

**Fixed Asset Inventory
&
Valuation Services
for
Educational Organizations**

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1. Purpose

The purpose of this whitepaper is to illustrate to educational institutions, such as school districts, charter schools, private schools and institutions of higher education, the importance of performing fixed asset inventories, and the benefits that a professional fixed asset inventory team can provide. This information will assist educational entities in determining if the current method of tracking and reporting of fixed assets is satisfactory, or if it is necessary to have a professional fixed asset inventory. This document also provides an overview of the Asset Services fixed asset inventory solution.

This document provides financial personnel with the following information:

- Definition of a Fixed Asset
- Leading questions pertaining to current inventory practices.
- The importance of having a professional fixed asset inventory completed.
- The implications of not performing a professional inventory annually.
- An overview of Asset Services' inventory, asset reconciliation, and valuation processes.

2. Definition of a Fixed Asset Inventory

When the inventory experts at Asset Services are asked what items should be included in the inventory, the response is simple.

“What would you take with you if you sold or vacated the building?”

Fixed assets typically pertain to items with an original cost of more than \$1,000 and a life expectancy greater than one year. Fixed assets are non-consumable, and typically fall under the following asset classes:

- Furniture & Fixtures
- Information Technology
- Audio Visual Equipment
- Health & Fitness Equipment
- Kitchen Equipment
- Shop Equipment
- Lab Equipment

In addition to the fixed asset classes listed above, controlled items that cost less than the determined threshold are typically inventoried as well. Those controlled assets include, but are not limited to, serialized items such as:

- Monitors
- Laptops
- Personal Computers
- Cameras
- DVD Players

Fixed asset inventories should be performed on a regular basis to assist educational organizations maintain accurate financial records pertaining to fixed and major moveable equipment.

3. Leading Questions

Answering the following questions will help you identify where your organization's current inventory processes can be improved by having a professional inventory performed. Answer the leading questions, and take the inventory self-evaluation, found on the Asset Services website, to review your institution's current inventory methods.

Questions

- Does your organization currently perform fixed asset inventories?
 - If not, how does the finance department prepare annual reports, accounting for fixed assets?
 - If your organization does perform annual fixed asset inventories, how are the inventories performed?
 - Is the “paper & pen” method being used? This method utilizes a listing of all assets for each department. The list is printed and distributed, then a representative is responsible for checking off each asset identified on the list.
 - Are items tagged with a property tag? If not, what are you using as a unique identifier for each asset?
 - Are untagged assets added to the inventory? In other words, if you run across an item that does not have a tag, or is not on the inventory list, are they added or ignored?
- If your organization does perform regular fixed asset inventories, who is responsible for completing the inventory?
 - Are teachers responsible for inventorying their classrooms, or do you utilize the services of a professional inventory organization?
 - If you are using teachers, are they performing the inventory on the last day of school, when their focus may be somewhere else?
 - Who is inventorying the common areas of the school, such as cafeterias, libraries, offices, etc.?
- If your educational organization does perform an annual fixed asset inventory, is it a complete wall-to-wall, room-to-room inventory of the entire building, including common areas?
- If your organization does perform annual fixed asset inventories, how confident are you that the inventory is as close to 100% as possible? If teachers are performing inventories, we have found that they are not usually enthralled with the idea and therefore, tend to produce inaccurate inventory results.
- Do you have policies and procedures in place for recovering, moving and disposing of assets?

