



Asset Management & Valuation Services

The Importance of Accurate Asset Management
and Financial Reporting for your Institution's
Buildings, Space, and Equipment Assets

August 16, 2023



Agenda

- Overview
- Driving Forces for Asset Management & Financial Reporting
- Building Componentization
- Moveable Equipment
- Space Inventory/Verification
- Questions

Overview

Implementing a Fixed Asset Inventory solution is vital

Proper identification and accounting of buildings, equipment, and assets saves time and money, reduces theft, improves planning and budgeting, eliminates “unrecorded retirements,” and provides “proof of loss” in the event of a catastrophe.

The importance of tracking and managing fixed asset data is often overlooked

Assets such as land, land improvements, campus infrastructure, buildings, and moveable/fixed equipment represent the largest capital investment most institutions make.

During the COVID-19 pandemic, institutions with affiliated medical centers/hospitals experienced firsthand the importance of tracking Emergency Medical Equipment (EME) and Personal Protective Equipment (PPE).

Driving Forces for Asset Management & Financial Reporting

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Governmental
Accounting
Standards Board
(GASB) Financial
Reporting
Requirements for
Public Institutions
of Higher
Education

**GASB No. 35: Basic Financial Statements and
Management Discussion and Analysis for Public
Colleges and Universities**

Capital Assets Include:

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

GASB Financial Reporting Requirements for Public Institutions of Higher Education

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

- ✓ 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, usually due to a catastrophic event such as fire, flood, etc.
- ✓ Clarifies and establishes accounting requirements for insurance recoveries

GASB Financial Reporting Requirements for Public Institutions of Higher Education

Forthcoming Changes/New Standards

1. Re-write of GASB 34/35
2. Public/Private Partnerships (P-3s)
3. Capital Assets Project

Financial
Accounting
Standards Board
(FASB) Financial
Reporting
Requirements for
Private Institutions
of Higher
Education

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

- ✓ Requires all Not-for-Profit organizations to recognize the cost of using up long-lived tangible assets in general purpose external financial statements
- ✓ 2016 update was 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

Federal Office of
Management &
Budget (OMB)
Uniform Guidance
Financial
Reporting

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

Implemented December 26, 2014

- 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

Federal OMB Uniform Guidance Financial Reporting

Direct & Indirect 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

Property Standards

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

Building Componentization

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What Are Real Property Assets?

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

Building Componentization

Lifing Requirements

- ✓ Research institutions are required to report their asset lives based on “institutional experience”, unless your Institution is reporting through an “affiliated medical center/hospital” for which the American Hospital Association (AHA) lives are permissible
- ✓ AHA publishes its Estimated Useful Lives of Depreciable Hospital Assets approximately every two years

Building Componentization

Lifing Considerations

Applying Useful Lives, based on “institutional experience,” in accordance with OMB’s Uniform Guidance, to a Componentization Study enables proper cost recovery for the F&A Cost Rate Proposal and faster recovery of invested capital, improving the Institution’s cash flow

- ✓ Asset Lifing Study: Typical Average = 20 - 25 years
- ✓ Normal Useful Lives: Typical Lives Used = 50 - 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 – “Institutional Experience”
- ✓ **Asset Lifing** – Research Institutions with Affiliated MCs – AHA
- ✓ **Asset Lifing** – Medical Centers - AHA

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 buildings utilized in Organized Research (OR) into three OMB-defined major components:

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

Building Componentization

Pre-Planning Considerations

Renovations/Improvements – Track construction-related activities by date of activity and in conformance with your Institution’s Capitalization Policy; collaboration between your Facilities/Construction groups and Accounting is very important.

