensure the accuracy of the fixed asset general ledger and subsequent financial reporting. The previous section alluded to an inventory method whereby fixed asset listings are distributed to each department and the department supervisor is tasked with searching for and verifying the existence of the assets contained on the list. This “hunt & peck” method is very common in those companies that conduct the physical inventory with internal personnel. Unfortunately, this method can be deficient in several ways:

- 1) Efficiencies are compromised due to the nature of the process (i.e., asset “searching”).

- 2) Often times this method will lack a disciplined approach (i.e., diligence, consistent procedures, completing in a concise and continuous timeframe).
- 3) Department supervisors will often only validate the population within their current control and does not actually resolve discrepancies. This will be most apparent when the supervisor indicates that asset “Machine A” on their list was transferred to a “Plant B”, which may or may not be participating in the inventory project. Because the transfer of Machine A to another plant was not recorded in the fixed asset record, it will not show up on Plant B’s list and will not be verified.
- 4) The department head doing the inventory, trying to complete this task as quickly as possible, typically ignores fixed asset records with ambiguous entries.
- 5) Custodians of assets may not want to disclose ghost assets, as they perceive that this may have a negative reflection of their performance. This reluctance often exists because the identification of ghost assets may facilitate asset retirements with remaining net book value that can materially affect the current year financial statements.

### **Statistical Method of Inventory & Reconciliation**

Another method of performing physical inventories with internal staff is the use of statistics to “validate” the accuracy of the fixed asset system. In this method, a small sampling of the total asset population is reviewed to determine any discrepancies. A random check is made to validate that certain assets on the fixed asset system are in the plant and any discrepancies are noted. If the total amount of the “discrepancies” is below a specified level, then the inventory is deemed to be accurate. This method has many flaws:

- 1) This method fails to resolve asset records that contain ambiguous data. For instance, an entry that merely states “Transfer line” cannot be adequately validated, as this information does not indicate what is included in this asset record.
- 2) This method also fails to identify the total population of common assets that has only partial representation in the sample. For instance, the fixed asset system contains fourteen records of individual “widgets” and also has four records indicating multiple purchases of two widgets grouped into single records for an approximate total of 22 widgets on the books. In actuality, only 8 widgets are still in existence at the facility; but because the sample that was selected only required the validation of six widgets, this statistical endeavor passes the minimum threshold even though at least twelve widgets have not been reconciled.
- 3) The statistical method also fails to ensure that group entries of assets are properly categorized for both financial and tax purposes. This results in a misstatement of depreciation expense as well as an overstatement of personal property tax liability.

### **A Thorough Method of Inventory & Reconciliation**

In order to conduct a physical inventory of the fixed assets of a given population, attention needs to be focused on validating all the data contained in the financial ledgers. This should be readily apparent if the primary purpose for the physical inventory requirement is to validate that the

financial ledgers reflect reality. The successful inventory and reconciliation project will result in a very clear audit trail that drives the cross-referencing of barcoded asset tags affixed to the physical assets to the applicable asset records in the fixed asset ledger and the associated historical data.

The general steps for performing a successful inventory and validation of financial ledger data can be summarized as follows:

- Review financial data to be used in the reconciliation process
- Identify cost segregation issues
- Establish the scope of the inventory
- Conduct inventory
- Perform reconciliation procedures
- Resolve outstanding issues
- Review financial data

The review of the financial information prior to the inventory is critical because the specifications developed from the review become the road map for optimal inventory data collection and effective reconciliation procedures. The review process must consider the capitalization policies that the company has followed over the years. For instance, ten years ago a company experiencing financial hardship may have capitalized any asset with an original cost of at least \$100, while today that threshold has been increased to \$1,000. Does the inventory include all assets in the ledger or should the inventory only include those assets meeting the current (and more reasonable) capitalization policy of \$1,000? An analysis must be done that determines the percentage of each general ledger account's total value of assets meeting the current capitalization threshold and those meeting the former threshold to establish clear guidelines for the inventory.

Analysis devoted to how assets were capitalized is also necessary so that the inventory is performed in a similar manner. As an example, how were personal computers capitalized? Was a PC considered as one asset composed of a CPU and a monitor or did they consider the CPU and monitor as two separate assets? These types of capitalization practices will dictate how the specifications of performing the physical inventory are established.

