Componentization Procedures 11/03/2022

Background:

University Accounting and Financial Reporting (UAFR) is required to start depreciation on a capitalized project, whether a new building or an addition, at the end of the fiscal year in which that project reaches the substantial completion phase. Substantial completion is defined as the time the owner takes occupancy and assumes site and building maintenance responsibility. According to OBFS Policies costs of construction for new buildings and additions that materially expand an existing structure's "footprint" are segregated into four component categories.

Componentization of costs is allowed by federal statute to calculate the institution's Facilities and Administrative (F&A) Rate. According to OMB Circular A-21, J14d(4), codified at 2 CFR 220, "The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each component item may then be depreciated over its estimated useful life. The building components shall be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms and glassware/washers)."

The three components provided for in OMB A-21 to which total construction costs are assigned, based on the Construction Specifications Institute (CSI) codes, are:

Capitalized Building Shell Construction: defined as construction of capitalized facilities of any type, identified by contract or otherwise, which includes construction and all other costs not associated with one of the other component categories, including owner's costs.

Capitalized Building Service Systems: defined as the capitalized costs associated with utility and related service capabilities needed to operate the facility and includes air-conditioning systems, heating systems, ventilation systems, plumbing systems, electrical and telecommunication wiring and fixtures, elevator systems, etc.

Capitalized Building Fixed Equipment: defined as all permanently attached equipment, machinery, and other furnishings not capitalized that are not integral to another component and cannot be removed without rewiring; cutting into walls, ceilings, or floors; or otherwise damaging the buildings or the items being removed. Examples would include sterilizers, casework, fume hoods, cold rooms, and glassware washers.

In addition to the three components provided for in federal regulations, the University has established a fourth component for building artwork which is considered unallowable for F&A costing purposes:

Capitalized Incorporated Artwork: defined as works of art incorporated into a building for purely aesthetic, non-functional purposes. This includes statuary, murals, and similar stationary works.

The time frame for the depreciation on a project varies depending on the component assigned to the expenses incurred; building shell is a 50 year timeframe, service systems is 25 years, fixed equipment is 15 years, and incorporated art is 20 years. The University uses the half year convention where the first year gets only ½ of a full year's depreciation and the 51st, 26th, 16th or 21st year receives ½ of a full year's depreciation. In order to accurately assess depreciation, the project costs incurred through June 30 must be assigned to one of the four components. These costs would also include any accruals that are made for outstanding work that has been completed up to 6/30.

Procedures:

1) Each May, UAFR will send each campus a spreadsheet with a list of projects that will need to be componentized using the final numbers available at the end of Banner period 14.

2) 2a. The best case scenario is the contractor is fully paid out and has submitted the Affidavit for Final Payment. At the bottom of the affidavit the contractor is required to break out their total payments into the appropriate components, and this information can then be used to communicate the breakout to UAFR by editing the spreadsheet. In most cases, the final payments are often delayed beyond the depreciation reporting time period, so another methodology must be used.

   2b. If a contractor is not fully paid out the campus unit will access PRZM, the collaborative software used for University capital projects, and refreshes the CVS/Payment Summary form to obtain paid to date amounts related to a particular contract and division of Work. The use of the CVS/Payment Summary form paid to date amounts should alleviate the need for a final reconciliation after the final pay affidavit is received. All costs such as work orders, purchase orders, PM fees etc. will also need to be reviewed and componentized and included in the building shell.

   2c. Accruals for retainage and work completed but not billed also need to be componentized. Since these accruals represent an estimate of work competed but not billed, the costs will not be recorded in PRZM, that system cannot be directly relied upon to componentize the accrual estimates. The basis for componentization will therefore need to be the accumulated history associated with each contract.

   2d. Because artwork is included in "owners costs" in PRZM, construction units must assure that Banner expenditures for artwork-related contracts are identified and related expenditures and accruals are coded to appropriate artwork Banner account codes 1728XX

3) The accepted practice is to include only actual costs incurred as of June 30 including any accruals for work that has been completed up to 6/30 without making a provision for unpaid amounts remaining on the contract. If total payouts on the project in the next fiscal year are less than $100,000, UAFR will expense those expenditures. The exception is COPS funded capitalized projects which will have all expenses added, even if less than $100,000, to Fixed Assets. If the COPS funded project was not considered capitalized it will be expensed as usual. If total payouts in the next fiscal year total more than $100,000, UAFR will automatically capitalize those expenses and add them to the shell component. Depending on the relationship between the accrual estimate booked and the actual subsequent payments, the net for subsequent years may actually result in a credit rather than a charge.

4) When UAFR has received the revised spreadsheet back from the campus units, they establish the required asset tags for each component into the Banner Fixed Assets module, and the depreciation cycles begin.