

Higher Education Consulting Services

Strategic Asset Management: Building Componentization and Moveable Equipment for Financial Reporting

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Agenda

- Overview
- Driving Forces for Asset Management & Financial Reporting
- Implementing a Moveable Equipment Inventory – “Considerations”
- Building Componentization Overview
- Questions

OVERVIEW

Overview

- *Implementing a Fixed Asset Inventory solution is vital for Colleges and University's for many reasons. Proper accounting of assets can save time & money, reduce theft, improve planning and budgeting, eliminate "unrecorded retirements", and help an institution after a catastrophic event.*
- *Many times the importance of tracking and managing fixed asset data is overlooked in an organization even though assets such as Land, Land Improvements, Campus Infrastructure and Moveable Equipment represent the largest capital investment most institutions make.*
- *For those Institutions with affiliated Medical Center's/Hospital's, during our current COVID 19 Pandemic, the importance of tracking Emergency Medical Equipment (EME) is of very high importance as that of Personal Protective Equipment (PPE).*

DRIVING FORCES FOR ASSET MANAGEMENT & FINANCIAL REPORTING

GASB Financial Reporting Requirements

- ***Asset Management Financial Reporting Requirements for the Governmental Accounting Standards Board (GASB)***

GASB No. 35 – Basic Financial Statements and Management Discussion and Analysis for Public Colleges & Universities

Capital Assets Include:

- ✓ *Land & Easements*
- ✓ *Buildings & Equipment*
- ✓ *Infrastructure (campus roads, lighting, land improvements, etc.)*
- ✓ *“Historical Treasurers”*

GASB Financial Reporting Requirements

GASB No. 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

- ✓ *This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.*

GASB Financial Reporting Requirements

Forthcoming Changes/New Standards:

- 1. Re-write of GASB 34/35*
- 2. Public/Private Partnerships (P-3's)*
- 3. Capital Assets Project*
- 4. Service Concessions/Public – Private Partnerships*
- 5. Infrastructure Reporting*

FASB Financial Reporting Requirements

- *In August of 2016, FASB issued a Standard intended to simplify and improve how Not-for-Profit organizations classify assets, as well as the information presented in the Financial Statements and notes about its Liquidity, Financial Performance and Cash Flows, as an update to FASB 93.*

FASB Financial Reporting Requirements

- ***FASB 93: Recognition of Depreciation by Not-for-Profit Organizations***

This Statement requires all Not-for-Profit organizations to recognize the cost of using up long-lived tangible assets in general purpose external financial statements.

OMB Uniform Guidance Financial Reporting

Direct & Indirect Facilities & Administrative (F&A) Costs:

- ✓ *200.414 – Indirect F&A Costs*
- ✓ *200.436 – Depreciation*
- ✓ *200.443 – Gains and Losses on Disposition of Depreciable Assets*
- ✓ *200.448 – Intellectual Property*
- ✓ *200.449 – Interest*

OMB Uniform Guidance Financial Reporting

Property Standards:

- ✓ *200.310 – Insurance Coverage*
- ✓ *200.311 – Real Property*
- ✓ *200.312 – Federally Owned and Exempt Property*
- ✓ *200.313 – Equipment*
- ✓ *200.315 – Intangible Property*

OMB Uniform Guidance Financial Reporting

Appendix III to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Depreciation for Institutions of Higher Education (IHEs):