### **Cost Segmentation & Establishing the Scope of the Inventory**

The review of the financial ledgers must also consider how assets were recorded to establish the scope of the inventory. The Stamping Press purchase example previously highlighted exposes the need for expanding the "data visibility" within fixed asset records. The knowledgeable person performing the financial review must be on guard for asset records that merit further investigation to segregate the actual costs associated with the total purchase of the individual assets that were part of the asset record. By researching the source documents of the "PRESS" purchase (i.e., performing "cost segregation") the reviewer would be positioned to recognize that multiple asset records should have been created for that total purchase and each should be classified in a different manner than the others. Performing the cost segregation process prior to establishing the inventory scope ensures that the procedures will be completed in a consistent manner and allows the maximum benefits of the correct classification of each individual asset. Returning to the press example, it is very possible that similar purchases were treated differently (i.e., in the example the "crane" was purchased as part of the multi-component "Stamping Press")

and embedded in the fixed asset record; while a different purchase of a stand-alone single “crane” is capitalized and recorded as an individual asset record). Without performing the cost segregation, the scope of the inventory could not be clearly defined.

### **Conducting the Inventory**

Conducting the inventory will require a great deal of planning to ensure that all objectives are met. Not only must the project scope definition clearly articulate what the criteria is for inclusion in the inventory, but also the specific data fields to be collected for each asset must be determined. In this regard, it will be very easy for numerous agendas to complicate the stated objective of the project. To emphasize this possibility, consider the following:

- 1) Financial and tax departments are primarily focused on historical financial data and the current operational status of each asset
- 2) Maintenance and engineering departments are focused on functional capabilities and preventative maintenance attributes for different subsets of assets
- 3) Information Technology departments often require data associated with the users and technological configuration of each asset

Those responsible for the fixed asset inventory requirement must be careful not to over complicate the process and try to ensure that the project is confined to narrow parameters. If the inventory project has multiple objectives such as to validate the fixed asset ledgers, permit the correct allocation of depreciation expense back to cost centers, and to ensure that optimal tax classifications are being realized, then the data fields collected during the inventory will be critical. The cost segregation process should result in standard naming conventions being employed for all data fields in the fixed asset system and the development of specifications for data collection during the inventory. For instance, if depreciation is charged-back to cost centers, then how the people performing the inventory will obtain the correct cost center ownership of each asset must be determined. Standard definitions and criteria for accurate and permissible tax classifications must also be clearly stated.

The issue of tagging assets also has many widely varying perceptions. Some organizations question the necessity of attaching barcoded asset tags to each asset during the inventory; others believe that all historical information of the asset can be embedded into a barcode tag. Barcoded asset tags serve a very legitimate purpose in that they represent a unique and very visible identifier that links the physical presence of the asset to a fixed asset record in the financial system of the company (i.e., an electronically readable license plate). This permits tighter controls around the asset base and also provides a vehicle for more efficient cycle audits. It also allows plant personnel to more effectively communicate to the accounting staff relative to asset moves, changes or dispositions.

### **Performance of the Reconciliation**

Assuming that the cost segregation effort performed at the beginning was very thorough (a challenging objective without unlimited time constraints), the general reconciliation process involves matching the inventory data collected to the records in the fixed asset system. This process is focused on the matching of unique pieces of data that provide clear evidence that the

data contained in the financial record reflects the historical events of the asset that was inventoried. Typically, this match is based on objective information from existing asset tag numbers or other unique identifiers, such as serial numbers (or other “like” data fields that could indicate a legitimate match). At this point, the reconciliation effort has been rather scientific, as specific matching processes have been executed according to the reconciliation criteria developed. Most projects will migrate from the scientific based reconciliation procedures to methods that require more subjective determinations. In effect, science does become art at some point. This contention can be demonstrated by the following example:

There are four records that have had all source documentation reviewed and all available information exhausted to provide as much data visibility as possible. The records (in a very simplistic form) look like this:

<u>Description</u>	<u>Cost</u>	<u>Date of Purchase</u>
Widget	\$13,214.56	08-01-98
Widget	\$13,214.56	08-01-98
Widget	\$13,214.56	08-01-98
Machinery	\$13,214.56	09-01-98

If only four widgets were identified during the physical inventory, it is easy to affirmatively match the first three widgets to the first three records. All available information has been exhausted to identify further information behind the ambiguous entry of “Machinery” and no additional known information exists for this record. Because the project is being executed according to a reasonable and prudent business rationale, one can make a sound conclusion that the fourth record (with the exact same cost and approximate purchase date as the other widgets) is also likely to be a widget. As such, a decision to match the fourth inventoried widget to the remaining ambiguous record is reasonable (assuming all other information has been exhausted).