Manageable Records – Capitalization threshold must be established at a manageable threshold to separate maintenance from improvements — *this is critical!*

Building Componentization

The Details

Approach

- ✓ Determine the research buildings to be included; sort by percentage of OR with limited to no federal contribution
- ✓ Identify building components consistent with OMB guidance
- ✓ Review your Institution's current policies and procedures for the Building Asset classification
- ✓ Determine availability of "supportable" historical cost information
- ✓ Identify "federal contribution" as applicable
- ✓ Review any "use allowance" and "depreciation" previously recognized

Building Componentization

The Details

Building Components

- ✓ **Building Shell** – 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** – Elevator and escalator conveyance systems, including controls
- ✓ **Fire Protection System** – 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, compressed air, or sewage

Building Componentization

The Details

Building Components (continued)

- ✓ **Heating, Ventilation, and Air Conditioning System (HVAC)** – Includes chillers, condensers, exhaust fans, coil units, heating strips, and chilled/heated water supply and return piping
- ✓ **Interior Finish** – All walls, partitions, ceilings, and millwork that are inside the building shell walls
- ✓ **Roof Covering** – 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** – 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 the Building Components are identified, they are required to “roll-up” into the one of the three OMB-defined major classifications:

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

Movable Equipment

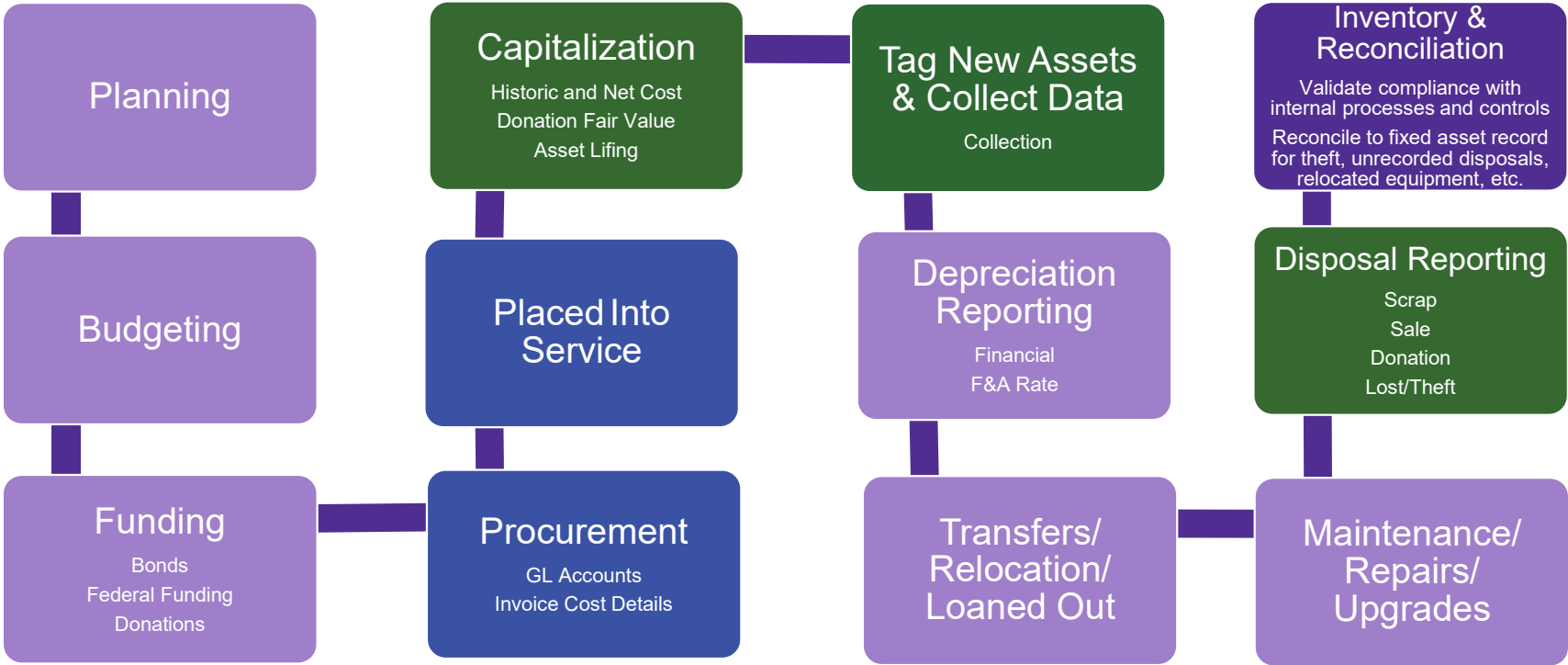
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The goal of this presentation section is to offer suggestions for the implementation and perpetuation of a successful Fixed Asset Management Inventory

- ✓ Physical Inventory Process
- ✓ Asset Tagging/Scanning
- ✓ Historical Cost/Depreciation Reporting
- ✓ Asset Lifing
- ✓ Donated Assets – Financial Reporting
- ✓ Perpetuation of the “Baseline” Inventory

Overview of Fixed Asset Life Cycle



Physical Inventory Technology

Old Technology



New Technology



Your starting barcode goes here



Physical Inventory Process

1. Review and Update Your Institution's Asset Capitalization Policies and Procedures

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 assets .