A. General

B. Identification and Assignment of Indirect (F&A) Costs

C. Determination and Application of Indirect (F&A) Cost Rate, or Rates

D. Simplified Method for Small Institutions

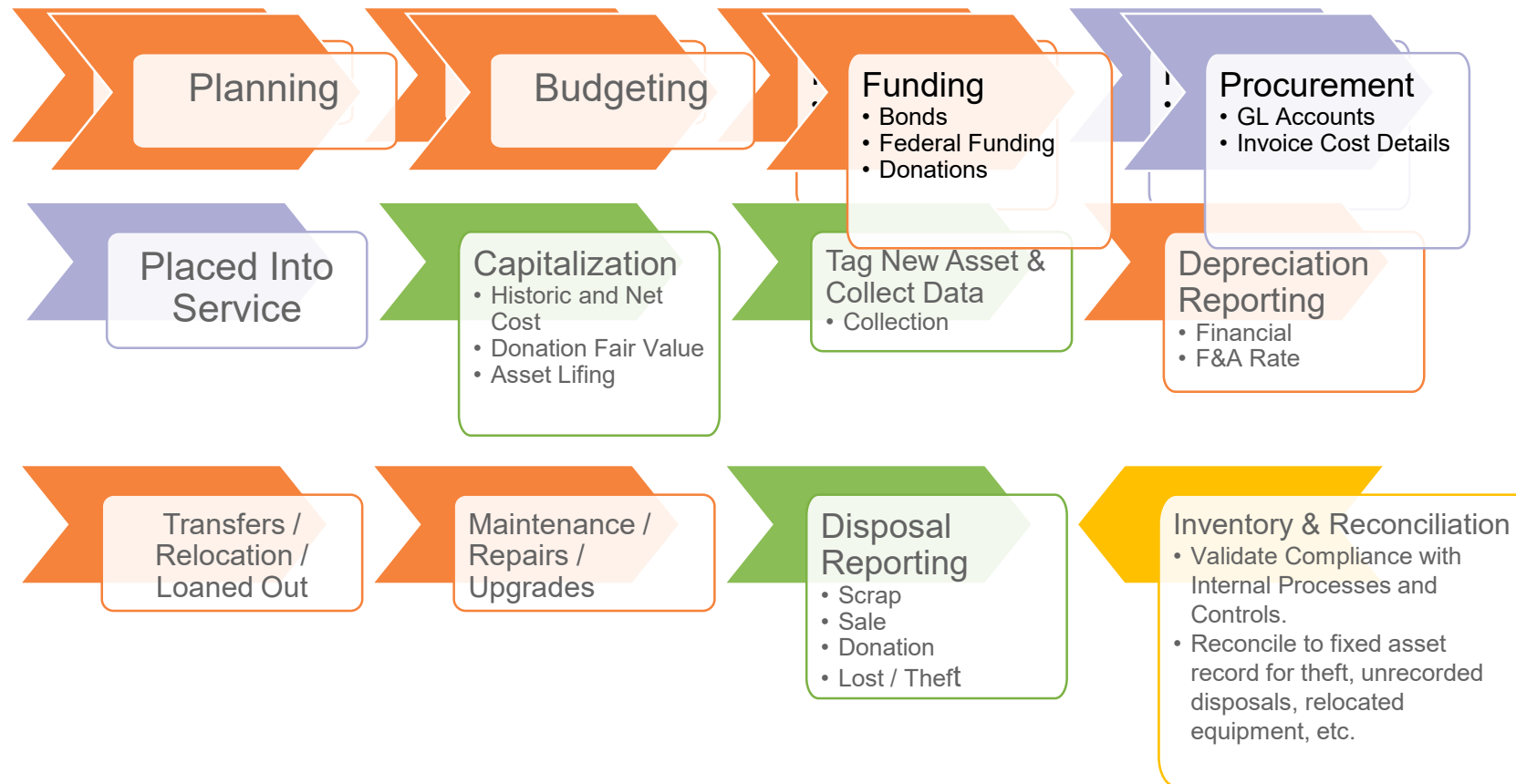
IMPLEMENTING A MOVEABLE EQUIPMENT INVENTORY – “*CONSIDERATIONS*”

Moveable Equipment Overview

The goal of this presentation section is to offer you suggestions for the Implementation and Perpetuation of a successful fixed asset management inventory, including:

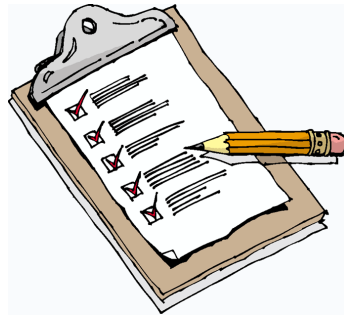
- Physical Inventory Process*
- Asset Tagging/Scanning*
- Historical Cost/Depreciation*
- Asset Lifting*
- Donated Assets*
- Perpetuation of the “Baseline” Inventory*

Overview of Fixed Asset Life Cycle



The Physical Inventory TECHNOLOGY

Old Process



New Process



*Your starting
barcode goes here*



The Physical Inventory Process

1. Establish a Capitalization Threshold

It is vital to establish the threshold for assets to be included in the inventory records. This policy should only represent “Capitalized Assets”, not “Expensed Assets”. Most institutions are in the \$3,000 to \$5,000 range for their “Capitalization Thresholds” for Moveable Equipment.