### **Resolution of Outstanding Reconciliation Issues**

Most projects will require the involvement of various custodians of assets after the initial inventory and reconciliation phases have been completed. Lists of assets that are still on the ledgers but not matched to an inventoried asset need to be reviewed by those most familiar with the physical asset base. These knowledge sources must assist in resolving the status of assets (e.g., disposed of; transferred to another facility; omitted from the inventory; embedded asset; infrastructure asset; conflicting identifying information that prevents reconciliation without an adequate translation; etc.). Assets that were inventoried but not matched to the financial ledger will also exist. In this case, knowledgeable insight may permit further information as to when and where these assets came from (e.g., expensed or leased asset; consignment asset; re-built asset). Lastly, all assets deemed to be “ghost” (i.e., un-booked disposals) should be reviewed and confirmed by appropriate department heads as appropriate for retirement.

### **Benefits of Comprehensive Inventory & Reconciliation**

Many benefits will be derived by an organization through effective physical inventory/reconciliation and cost segmentation. The benefits all stem from creating a cleansed, fortified, and highly accurate fixed asset system – **DATA VISIBILITY**. Improvements to cash flow generated from lower tax and depreciation expense represents the most tangible benefit. In Exhibit A, the personal property tax expense of the press example previously detailed is shown to be significantly less if all assets are properly classified for property tax purposes. Exhibit B

demonstrates that the depreciation expense associated with all assets that were part of the original entry is also significantly less by employing accurate classifications.

### **The Influence of the Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 was signed into law after numerous corporate scandals exposed very deficient accounting practices that caused material misstatements of financial statements. The legislation was developed in reaction to the well-publicized instances of corporate malfeasance that resulted in huge losses for investors and material erosion in the public's confidence in the integrity of financial statements. The overall intent of this federal act was to increase the requirements for corporate governance by mandating several changes in the administration of financial reporting and increase the penalties for failing to accurately reflect a company's financial position. Although numerous incentives existed for proper financial controls and reporting prior to this legislation, this act has intensified attention placed on the practices underlying the preparation of financial statements available to the public.

As such, it is no longer adequate to merely certify the actual numerical results reflected on the statements; but company executives must also certify that the accounting and financial practices employed within the company are effective in calculating accurate results. This further certification requires the managerial validation that the internal controls that are implemented within a company are actually followed by involved personnel and are effective in accurately reflecting financial position. One of the key managerial deficiencies contributing to the scandalous cases was the lack of independence in many accounting oriented decisions and financial auditing responsibilities. The desire for third party independence was manifested in this legislation by expanding the authority of audit committees and by prohibiting various consulting agreements with accounting firms that are also responsible for the certification of the financial statements.

### **Third Party Independence**

The maintenance of a fixed asset system has a tendency to focus on what has transpired and not necessarily what happens moving forward. This is evident by the mounds of paperwork that may be required for managerial approval before a capital expenditure is actually made and the asset is resident in the corporate facility. On the other hand, a plant engineer can dispose of an asset by towing it into the scrap metal bin without advising any administrative staff (or completing any paperwork). When the time comes to perform a physical inventory with internal staff, the issue becomes whether it is likely that the managerial custodian of specific assets is willing to place themselves in a situation where an admission of not knowing the status of ghost assets has the potential to negatively reflect on their job performance.

The concept of third party independence precludes this circumstance from happening by minimizing the potential conflicts that arise when numerous agendas collide. Third party validation of financial information allows a very objective conclusion on the accuracy of the data based on the soundness of the audit trail created by an investigation of facts that serves only one agenda – validation of what is expressed in the financial records.