It is very important to establish manageable capitalization thresholds for land improvements, leasehold improvements, campus infrastructure, building improvements/renovations, fixed equipment assets in laboratories, and the like.

Physical Inventory Process

2. Document and Update Your Institution's Inventory Process and Procedures

Documenting and updating your Institution's inventory process and procedures creates a tool for determining which assets are to be included, provides consistency, and served as your Institution's policy that will sustain internal/independent/federal/state 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

Physical Inventory Process

3. Involve and Collaborate with All of Your Institution's Departments

Knowledge of a forthcoming inventory and the understanding of Departmental "Stewardship" of assets assigned to each Department is of paramount importance!

Accessibility to all rooms and having up-to-date floor plans expedites the overall physical inventory.

Physical Inventory Process

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

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

Physical Inventory Process

5. When Implementing an Asset Inventory Solution — *Own It!*

There are many software packages for fixed asset management solutions in the marketplace. If your Institution does not have an in-house fixed asset system, consider the following. A fixed asset system:

- ✓ Has the ability to support the baseline inventory with scanners
- ✓ Has the ability to add new assets to the baseline and track transactions
- ✓ Has the ability to identify your Institution's multiple campus locations, and will allow you to standardize your reporting requirements throughout your Institution
- ✓ Provides cost accounting/depreciation capabilities throughout your Institution's campus locations

Physical Inventory Process

6. When Considering an Asset Inventory Solution, Consider Outsourcing as an Alternative

Due to financial/budget/resource constraints, some institutions consider contracting with consulting firms to oversee and update their property inventory on a periodic basis (typically on a biannual or rotating basis).

Physical Inventory Process

7. Select Your Asset Tags

There are several important considerations when it comes to assets tags:

- ✓ Barcode/Numeric
- ✓ Radio Frequency Identification (RFID) – requires additional considerations for sensitive areas within your Institution
- ✓ Foil/Polyester
- ✓ Tamper Evident
- ✓ Destructible Vinyl

Physical Inventory Process

8. Choose the Hardware that is Effective for Your Institution

Consider:

- ✓ Conditions under which the inventories are performed (laboratories, hospitals, etc.)
- ✓ Number of assets to be inventoried annually
- ✓ Type of asset tags to be scanned (traditional barcode or RFID)
- ✓ How many scanners will be required for your institution

Barcode scanners:

- ✓ Provide increased efficiency, effectiveness, and accuracy in the asset inventory process
- ✓ Should be selected to meet the needs of your Institution

There are many devices available such as traditional barcode scanners, tablets, and smartphone devices.

Movable 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 compliance by identifying/tracking/verifying your Institution's moveable equipment by building, floor, department, and room for OR-related functions
- ✓ Provides information about assets verified, new additions, asset transfers, and asset retirements for asset accountability and financial planning/reporting purposes

Movable Inventory Reporting Support

Capital Asset and 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)

Movable 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
- ✓ 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)

Movable Inventory Reporting Support

Terms and Definitions

The following valuation definitions and related terms are applicable, in accordance with Generally Accepted Accounting Principles (GAAP):

- ✓ **Historical Cost** – Actual cost of the property to the present owner as of the date the property was first constructed or originally installed.
- ✓ **Estimated Original Cost** – 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** – Allocation of the cost of the asset as a period expense over the useful life of the asset.