4. The Importance of a Professional Inventory

The following are justifications why educational organizations should perform an annual fixed asset inventory:

- **Financial Reporting Accuracy** – Educational organizations are required to provide accurate financial reports on an annual basis. An accurate fixed asset ledger is an integral part of that financial report, as it identifies the current assets and determines the worth.
- **Financial Reporting Compliance** – Educational organizations financial requirements that need to be met. An accurate accounting of all assets owned by the organization assists in ensuring compliance with accounting regulations such as GASB 34 and GASB 35. They are also accountable to the respective state auditor and most importantly, the local tax payers.
- **Capital Budgeting** – Accurate knowledge of current assets is critical in planning for purchasing requirements. An annual inventory may identify equipment that has been lost or stolen, and require replacements be purchased. A complete inventory may also uncover equipment being stored in an undisclosed location which was once believed to be disposed of or stolen. Therefore, nullifying the need to purchase replacements.
- **Accurate Asset Listing** – Some organizations never inventory. Instead, assets are received, at which time they may be tagged and the asset information is sent to the finance department. The finance department then enters the assets in the fixed asset ledger and sets up the depreciation schedule for the item. Then, on an annual basis, depreciation is calculated, and the item is *assumed* to still be owned and in use, when in fact it may have been disposed of, lost or stolen. If it is assumed, from year-to-year that all items are still accounted for and in-use, the fixed asset ledger becomes increasingly more inaccurate as each year passes. This is known as the snowball effect.
- **Locate Missing Assets** – An annual inventory will assist an organization locate assets that are assumed missing, or may verify that the assets are in fact, lost.
- **Identify Surplus Equipment** – After a thorough inventory has been completed and a review of the fixed asset ledger is performed, surplus equipment may be identified that can be sold on the open market.
- **Accurate Insurance Premiums** – Organizations insure the assets that they currently own. An accurate inventory ensures the organization is paying insurance premiums only on equipment that it has in its possession, yet is still adequately insured.
- **Disaster Preparedness** – If a disaster were to occur, does your organization have an accurate picture of what it owns? This is critical on two accounts: a) insurance claims, and b) the ability to recover. Being able to provide insurance carriers with an accurate listing and value of items lost in a disaster ensures faster and more accurate reimbursements.

Just as critical, if not more, is the ability to recover from the disaster and rebuild. An accurate inventory identifies not only what assets were lost, but where the assets were located in the facility. This provides the organization with a virtual plan for rebuilding the damaged area.

- **Standardized Inventory Across Departments** – The standardization of data ensures a more accurate fixed asset ledger. If there are numerous people across several departments performing the inventory, the data will lack standardized results, and will require more time being spent “cleaning” the data.

- **Return on Investment (ROI) and Cost Savings** – The return on investment realized by an organization may be enormous based on the low cost of having an inventory completed and the savings realized through reduced taxes and insurance premiums. The cost of an inventory is far less expensive than what organizations may believe.

5. Implications of Not Having a Professional Inventory

The following are possible implications an educational organization could face if annual inventories are not completed:

- **Noncompliance of Annual Financial Reporting** – Educational organizations are often required to submit accurate annual financial reports in order to comply with accounting requirements. An important part of this financial report is to properly account for all equipment owned by the organization and to report the value of those assets. Without performing an inventory, the report is based on the *assumed* accuracy of the fixed asset ledger and the possibility of inaccurate financial reports is greatly enhanced.
- **Snowball Effect of an Inaccurate Fixed Asset Ledger** – After performing inventories for organizations that have not regularly performed an inventory, we have seen fixed asset ledgers that are less than 40 percent accurate. Meaning 60 percent or more of the items on the asset ledger cannot be located, or there are items identified during the inventory that are not on the asset ledger prior to the inventory. Once an organization decides not to validate their asset ledger on an annual basis, the inaccuracy of the ledger multiplies each year.
- **Items that may be Lost or Stolen** – When equipment is needed in the routine activity of the organization, and it gets lost, stolen, or wrongly disposed of, the non-availability of that equipment may not be realized until it is too late. It then takes time to replace the item. Annual inventories may identify missing items as well as identify items that may be misplaced within the facility.
- **Efficient Capital Budgeting**– Without an accurate inventory and fixed asset ledger, capital budgeting is more difficult. Having an accurate fixed asset ledger assist in identifying equipment that needs to be purchased.
- **Unable to Recover from a Disaster** – Having an accurate fixed asset ledger that identifies the equipment owned by the organization ensures that insurance claims are recouped quickly and for the correct amount. It also acts as a virtual floor plan for identifying equipment, by room, for disaster recovery.
- **Negative Press** – Newspapers and the internet are full of headlines about school districts and other educational entities that cannot account for all of its assets. This causes uncomfortable situations with taxpayers demanding to know what controls are in place to account for the equipment purchased with their tax dollars.