### **Conclusion**

Maintaining an accurate fixed asset system is a difficult task in any environment and is critically dependent on the internal controls that are installed being consistently followed in a timely manner. When the need to validate and correct many years of history arises, it proves to be an overwhelming task for the internal staff of most companies. There are numerous methods of accomplishing this task and some will work in certain environments and some will not. The key emphasis will be on whether the project can be internally completed in a finite and concise timeframe with highly accurate results; furthermore, an understanding of the degree to which third party independence is needed. The message is now clear that not only does a company need to strive for accurate presentation of financials, but also has to certify that the internal controls implemented are actually followed within the company and truly ensure that the financial statement certifications have credibility.

## Exhibit A

### Example Press – Federal Tax Depreciation Analysis

	Capitalized Cost	Method	Life	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
<b>Scenario #1</b>														
Press	\$ 4,000,000	MACRS	7.00	\$ 571,600	\$ 979,600	\$ 699,600	\$ 499,600	\$ 357,200	\$ 356,800	\$ 357,200	\$ 178,400	\$ -	\$ -	\$ 4,000,000
<b>Scenario #2</b>														
Press	\$ 2,950,000	MACRS	7.00	\$ 421,555	\$ 722,455	\$ 515,955	\$ 368,455	\$ 263,435	\$ 263,140	\$ 263,435	\$ 131,570	\$ -	\$ -	\$ 2,950,000
Training Expense	\$ 15,000	Expensed		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Demolition	\$ 50,000	SL	39.00	\$ 641	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 1,282	\$ 12,179
Press Pit	\$ 250,000	SL	39.00	\$ 3,205	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 6,410	\$ 60,897
Safety Railings	\$ 50,000	MACRS	7.00	\$ 7,145	\$ 12,245	\$ 8,745	\$ 6,245	\$ 4,465	\$ 4,460	\$ 4,465	\$ 2,230	\$ -	\$ -	\$ 50,000
Hydraulic Mule	\$ 100,000	MACRS	7.00	\$ 14,290	\$ 24,490	\$ 17,490	\$ 12,490	\$ 8,930	\$ 8,920	\$ 8,930	\$ 4,460	\$ -	\$ -	\$ 100,000
Furniture	\$ 25,000	MACRS	7.00	\$ 3,573	\$ 6,123	\$ 4,373	\$ 3,123	\$ 2,233	\$ 2,230	\$ 2,233	\$ 1,115	\$ -	\$ -	\$ 25,000
Computer Hardware	\$ 150,000	MACRS	5.00	\$ 30,000	\$ 48,000	\$ 28,800	\$ 17,280	\$ 17,280	\$ 8,640	\$ -	\$ -	\$ -	\$ -	\$ 150,000
Software	\$ 190,000	SL	3.00	\$ 31,667	\$ 63,333	\$ 63,333	\$ 31,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,000
Conveyor	\$ 80,000	MACRS	7.00	\$ 11,432	\$ 19,592	\$ 13,992	\$ 9,992	\$ 7,144	\$ 7,136	\$ 7,144	\$ 3,568	\$ -	\$ -	\$ 80,000
Crane	\$ 140,000	MACRS	7.00	\$ 20,006	\$ 34,286	\$ 24,486	\$ 17,486	\$ 12,502	\$ 12,488	\$ 12,502	\$ 6,244	\$ -	\$ -	\$ 140,000
<b>Total</b>	<b>\$ 4,000,000</b>			<b>\$ 543,513</b>	<b>\$ 938,216</b>	<b>\$ 684,866</b>	<b>\$ 474,429</b>	<b>\$ 323,681</b>	<b>\$ 314,706</b>	<b>\$ 306,401</b>	<b>\$ 156,879</b>	<b>\$ 7,692</b>	<b>\$ 7,692</b>	<b>\$ 3,758,077</b>
<b>Scenario #1 Depreciation Expense vs. Scenario #2 Variation</b>				<b>\$ 28,087</b>	<b>\$ 41,384</b>	<b>\$ 14,734</b>	<b>\$ 25,171</b>	<b>\$ 33,519</b>	<b>\$ 42,094</b>	<b>\$ 50,799</b>	<b>\$ 21,521</b>	<b>\$ (7,692)</b>	<b>\$ (7,692)</b>	<b>\$ 241,923</b>
<b>Percentage of Depreciation Savings</b>				4.91%	4.22%	2.11%	5.04%	9.38%	11.80%	14.22%	12.06%			6.05%

