



HELLO NECA 2016 MEMBERS
WELCOME TO
REPRESENTATIVE
REIMBURSEMENTS ON THE “F”
COMPONENTS OF THE F&A RATE

A Presentation By:
HCA Asset Management

DISCUSSION TOPICS

~ Recharge costs on:

- i. Building Depreciation
- ii. Equipment Depreciation
- iii. Interest Expense on Buildings
- iv. Operation and Maintenance
- v. *Utilities*
- vi. *Various O&M pools*

~ Obtaining a representative F&A recovery of depreciation while remaining consistent with University accounting policies and UG guidelines.

Building Depreciation

Changes that have impacted facility & equipment depreciation with the introduction of the Uniform Guidance (UG) – OMB 2 CFR 200

- Combines 8 circulars into one document
- Replaces OMB Circular A-21, 2 CFR 220
- All reference to “use allowance” eliminated
- Additional emphasis being placed on stewardship and accountability



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Building Depreciation

Buildings Overview

Leadership has long recognized the importance of operating and maintaining its physical facilities in the most efficient manner to meet its goals and the University mission for providing an effective environment for teaching, research and public service.

2 CFR 200.13 *Capital Expenditures* to acquire, make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life.

Building Depreciation

2 CFR 200 – 200.12

Capital Assets

- Tangible or intangible assets used in operations having a useful life of 1 year > capitalized in accordance with GAAP
- Land, buildings (facilities), equipment and intellectual property whether acquired by purchase, construction, manufacture, lease purchase, exchange or through capital leases
- Depreciation computed in accordance with Section 200.449 and Appendix III (IHE) formerly A-21 section J.14 and F.2

Building Depreciation

2 CFR 200 – 200.12

Capital Assets

- Reconciled to Financial System Fixed Asset Detail
- Interest Expenses for Buildings follows Building Cost
- Not intended to impose on an institution with specific accounting practices if compliant with generally accepted accounting practices.

Building Depreciation

Componentization – Cost Segregation

Segregation of building “parts” into components that roll up into Building shell, Building Services and Building Fixed Equipment.

- Component costs represent original acquisition costs
- Federal funds are appropriately apportioned and deducted
- Fixed equipment costs are treated as a component of the building.
- Depreciation generated from the cost distribution to component(s) is allocated to the entire building on an assignable square foot basis.

Depreciation by Component

Componentization Accounting of Costs:

Using AIA documents to determine costs:

- ❖ Provides accurate costing of components-not an estimate
- ❖ Depending on the type of research performed in the building/occupancy - component costs can vary greatly
- ❖ Provides proper audit trail of costs
- ❖ Provides information with which to establish costs where no data is available relevant to your institution
- ❖ Provides analysis information for future building costs
- ❖ The best way to segregate component costs
- ❖ Provides the information needed to determine removal costs

Depreciation by Component

Componentization – Removal of “Layering effects” caused by depreciation:

- ❖ Numerous renovations to a building where no costs are removed
- ❖ Depreciation on both the original building project and subsequent renovations
- ❖ On occasion, the component is not fully depreciated but is being replaced - floor cover, roof cover etc.
- ❖ When the component is not fully depreciated the NBV should be written off in the year of disposal (per GAAP)
- ❖ By depreciating at the component level and reviewing areas of renovation one now has the ability to remove only component costs that are being replaced – accurate removal costs not a % of project cost

Depreciation by Component

Componentization – Determining Component Lives used for Depreciation:

A-21 section J.12.b.(4) now Uniform Guidance UG ...three general components

“When the depreciation method is used for buildings, a building may be divided into three general components. Each component item must then be depreciated over its estimated useful life.”

Depreciate using consistent Component lives

- ❖ Life spans that reflect consumption at your institution
- ❖ University data used to establish supportable Useful lives
- ❖ The impact component accounting lives have on F&A rate(s)
- ❖ Industry Recommended Useful lives (AHA) (M&S)

Depreciation by Component

Reasons To Depreciate by Component:

1. Maintain the Current Rate

- Offset losses in other areas
- 26 Point Cap on Administration
- More accurate accounting of costs
- Ever increasing Base

2. Depreciation on buildings is already taking place

- Treated as a prospective change
- Accumulated depreciation rolls forward (per GAAP)
- Depreciate using more representative lives
- Development of accurate removal costs

Depreciation by Component

Componentization ROI - will management be interested:

- ❖ Satisfies GASB 34 depreciation requirement(s)
- ❖ Compliance with UG, previously A-21 & A110 cost standards – overhead recoveries
- ❖ Could help to facilitate a Room Rental Charge
- ❖ Can assist with space leasing costs
- ❖ Analyze Facility Historical Renovation Schedule
- ❖ Plan Future Renovation Schedule
- ❖ Positive impact on financial overhead rate calculations/recoveries



Equipment Depreciation

Equipment 2 CFR 200.33

- Lesser of the capitalization threshold of non-federal entity or \$5,000
- Institutions have moved to a higher threshold (\$5,000 >) in recent years periodic review is needed to confirm current accounting classification choices and lives.
- As research becomes more detailed and specific the lives associated with the instrumentation could be limited.
- Federally titled equipment tracked “period” – not subject to entity thresholds (FAR) guidelines



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Equipment Compliance

OMB Circular A-110 (Section 34 Property Standards)

- (1) 1) Equipment records shall be maintained accurately and shall include specific criteria outlined with in this section.
- (2) 2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.
- (4) 3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least **once every two years**. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference.