The Physical Inventory Process

2. Document Your Inventory Process & Procedures

By establishing this information will serve as a tool for what assets are to be included, provide consistency and will also serve as policy that can sustain an audit review. This should include the procedures for entering new assets in the system, and updating the records throughout the lifecycle of the asset:

- ✓ *Additions*
- ✓ *Transfers*
- ✓ *Retirements*

The Physical Inventory Process

3. *Involve All Departments*

- ✓ *Knowledge of a forthcoming inventory and the importance of departmental “stewardship” of assets assigned to each department is of paramount importance.*
- ✓ *Accessibility to all rooms and having up to date floor plans, will allow for ease of the overall physical inventory.*

The Physical Inventory Process

■ 4. Identify Data Fields to be Collected in the Inventory Process

- | | | |
|---------------------------------|-------------------------------------|-------------------------------------|
| ✓ <i>Campus/Building</i> | ✓ <i>Model</i> | ✓ <i>Classification Code</i> |
| ✓ <i>Floor</i> | ✓ <i>Manufacturer</i> | ✓ <i>Grant Number</i> |
| ✓ <i>Room</i> | ✓ <i>Serial Number</i> | ✓ <i>Old Tag Number</i> |
| ✓ <i>Department</i> | ✓ <i>Asset Life</i> | ✓ <i>Inventory Date</i> |
| ✓ <i>Tag Number</i> | ✓ <i>Historical Cost</i> | ✓ <i>Fund Code</i> |
| ✓ <i>Description</i> | ✓ <i>Date of Acquisition</i> | ✓ <i>Condition Code</i> |

The Physical Inventory Process

5. *Implement an Asset Inventory Solution - Own It!*

There are many different software packages for fixed asset management solutions in the marketplace. At a minimum, you should be considering these key factors:

- ✓ Ability to support the baseline inventory with scanners
- ✓ Add new assets to the baseline and track transactions
- ✓ If your institution has multiple locations, the ability to “capitalize” the results
- ✓ Cost accounting/depreciation capability

The Physical Inventory Process

6. Implement an Asset Inventory Solution: Outsourcing

As an alternative, often due to financial/budget constraints, some institutions are considering professional outsourcing solutions by contracting with consulting firms to oversee their Property Management Department.

The Physical Inventory Process

7. Select Your Asset Tags

There are several considerations when it comes to assets tags:

- ✓ *Barcode/Numeric*
- ✓ *RFID*
- ✓ *Foil/Polyester*
- ✓ *Tamper Evident*
- ✓ *Destructible Vinyl*

The Physical Inventory Process

8. **Barcode Scanners**

Barcode scanners provide increased efficiency, effectiveness and accuracy in the asset inventory process. This hardware should be selected to meet the needs of your institution. There are many devices available such as traditional barcode scanners, tablets, and smartphone devices.

The Physical Inventory Process

9. Barcode Scanners

Choose the hardware that is effective for your institution based upon:

- ✓ *Conditions under which the inventories are performed (Labs, Hospital, etc.)*
- ✓ *Number of assets to be inventoried annually*
- ✓ *Type of Asset Tags to be Scanned (traditional Barcode Asset Tags, or RFID Asset Tags)*
- ✓ *How many scanners will be required for your institution?*

Moveable Equipment Inventory Reporting Support

- ***The importance of a Current Equipment Inventory***

- ✓ Supports accurate financial and regulatory compliance reporting;
- ✓ Collects location data and asset information to support cognizant agency audits and departmental usage;
- ✓ Enables tracking for assets moved to or on loan to other departments or research organizations (joint research programs);
- ✓ Supports F&A Capital Component proposal by enabling moveable equipment depreciation to be aggregated by building, floor, department and room for Organized Research functions;
- ✓ Provides information about asset usage to assist budgeting for capital acquisitions.

