

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

Kevin J. McHugh, Vice President, Maximus
Christine Stevens, Manager, Maximus

March 28, 2023

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

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

Kevin J. McHugh, Vice President, Maximus
Christine Stevens, Manager, Maximus

March 28, 2023

Introductions

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**
- **Implementing a Moveable Equipment Inventory – “Considerations”**
- **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 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 Building Infrastructure and Moveable Equipment represent the largest capital investment most institutions make.

For those Institutions with affiliated Medical Center's/Hospital's, during the 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. Infrastructure Reporting**

FASB Financial Reporting Requirements

In August of 2016, FASB issued a new 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.

This replaced FAS No. 117.

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

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

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

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

Questions?

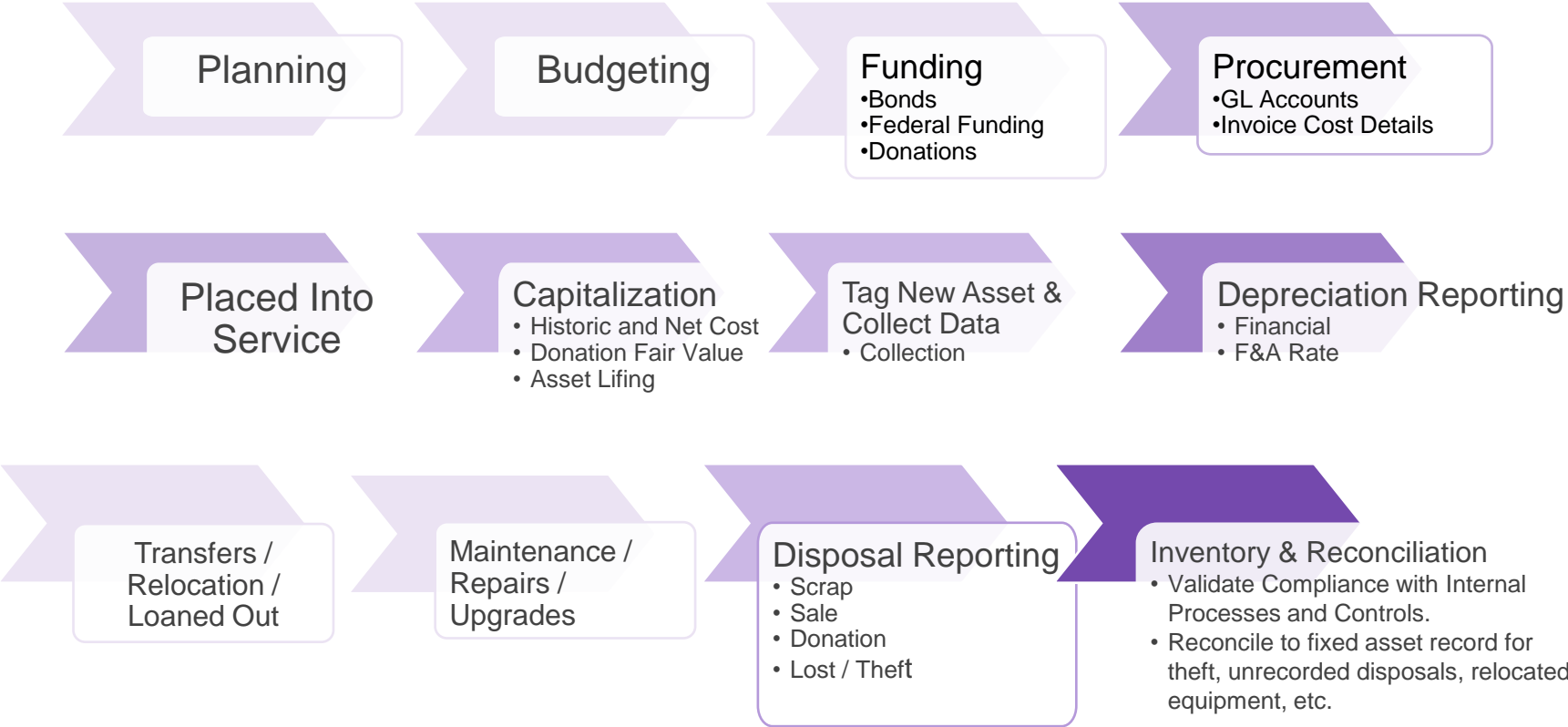
IMPLEMENTING A MOVEABLE EQUIPMENT INVENTORY – *“CONSIDERATIONS”*

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

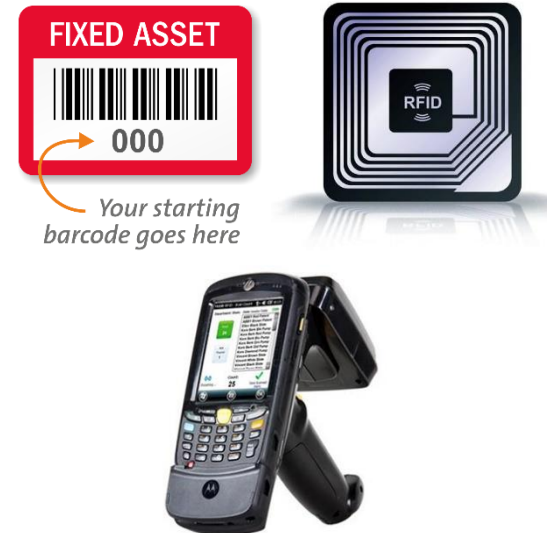


The Physical Inventory TECHNOLOGY

Old Process



New Process



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

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 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

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...

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.*

Physical Space Inventory/Verification Study

Physical Space Inventory/Verification Study

- Accurate Space Inventory for Buildings Utilized is very important.
- Our process is a Physical Space Inventory/Verification Process by Comparing What is in your Space Inventory to Actual Use, on a Room by Room Basis.
- We 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

Kevin McHugh
Vice President, **Maximus**
kevinjmchugh@maximus.com
Mobile: 215.514.4553

Upcoming (complimentary) Maximus Webinars:

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.

maximus