

Attachment II

Capital Reserve Cost Centers for Service Centers

What is a Capital Reserve Cost Center?

The purpose of a Capital Reserve cost center is to hold funds equal to the amount of the accumulated depreciation of assets for a Service Center. These funds are then available to purchase replacement equipment. A separate Capital Reserve cost center is used for each Service Center.

Requirement for Capital Reserve Cost Centers

UTD's procedure on Capital Reserve cost centers is based on OMB Circular A-21, which states: "capital equipment and any required installation cost must be purchased from an equipment replacement cost center. Each Service Center that purchases equipment will have a separate equipment replacement cost center that will be funded by the operating cost center through depreciation. Only allowable capital equipment and maintenance and repair to existing equipment may be purchased from this cost center, provided the purchase is specific to the Service Center. A Service Center may not use this cost center for any other purpose."

Funding the Capital Reserve Cost Centers

The source of funds for the Capital Reserve cost centers will come from Service Center revenue. Once a year, the depreciation portion of the Service Center billing rate recovery will be transferred to the Capital Reserve cost center. A fund transfer request must be made to move the amount of calculated depreciation from the operating Service Center cost center to the Capital Reserve cost center. This can only be done if there is adequate fund balance available to cover the transfer. When replacement assets are purchased, they should be purchased from the Capital Reserve cost center instead of the operating Service Center cost center.

Depreciation Expenses

At UTD, detail equipment depreciation records are maintained in PeopleSoft. Please refer to Attachment III "Equipment and Depreciation" for more information.

Calculation of total depreciation and submitting the fiscal request is the responsibility of the Service Center. Accounting Operations will review depreciation schedules during the annual rate study process or upon request.

Example

A Service Center uses a copier. The copier originally cost \$6,500, the useful life has been determined to be six years and the salvage value is \$500.00. At the end of each fiscal year, the Service Center will send a request to the Accounting Operations to transfer fund balance equal to annual depreciation: \$1,000 (calculated as \$6,000 / 6 years) from the Service Center cost center to the Capital Reserve cost center.

At the end of six years, the equipment is fully depreciated. The fund balance request no longer needs to be made. If the equipment is not replaced right away (in our example, the copier is built and maintained exceptionally well, lasting several more years) the funds will simply remain in the Capital Reserve cost center until needed. When new equipment is required, it will be purchased out of the Capital Reserve cost center and not affect the Service Center cost center.

Sale of Assets

When an asset is sold by a Service Center, the revenue must be recorded in the Service Center cost center. Revenues are not permitted in the Capital Reserve cost centers. If there are any questions concerning procedures for disposition of assets, please contact Accounting Operations. At the end of the fiscal year, the depreciation entry (see above) should be adjusted since the asset is no longer in use at the Service Center.

At the end of the year (if not done when the asset was sold), the amount of the sale proceeds can be transferred via a fund balance transfer request to the Capital Reserve cost center. This will move the funds, which are now available to purchase another asset. The sale of the asset should not affect the rate calculation for the Service Center, since it is not part of ordinary operations.