Moveable Equipment Inventory Reporting Support

- ***The following reports supports Capital Asset & F&A Reimbursement Reporting Requirements:***
- ✓ Property Accounting Summary for Financial Reporting Purposes (total, net of Federal Funds)
- ✓ Property Accounting Detail for Financial Reporting Purposes (total, net of Federal Funds)

Moveable Equipment Inventory Reporting Support

- ***Reports MUST include the following for each identified asset:***

- ✓ Campus Location Code
- ✓ Building Number
- ✓ Room Number
- ✓ Floor Number
- ✓ Department Number
- ✓ Asset Tag Number (***if you are applying “new” tags, be sure to record the “old” tag number***)
- ✓ Asset Description

Moveable Equipment Inventory Reporting Support

- ***Reports MUST include the following for each identified asset:***

- ✓ Model Number
- ✓ Manufacturer's Name
- ✓ Serial Number
- ✓ Date of Acquisition
- ✓ Historical Cost/Estimated Original Cost
- ✓ Depreciation
- ✓ Life Assignment
- ✓ Fund Code
- ✓ Status (active/inactive)
- ✓ Grant Number (include for all – Federally Funded Assets)

Moveable Equipment Inventory Reporting Support

- *The following valuation definitions and related terms are applicable, in accordance with GAAP:*

- ✓ ***Historical Cost*** – the actual cost of the property to the present owner the cost as of the date the property was first constructed, or originally installed.
- ✓ ***Estimated Original Cost*** – the Estimated Original Cost of the property in accordance with costs as of the actual, or estimated date the property was first constructed, originally installed, or purchased.
- ✓ ***Depreciation*** – the allocation of the cost of the asset as a period expense over the useful life of the asset.

Moveable Equipment Inventory Reporting Terms and Definitions

- *The following definitions and related terms are in accordance with GAAP:*

- ✓ ***Annual Depreciation*** – the portion of the assets' accumulated depreciation allocated to the current fiscal year
- ✓ ***Net Book Value*** – Historical Cost less any Accumulated Depreciation
- ✓ ***Projected Depreciation*** – the amount of depreciation provision to be recognized in the next fiscal year
- ✓ ***Replacement Cost New*** – the current cost of a similar new property having the closest equivalent utility as the property being appraised

Moveable Equipment Terms and Definitions (Cont.)

- ✓ **Accumulated Depreciation** – is based upon the asset’s cost, acquisition date and its estimated life utilizing straight-line depreciation. Estimated lives are based upon our asset lifing study based upon the “Institutions Experience”, unless the institution reports through an affiliated hospital which utilizes American Hospital Association (AHA) Lifing Guidance.
- ✓ **Acquisition Date** – when readily available, we will utilize the acquisition date of the property. Otherwise, the acquisition date will be estimated based upon our knowledge of property type and/or market research.
- ✓ **Direct Costing** – additional review of source documentation as provided by our client(s) as to the original construction cost, purchase price, as well as improvements and renovation costs subsequent to the original date of construction/acquisition.

Moveable Equipment Inventory Reporting Support

- Perpetuation: Life After Inventory!!

Moveable Equipment Inventory – Next Steps

Once all of the assets have been identified and entered into the database, and the baseline inventory has been completed, a regular process for verifying the inventory must be established in an effort to maintain the integrity and auditability of your institutions fixed asset management system.

This can be accomplished in many ways:

- ✓ *Cyclical Inventory*
- ✓ *Wall to Wall Inventory*
- ✓ *Department Questionnaires*
- ✓ *Monthly/Quarterly/Semi-Annual/Annual/Bi-annual Inventory Updating...*

BUILDING COMPONENTIZATION - AN OVERVIEW

Building Componentization

- *We covered the Importance of Regulatory DRIVING FORCES, Inventory Methodology, Financial Reporting Requirements, now OUR FINAL SECTION –*

“Building Componentization!”

BUILDING COMPONENTIZATION – LIFING REQUIREMENTS

- **Asset Lifting** – *Research institutions are required to report their asset lives based upon “Institutional Experience”, unless your institution is reporting through an “Affiliated Medical Center/Hospital” for which the American Hospital Association (AHA) lives are permissible.*

BUILDING COMPONENTIZATION – LIFING CONSIDERATIONS

Applying Useful Lives, based upon “Institutional Experience” , in accordance with OMB’s Uniform Guidance, to a Componentization Study, Enables Proper Cost Recovery for the F&A Rate Proposal and Faster Recovery of Invested Capital, Improving the Institution’s Cash Flow.

