

# The Benefits of Building Componentization for Research Institutions

**FY2023 Facilities and Administrative (F&A) Consulting Services For:**

- **Building Componentization/Fixed Equipment Diagnostic Study**
- **Physical Space Inventory/Verification Diagnostic Study**

**Kevin McHugh, Vice President, Maximus**  
**Christine Stevens, Manager, Maximus**

March 21, 2023, at 2pm EST

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# Housekeeping

- We'll be periodically pausing at end of each section for questions. Please put your questions in the chat. At the end, if we don't get to all of your questions, we'll be following up to answer them via email.
- If you need additional information, please reach out!
- You will be receiving a copy of this presentation and access to video within 7-10 business days
- We'll now begin recording the meeting

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# Introductions

**Kevin McHugh**, Vice President. Kevin brings more than 30 years of asset management/valuation consulting experience within the Higher Education, Healthcare/Academic Medical Center space. Kevin's experience includes assisting his clients in meeting their asset management, valuation and financial reporting requirements for their Land, Infrastructure, Land Improvements, Buildings/Building Improvements, and Moveable Equipment Asset classifications. Kevin's experience includes Building Componentization. Additional professional experience includes Fixed Asset Inventory/Tagging Costing and Valuation Studies. Mr. McHugh specializes in assisting clients to manage their financial reporting, asset stewardship and compliance requirements for various reporting standards as promulgated by the Office of Management and Budget (OMB), Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). Kevin currently serves as a Task Force Member/Technical Advisor to the Governmental Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB).

**Christine Stevens**, Manager. Christine joined Maximus in 2022 after having served the University of California San Diego for 20 years, with experience including Debt Administration, External Debt Financing, and managing state and federal compliance with tax-exempt bond financing requirements. Christine also spent five years, collectively as a senior bank examiner with the Georgia Department of Banking and the Florida Office of Financial Regulation. Her experience also includes Treasury and Debt Management for the City of San Diego and City of Del Mar, which are directly complimentary to her knowledge of the Facilities and Administrative rate process.

## Agenda

- **Overview**
- **Driving Forces for Asset Management & Financial Reporting**
- **Building Componentization Overview**
- **Physical Space Inventory/Verification 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 can assist 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 represents the largest capital investments 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) was of very high importance as was 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 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



# Questions?

# **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 Lifing – 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 Lifting 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**
3. **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**
4. **Land Improvements – Parking lots, fencing, lighting, swimming pools, tennis courts should be segregated.**

# Questions?



# 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*

# Physical Space Inventory/Verification Study

## Physical Space Inventory/Verification Study

### ***Accurate Space Inventory for Buildings Utilized is Very Important***

- ✓ The process comprises a Physical Space Inventory/Verification Process by Comparing what is in your Space Inventory to Actual Use, on a Room by Room Basis.
- ✓ You need to verify: Building Number/Name, Floor Number, Room Number, Department Name/Number, Assignable Square Feet, etc.
- ✓ Discrepancies are noted and reported to the University, so that the Space Inventory Database “Matches” what is “Physically In Place.”
- ✓ Typically, this effort is performed at the same time as the Moveable Equipment and Fixed Equipment Inventory, to avoid multiple Departmental Visits.



# Questions?

## Contact Information

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# Upcoming Maximus Webinars:

## **The Importance of an Accurate Moveable Equipment Inventory for Asset Management & Financial Reporting Requirements Webinar**

• **Tuesday, March 28, 2023, at 2:00 PM EST**

Having an accurate current physical inventory is of paramount importance. Now that the COVID Pandemic is hopefully winding down, campuses, as well as students and staff are returning to their campuses. Most institutions are catching up on their asset purchases, retirements, asset tagging, and the like, after approximately a three-year gap. Your Institutions Asset Management of all asset categories; Campus Infrastructure, Land, Buildings, Equipment, and the like, represent one of the largest investments on your Institutions balance sheet. We will discuss the importance of having an accurate inventory and the various purposes that it serves, such as Financial Reporting, Asset Control, Insurance Support in the event of a catastrophic loss, availability to screen for like assets in the event another department can use/borrow another departments assets, and the like. Lastly, we will be discussing asset tracking and tagging technology such as traditional barcode tagging, and RFID asset tagging.

## **Short Form & LF Considerations Webinar**

• **Tuesday, June 6, 2023, at 2:00 PM EST**

Topics covered will include Short Form Methodology including different base options such as Salaries and Wages (S&W) and Modified Total Direct Cost (MTDC).

## **What Should go into a Service Center Policy? Webinar**

• **Tuesday, July 11, 2023, at 2:00 PM EST**

Service Centers can be compliance and audit challenges waiting to happen. In this webinar, we will discuss the ways in which you can improve the oversight process of service centers at your institution. Some of the topics that will be covered: Better communication among the individual departments responsible for service center oversight; Rate templates that can be navigated by all users; Structured periodic training for service center managers; Accessible and usable standard reports for rate setting and year-end review; improved web site design; and more.

## **Fringe Benefit Costs and Establishing Rates Webinar**

• **Tuesday, August 15, 2023, at 2:00 PM EST**

Clients will be introduced to fringe benefits costs, federal regulations, and considerations for establishing a rate versus actual charging.

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