Movable Inventory Reporting

Terms and Definitions

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

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

Movable Inventory Reporting

Terms and Definitions (continued)

- ✓ **Accumulated Depreciation** – Based on the asset’s cost, acquisition date, and estimated life utilizing straight-line depreciation. Estimated lives are based on “institutional experience,” unless your Institution reports through/up to an affiliated hospital/medical center, at which time you can utilize the AHA Lifing Guidance.
- ✓ **Acquisition Date** – When readily available, the acquisition date of the property is utilized. Otherwise, the acquisition date should be estimated based on knowledge of property type and/or market research.
- ✓ **Direct Costing** – Additional review of source documentation available as to the original construction cost, purchase price, and improvements and renovation costs, subsequent to the original date of construction/acquisition.



Perpetuation – Life After Inventory!

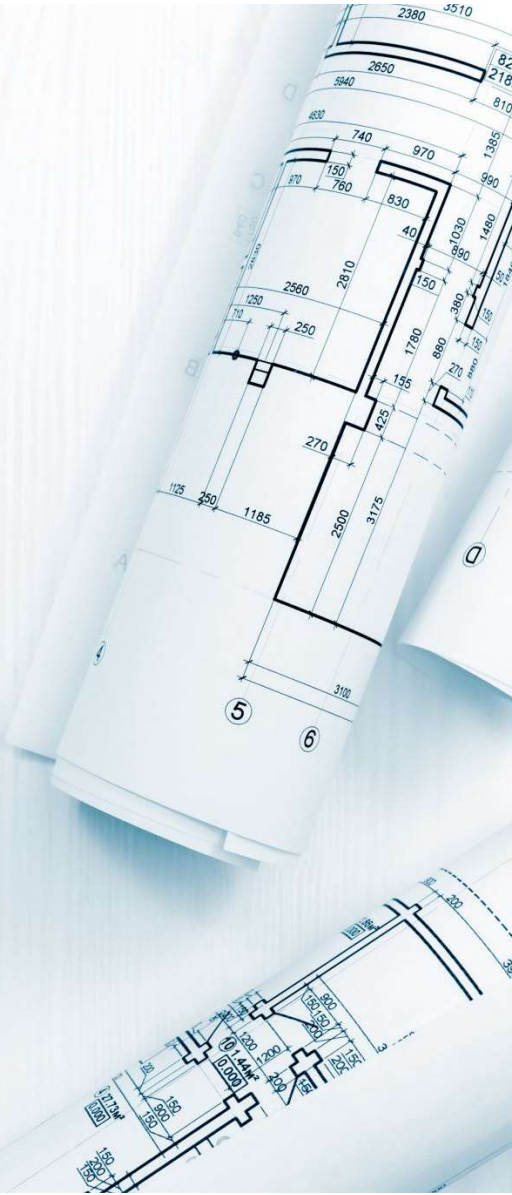
Once all assets are identified and entered into the database, and the baseline inventory is complete, a regular process for verifying the inventory must be established to maintain the integrity and auditability of your Institution's fixed asset management system.

This can be accomplished in many ways:

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

Physical Space Inventory/Verification Study

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Physical Space Inventory/ Verification

Maximus' Recommended Approach

- ✓ When performing the Building Componentization/Fixed Equipment and Moveable Equipment Inventory, we recommend a Space Inventory/Verification Study as you progress through the designated Research Buildings. This provides a complete picture of all primary asset-related categories from an “existence and completeness” standpoint for your current reported data. If any inconsistencies are noted, you can report those findings and determine the next steps.
- ✓ The study identifies your Institution’s owned space utilized in OR activity and maximizes recovery via your Institution’s F&A Cost Rate.
- ✓ The Federal Government will reimburse for its equitable share of F&A expenses associated with conducting on-going research activities. Space-related costs could represent more than 50% of the reimbursement for research-related activities.

Physical Space Inventory/ Verification

Maximus' Recommended Approach (continued)

- ✓ Maximus utilized electronic measuring and scanning tools as we proceed through each building, floor, room, and departmental space.
- ✓ As part of this study, we collect the:
 - Building Name/Number
 - Room Number
 - Gross and Assignable Square Footage
 - Department Name
 - Room Type based on Facilities Inventory and Classification Manual (FICM) Codes
- ✓ This study accounts for the Institution's owned space and is reviewed by the Federal Government.
- ✓ It should be noted that the FICM coding structure is based on the National Center for Educational Statistics Post-Secondary Education FICM. These codes include 10 major space use categories of assignable space and 3 major space use categories of non-assignable space.

Questions?



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