



# Fixed Asset/Equipment Physical Inventories for Educational Organizations

WHITEPAPER

|Asset|Services|

FIXED ASSETS - INVENTORIES - AUDITS - VALUATIONS

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## 1. Purpose

The purpose of this document is to substantiate to educational institutions, such as school districts, charter schools, private schools and institutions of higher education, the importance of physically performing fixed asset inventories, whether it is to:

- Perform an audit of the current asset ledger to ensure it accurately reflects assets physically on-hand.
- Ensure accurate insurance coverage of building contents.

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 equipment inventory completed
- The implications of not performing regular equipment inventories
- An overview of the Asset Services inventory, asset reconciliation, and valuation processes

## 2. Definition of a Fixed Asset Inventory

In today's education environment, it is essential to know what assets an organization owns, where the assets are located, and if assets that you no longer possess are still on your ledger. However, ensuring an accurate inventory of all major movable equipment within the organization is a very tedious and time-consuming task. Pair this daunting chore with an overwhelming workload, it is easy to understand how a fixed asset ledger can quickly become out-of-date and unusable. And, with auditors and taxpayers keeping a watchful eye, it is imperative to have an accurate accounting of your assets.

When the inventory experts at Asset Services are asked what items should be included in a fixed asset/major movable equipment inventory, the response is simple.

“What would you take with you if you sold or vacated a 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:

- Information Technology
- Audio/Visual
- Furniture
- Athletic Equipment
- Industrial Arts (Shop) Equipment
- Science Lab Equipment
- Kitchen Equipment
- Office Equipment
- Maintenance Equipment
- Musical Instruments

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, items with serial numbers such as:

- Information Technology

- Laptops
- Tablets
- Monitors
- Laser Printers
- Supporting Network Hardware

- Audio Visual Equipment

- LCD Projectors
- Televisions
- DVD Players
- Doc Cameras

### 3. Leading Questions

Answering the following questions will help you identify where your organization's current inventory processes can be improved.

**1. Does your organization perform a periodic fixed asset inventory? .....**  Yes  No

**1A. If so, what is the frequency of your inventory process?**

- Every Year       Every Other Year       Other

*If you answered "NO" or "Other"*

Inventory data will depreciate at an alarming rate. Keeping a schedule to ensure your list is current is the best policy for maintaining an accurate inventory. Asset Services recommends an organization perform a wall-to-wall, room-by-room inventory of every building annually or biennially.

**2. What type of inventory process does your organization use?**

- Teacher Checklist (last day of school)       Bar code and scan       Other

*Teacher Checklist* – If your teachers are given a list to validate at the end of the year, chances are, this may not be a completely thorough inventory. They may be so caught up in their end of year work that their commitment to accuracy is extremely low. Your checklist could be getting less attention than is needed.

**3. Is there a system in place for identifying each individual piece of equipment? .....**  Yes  No

Knowing what you have is important but even more important is having a unique identifier, such as a property tag for each piece of equipment. It may be the only way to distinguish one asset from another and is an important part of an inventory for maintenance scheduling, insurance claims and ledgers.

**4. Who is responsible for completing your organization's fixed asset inventory?**

- Teachers       Maintenance       In-house Team       Outsourced       Other

**4A. Does this person(s) also inventory the common areas of the school such as cafeterias, libraries, offices, etc? .....**  Yes  No

The sheer volume of equipment to locate and track can seem overwhelming. How much time and energy can your personnel (teacher, maintenance, I.T., or other) dedicate to completing a physical inventory? Chances are they will have less than 50% of their time available for this project.

**5. Are you properly accounting for your assets/equipment in your financial reports?.....**  Yes  No

Asset values are a critical component of an organization’s annual financial reports. Inaccurate reports may lead to failed audits, taxpayer dissatisfaction, and your district becoming a “News Story”.

**6. In the event of a natural disaster, does your organization have a prepared plan for recovery?.....**  Yes  No

**6a. If you answered yes, does your plan include a comprehensive inventory of your equipment? .....**  Yes  No

Planning is the key to a quick recovery. Step #1 is having an accurate list of your equipment and its value. Being able to provide insurance carriers with this listing and value of lost items after a disaster may result in faster and more accurate reimbursement. Just as crucial, an accurate inventory identifies not only what assets were lost, but where they were located. This can provide a virtual plan for rebuilding the damaged area.

## 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 their worth.
- **Financial Reporting Compliance** – Educational organizations have 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** – 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. This may nullify 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. Depreciation is then calculated on an annual basis 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 data depreciation.
- **Locate Missing Assets** – An annual inventory will assist an organization in locating 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.

- **Accurate Insurance Premiums** – 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 Data Across Departments** – The use of a common data entry process ensures a more accurate fixed asset ledger. If there are numerous people across several departments performing the inventory without a set of common rules, the data will lack standardized results, and could result in errors and valuable time spent correcting avoidable anomalies.
- **Return on Investment (ROI) and Cost Savings** – The cost of an inventory is more affordable than organizations may believe. The return on investment realized by an organization may be enormous based on the savings from reduced taxes, accurate insurance premiums, and lower maintenance costs.

## 5. Implications of an Inaccurate 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. 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.
- **Data Depreciation** – After performing inventories for organizations that have not regularly performed an inventory, Asset Services has 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 assists in identifying equipment that needs to be purchased.
- **Recover from a Disaster** – An accurate fixed asset ledger identifies the equipment owned by an organization and 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 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 Asset Services Inventory Process

Asset Services works with each client to develop a comprehensive plan that meets the organization's needs and the project goals. Once the plan is determined, Asset Services will create an inventory database and conduct the physical 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.)



### Reports

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

- 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:

- 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 a 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 a physical condition code. To determine replacement values, a number of sources are utilized, including: equipment, IT, furniture distributors, and manufacturers. A number of other sources are researched including equipment catalogs, internet sources, and data gathered from previous clients. With all of these sources, Asset Services has built a comprehensive database of values. This database is continuously updated in order to remain current.



## 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:           844-388-3400  
                              AssetServices.com  
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