## Exhibit B

### Example Press – Michigan PP Tax Analysis

	<u>Capitalized Cost</u>	<u>PP Tax Section</u>	<u>Millage</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
<b><u>Scenario #1</u></b>														
Press	\$ 4,000,000	ME	5.00	\$ 89,000	\$ 76,000	\$ 67,000	\$ 60,000	\$ 54,000	\$ 49,000	\$ 45,000	\$ 42,000	\$ 38,000	\$ 36,000	\$ 556,000
<b><u>Scenario #2</u></b>														
Press	\$ 2,950,000	ME	5.00	\$ 65,638	\$ 56,050	\$ 49,413	\$ 44,250	\$ 39,825	\$ 36,138	\$ 33,188	\$ 30,975	\$ 28,025	\$ 26,550	\$ 410,050
Training Expense	\$ 15,000	Exempt	5.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Demolition	\$ 50,000	Exempt	5.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Press Pit	\$ 250,000	ME	5.00	\$ 5,563	\$ 4,750	\$ 4,188	\$ 3,750	\$ 3,375	\$ 3,063	\$ 2,813	\$ 2,625	\$ 2,375	\$ 2,250	\$ 34,750
Safety Railings	\$ 50,000	ME	5.00	\$ 1,113	\$ 950	\$ 838	\$ 750	\$ 675	\$ 613	\$ 563	\$ 525	\$ 475	\$ 450	\$ 6,950
Hydraulic Mule	\$ 100,000	ME	5.00	\$ 2,225	\$ 1,900	\$ 1,675	\$ 1,500	\$ 1,350	\$ 1,225	\$ 1,125	\$ 1,050	\$ 950	\$ 900	\$ 13,900
Furniture	\$ 25,000	FF	5.00	568.75	\$ 500	431.25	381.25	331.25	293.75	262.50	231.25	206.25	181.25	\$ 3,388
Computer Hardware	\$ 150,000	CE	5.00	\$ 2,250	\$ 1,650	\$ 1,200	\$ 900	\$ 713	\$ 563	\$ 300	\$ 300	\$ 300	\$ 300	\$ 8,475
Software	\$ 190,000	Exempt	5.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Conveyor	\$ 80,000	ME	5.00	\$ 1,780	\$ 1,520	\$ 1,340	\$ 1,200	\$ 1,080	\$ 980	\$ 900	\$ 840	\$ 760	\$ 720	\$ 11,120
Crane	\$ 140,000	ME	5.00	\$ 3,115	\$ 2,660	\$ 2,345	\$ 2,100	\$ 1,890	\$ 1,715	\$ 1,575	\$ 1,470	\$ 1,330	\$ 1,260	\$ 19,460
<b>Total</b>	<b>\$ 4,000,000</b>			<b>\$ 82,251</b>	<b>\$ 69,980</b>	<b>\$ 61,429</b>	<b>\$ 54,831</b>	<b>\$ 49,239</b>	<b>\$ 44,589</b>	<b>\$ 40,725</b>	<b>\$ 38,016</b>	<b>\$ 34,421</b>	<b>\$ 32,611</b>	<b>\$ 508,093</b>
<b>Scenario #1 Property Expense vs. Scenario #2 Variation</b>				<b>\$ 6,749</b>	<b>\$ 6,020</b>	<b>\$ 5,571</b>	<b>\$ 5,169</b>	<b>\$ 4,761</b>	<b>\$ 4,411</b>	<b>\$ 4,275</b>	<b>\$ 3,984</b>	<b>\$ 3,579</b>	<b>\$ 3,389</b>	<b>\$ 47,908</b>
<b>Percentage of Tax Savings</b>				<b>7.58%</b>	<b>7.92%</b>	<b>8.32%</b>	<b>8.61%</b>	<b>8.82%</b>	<b>9.00%</b>	<b>9.50%</b>	<b>9.49%</b>	<b>9.42%</b>	<b>9.41%</b>	<b>8.62%</b>

ME Machinery & Equipment  
FF Furniture & Fixtures  
CE Computer Equipment