- *Asset Lifing Study: Typical Average = 27 Years*
- *Normal Useful Lives: Typical Lives Used = 40 to 60 Years*

BUILDING COMPONENTIZATION – COST REPORTING & LIFING CONSIDERATIONS

- ✓ *Historical Cost - as of the Date of Acquisition*
- ✓ *Fair Market Value - as of the Date of Donation*
- ✓ *Asset Lifing – Research Institutions*
- ✓ *Asset Lifing – Research Institutions with Affiliated MC's*
- ✓ *Asset Lifing – Medical Centers*

REAL PROPERTY ASSET CLASSIFICATIONS

- 1. Land** – *Non-depreciable asset, segregate from buildings*
- 2. Buildings** – *Depreciable assets; include all buildings that meet your Capitalization Threshold and used in the operations of your Institution*
- 2. Infrastructure** – *If you are a GASB institution, in a campus like footprint, you have to report your owned campus roadways, street lighting, sidewalks, below ground utilities, water and sewer distribution, etc., in conformance with GASB 35*
- 3. Land Improvements** – *Parking lots, fencing, lighting, swimming pools, tennis courts should be segregated.*

BUILDING COMPONENTIZATION STUDY OVERVIEW

Donated Buildings - *Must be reported at the Fair Market Value as of the Date of Donation*

Componentization - *Typically Research Institutions “Componentize” their buildings utilized in Organized Research into the three major components identified as:*

- ✓ *Building Shell*
- ✓ *Building Services*
- ✓ *Fixed Equipment*

BUILDING COMPONENTIZATION STUDY – PRE PLANNING CONSIDERATIONS

Renovations/Improvements – it is important to track these construction related activities by date of activity and in conformance with your Institutions Capitalization Policy. Collaboration between your Facilities/Construction groups and Accounting is very important.

Manageable Records – capitalization at a manageable threshold to separate maintenance from improvements is very important.

BUILDING COMPONENTIZATION – THE DETAILS

■ *Approach*

- ✓ Determine the Buildings to be Included
- ✓ Identify Building Components
- ✓ Review current Policies and Procedures in place for the Buildings Asset Classification
- ✓ Determine availability of Historical Cost Information
- ✓ Identify “Federal Contribution” as, and if applicable
- ✓ Review any “Use Allowance” and “Depreciation” previously recognized

BUILDING COMPONENTIZATION – THE DETAILS

■ **Building Components**

- ✓ **Building Shell** – The exterior walls, excavation within the building footprint, foundation, floors, roof structural system and decking of the buildings.
- ✓ **Electrical and Lighting System** – All telecommunication and alarm wiring, lighting fixtures, electrical conduit, wire, cables, circuits, switches, and controls within the perimeter of the building.
- ✓ **Elevator System** – The elevator and escalator conveyance systems including controls.
- ✓ **Fire Protection System** – The piping, sprinkler heads and controls.
- ✓ **Floor Coverings** - types of floor coverings and all padding and barrier sheeting installed above the concrete slab, or wooden deck.
- ✓ **Plumbing System** – All piping, drains, fixtures, and equipment within the perimeter of the building used for moving domestic water, other fluid gases, compresses air, or sewage.

BUILDING COMPONENTIZATION – THE DETAILS

■ ***Building Components (Cont.)***

- ✓ ***Heating, Ventilation and Air Conditioning System (“HVAC”)*** – Includes chillers, condensers, exhaust fans, coil units, heating strips, and chilled /heating water supply and return piping
- ✓ ***Interior Finish*** – All walls, partitions, ceilings and millwork that are inside the building shell walls.
- ✓ ***Roof Covering*** – The water barrier covering material on the building’s roof deck, and all material installed above the roof deck.
- ✓ ***Miscellaneous Construction Features*** – Any building component that does not fit into one of the aforementioned categories.
- ✓ ***Fixed Equipment*** – Perform a room by room physical inventory to identify laboratory benches, fume hoods, cabinetry, case work, emergency eye wash, emergency shower systems and the like. Typically, these assets are not tagged.

BUILDING COMPONENTIZATION – THE DETAILS

- ***Once these Building Components have been identified, they are required to “roll-up” into the three major classifications, identified as follows:***

- ✓ *Building Shell*
- ✓ *Building Services*
- ✓ *Fixed Equipment*

QUESTIONS??

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