6. The Inventory Process

Asset Services works with each client to develop a project scope that meets the organization's needs and the project goals. Once the scope is determined, Asset Services will create an inventory database and conduct the physical field inventory based on the project requirements.

The following is an overview of the inventory process used by Asset Services for a typical educational client:

Asset Tagging

Asset Services will apply a property tag to each item inventoried and capture all descriptive data pertaining to the asset. Standard data collected for each item includes:

- Asset Number
- Asset Description
- Facility/Location
- Room
- Manufacturer
- Model or Product Number
- Serial Number
- Federal Fund (i.e. Title I, Perkins, etc.)



Deliverables

Upon completion of the project, the client is provided the following:

- Inventory data in electronic spreadsheet format that can be easily uploaded into your current asset management system.
- Printed inventory report of assets by location.
- Electronic copy of inventory report.

The following reconciliation reports are derived from a data reconciliation of the physical inventory to current asset ledgers and databases:

- **Assets Unable to be Inventoried:** Items on the current asset ledger which do not fall under the scope of inventoried items (i.e. buildings, infrastructure, leasehold improvements, software, etc.).
- **Matched Items:** Inventoried assets that match directly to items on the current asset ledger.
- **Unmatched Ledger Items:** Items on the current asset ledger that were not located during the physical inventory.
- **Unmatched Physical Items:** Items identified during the physical inventory that are not identified on the current asset ledger.

7. Data Reconciliations

Asset Services performs data reconciliations, where the physical inventory data is reconciled against the client's current asset inventory listing. Asset Services performs data reconciliations using a two-tier methodology.

Tier 1 Reconciliation

Tier 1 Reconciliation is an automated process where items are matched by a unique identifier. The first step is to match items by an existing asset tag number (if applicable), and the second matching criteria used, is the item's serial number.

Tier 2 Reconciliation

If additional reconciliation of assets is necessary after the completion of the Tier 1 Reconciliation, a Tier 2 Reconciliation can be performed. This process involves a line-by-line comparison of the current asset list to the physical inventory results in an attempt to identify assets as unique items. Tier 2 Reconciliation consists of the following steps:

- An analysis of the current asset ledger is performed where each asset (line item) is assigned a designation code, such as:
 - a. out of scope item
 - b. item is not a physical asset
 - c. item with incomplete data
 - d. inventoriable and unique item
- The ledger is searched for matches using model numbers.
- The ledger is searched for matches using manufacturer.
- The ledger is searched for matches using product descriptions.

Tier 2 Reconciliation is considered an iterative process, where Asset Services will be in contact with client personnel to ensure any assumptions made are satisfactory. Once Asset Services reaches the point in the reconciliation where the assumptions of Asset Services may not be accurate, the Tier 2 reconciliation is complete and the data is provided to the client.

8. Asset Valuation

Asset Services performs asset valuations based on the list of assets created from the physical inventory, including physical condition code. To determine replacement and market values, a number of sources are utilized, including: equipment, IT, and furniture distributors, manufacturers and used equipment dealers across the United States. A number of other sources are researched including equipment catalogs, internet sources, and data gathered from previous clients. Through all of these sources, Asset Services has built a comprehensive database of values has been compiled and works to keep it continuously updated.



Market value is largely determined by a number of factors including condition, type, and age of the item. One of the most important elements in determining market value is what comparable items are selling for in the open marketplace. The valuation professionals at Asset Services are apprised of the current trends in the marketplace and continue expand their knowledge to ensure that market value is appropriately determined.

9. Contact Asset Services

Please feel free to contact Asset Services with any questions pertaining to our asset management solutions, or if you would like an estimate for completing an inventory for your school district or educational organization.

Contact us:

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