Equipment Compliance

OMB Circular A-110 (Section 34 Property Standards)

4) The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

5) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

6) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

7) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

Equipment Compliance

Federal Management Regulation, 41 CFR 102

This regulation is the successor to the Federal Property Management Regulations (FPMR). The FMR prescribes policies concerning Property Management and related administrative activities. GSA issues the FMR to carry out policies of the Administrator of General Services' functional responsibilities as established by the various laws, Executive orders and other directives.

Acquisition

Acquisition is the process of acquiring quality products to satisfy user needs at a fair and reasonable price. The background and objectives provides the rationale and justification for the proposed acquisition. The elements involved are the statement of need, applicable conditions, costs, capability or performance, delivery or performance period requirements, trade-offs, risks, and acquisition streamlining.

Equipment Compliance

Receiving

Receiving is the process of accepting equipment, materials, or supplies in to an organization or facility where the organization's obligation, liability and accountability begin. This process starts when the contractor or vendor's delivery is received at the receiving facility and documentation is created to establish physical custody and accountability. There are four critical steps in the receiving process are delivery, inspection and identification, documentation and internal routing and distribution.

Property Identification and Classification

- Property Management uses receiving reports and vendor documentation as source documentation to establish property records and the start of life cycle for tagged accountable property in the Property Management System.

Records Management

- It is essential that property records are established in an Agency's Property Management System promptly upon receipt and identification of the property. All general Plant, Property and Equipment (PP&E)

Equipment Compliance

Records Management

should be recorded at cost (acquisition). The acquisition cost shall include all costs incurred to bring the PPE to a form and location that is suitable for its intended use. This is the first step that establishes accountability of the asset and ties it to the Agency's general ledger.

Capitalization

The life expectancy or useful life of an asset is defined by the estimated number of years which the assets is expected to be useful. The life of an asset is affected by factors like physical wear and tear and obsolescence. Agency established capitalization thresholds must be consistently applied.

Depreciation

Property and Equipment is depreciated over its useful life using the straight-line method. An improvement that extends the useful life of the original asset, or significantly enhances, improves capacity or mission capability of the asset, and meets threshold requirements of the Institution, should be capitalized and depreciated according to the useful life of the asset/improvement.

Equipment Compliance

Circular A-21, F2b now UG

Provides guidance on the identification and assignment of costs for buildings, capital improvements and equipment.. ***Well-documented consistent treatment(s) of equipment accounting classification, useful lives and depreciation allocation in conjunction with OMB Circular A-21 official regulations now Uniform Guidance, should be utilized by institutions when submitting F&A rate calculations for defensible methodologies.***

When institution-funded equipment is identified accurately to a room (i.e. a research laboratory), there is no disagreement that the corresponding depreciation is allocable to the function of the room (i.e. research).

Acceptance of the room-by-room equipment depreciation methodology is predicated on the institution demonstrating that the location of the equipment identified to particular rooms is accurate.

- Depreciation associated with federal equipment is excluded from the indirect cost rate calculation, and is not applicable to the calculation of the equipment component on the F&A rate calculation(s).

Tracking Equipment-Why So Difficult

- Lack of resources provided to asset/property departments – man power for comprehensive inventory or system upgrades

- Departments unwilling to follow Asset Management policy and procedures regarding disposals, tagging, serial # changes etc.

- Lack of accountability and importance placed on equipment inventories – policy and procedures by departments.

- Location, disposal, transfer changes not being submitted from departments to the Property Management for system updates

- No central distribution office for assets create a disconnect between department equipment list and property equipment lists

- Antiquated fixed asset systems with limited access to automate - import/export information for reporting capabilities

Equipment - Speed of F-22 Raptor Fighters



Equipment Inventory, WHY?

1. Compliance with GASB 34 A-110 & A-21 requirements
2. Ability to provide asset life study of equipment by classification
3. A “snap shot” in time on equipment location
4. Location information provides increased use of equipment
5. Provides assistance in space & room function review/consistency
6. Removal of “ghost items”
7. Could result in positive impact on financial overhead rate calculations/recoveries
8. ROI – Management will be interested (they love these 3 letters)
9. Audit confidence A-133, UG audits etc.

Operations and Maintenance

O&M Expenses - 2 CFR 200 Appendix III

Expenses incurred for administration, supervision, operation, maintenance, preservation and protection of the institution's physical plant

Normally includes:

- Utilities
- Repair and Renovation
- Janitorial/housekeeping
- Grounds maintenance
- Safety and Security
- Environmental safety
- Hazardous waste disposal
- Facility planning, Space & Capital Leasing

Operations and Maintenance

O&M Expenses - 2 CFR 200 Appendix III

Utility cost adjustment (UCA) of 1.3 points only for Exhibit B schools ***[New Uniform Guidance utilizes weighted research laboratory space for ALL schools with a cap of 1.3 points (For IHE, Appendix III, B.4.c.)]***

Interpretation?

- ❑ - All schools (not just the 65 on OMB-A21 Exhibit B) can add a UCA to the proposed F&A rate calculations.
- ❑ - Utility Costs apportioned to functions in the same manner as depreciation.
- ❑ - In depth discussion in separate presentation

THANK YOU

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