



Asset Equipment & Building Reserves



MANAGING EQUIPMENT REPLACEMENT
AND MAJOR BUILDING MAINTENANCE



Introduction

- Changes within the State system of accounting practices have changed the way institution will be accounting for equipment and building reserves going forward. SOU will be beginning with initial implementation in FY2017.
- There will be a period of transition from the old model to the new model, after which, the Renewal & Replacement Fund group will be largely phased out.



Agenda

- Overview
- Definitions
- Previous OUS Model.
- Previous SOU Modified Model
- New SOU Model
- Review of Transaction Process using the new SOU Model
- Summary



Overview

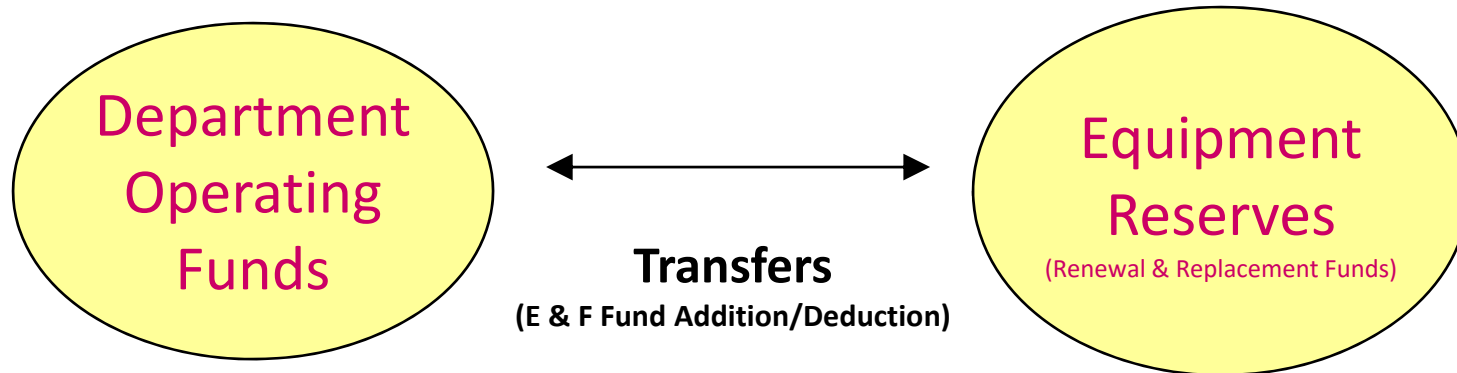
- With the independence of the universities within the State university system, comes with it the ability to make changes to accounting structures. There is still some degree of relationships within the base Fund Structures from university to university, primarily to aid in the preparation of comparable financial statement between universities within the state.
- One change occurring between all universities is the phasing out of the Renewal and Replacement Funds. These were largely used to establish reserves for equipment and building maintenance reserves. These will be migrated back to the Current Operating Fund group, as the R&R Fund group is phased out. This document will show the steps that will be taken to accommodate the transition to the new accounting structure for Major Equipment Reserves, and Major Building Replacement Reserves.

Definitions

- **Proprietary Funds** = “Unrestricted” funds within Auxiliaries, and Service Centers
- **Non-proprietary Funds** = All other funds
- **Major Equipment** = Items > \$5,000, and a useful life of two years or more. These will be recorded in the formal inventory
- **Major Building Maintenance** = Non-routine, major maintenance, typically exceeding \$5,000 in cost
- **Auxiliary Departments** = the primary focus is to generate revenues to support non-instructional, direct, student activities (ex: Residence Halls, Athletics, SU, Health Center...funds starting with “1”).
- **Service Centers** = the primary focus is to provide a service to other campus departments, and to pass the cost of those services directly to those departments who are using the services (ex: Print & Copy Services...funds starting “09”).
- **Major Equipment Reserve** = Formal OUS required reserve to accumulate funds to replace the “cost” of “existing” equipment assets.
- **Depreciation/Asset Replacement Fund** = the SOU modified reserve to record asset acquisition costs, depreciation, and to set aside funds to cover equipment replacement and “future equipment needs”. **Will become the “Equipment Reserve”.**



OUS Adopted (GASB 35) Process



Equipment is purchased directly from Operations using a GL “Asset” account code

Depreciation Expense is assessed over life of asset

Funds transferred from Operations as depreciation is recorded. Funds are returned to Operations upon asset disposal.

No funds are expended directly out of the ER

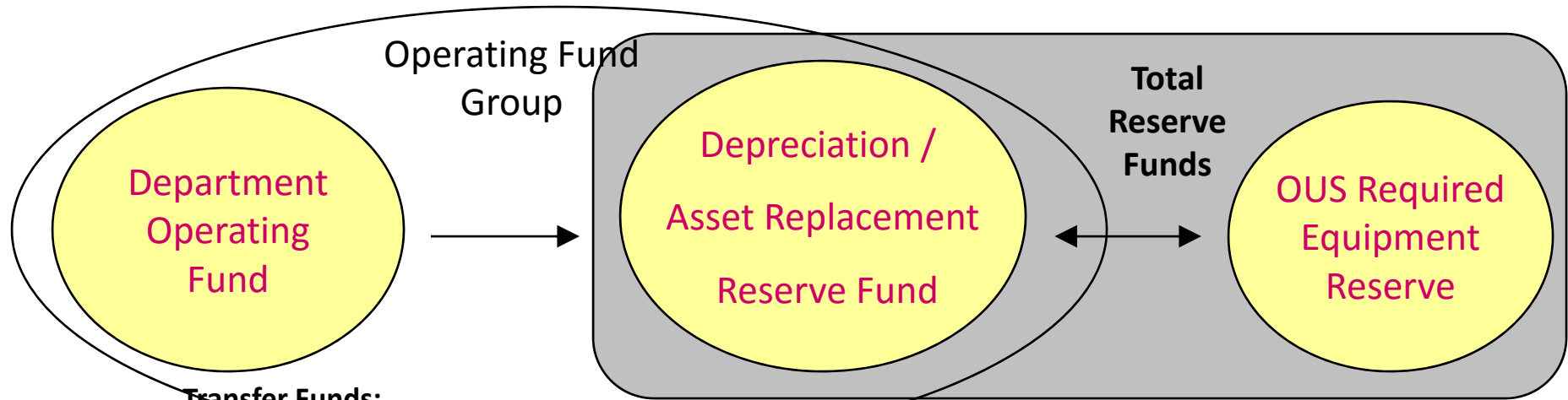


Impacts of OUS Model

- Depreciation / Reserve disconnect still remains. Funds can only be set aside for an amount equal to the accumulated depreciation.
- Managers are not easily allowed to use the ER to set aside additional funds to factor in inflation, or future “new” equipment asset needs.
- Doesn’t take into consideration that some sectors are experiencing “deflation” when it comes to the purchase of replacement, or new equipment (ex: IT).
- Funds transferred to and from the Equipment Reserve (ER) are made using General Ledger (GL) rather than Operating Ledger (OL) transfer account codes, in order to avoid double counting. Problem: Managers can’t budget for GL transfers.
- Fund balances take on different meaning: departments need to be more aware of cash balance and other balance sheet positions, since the fund balance will no longer just reflect the funds that are available for current operations. Instead, fund balance will reflect the fund’s total net worth, after factoring in the un-depreciated value of any assets. However, timing issues can also make using cash balances alone open to interpretation.

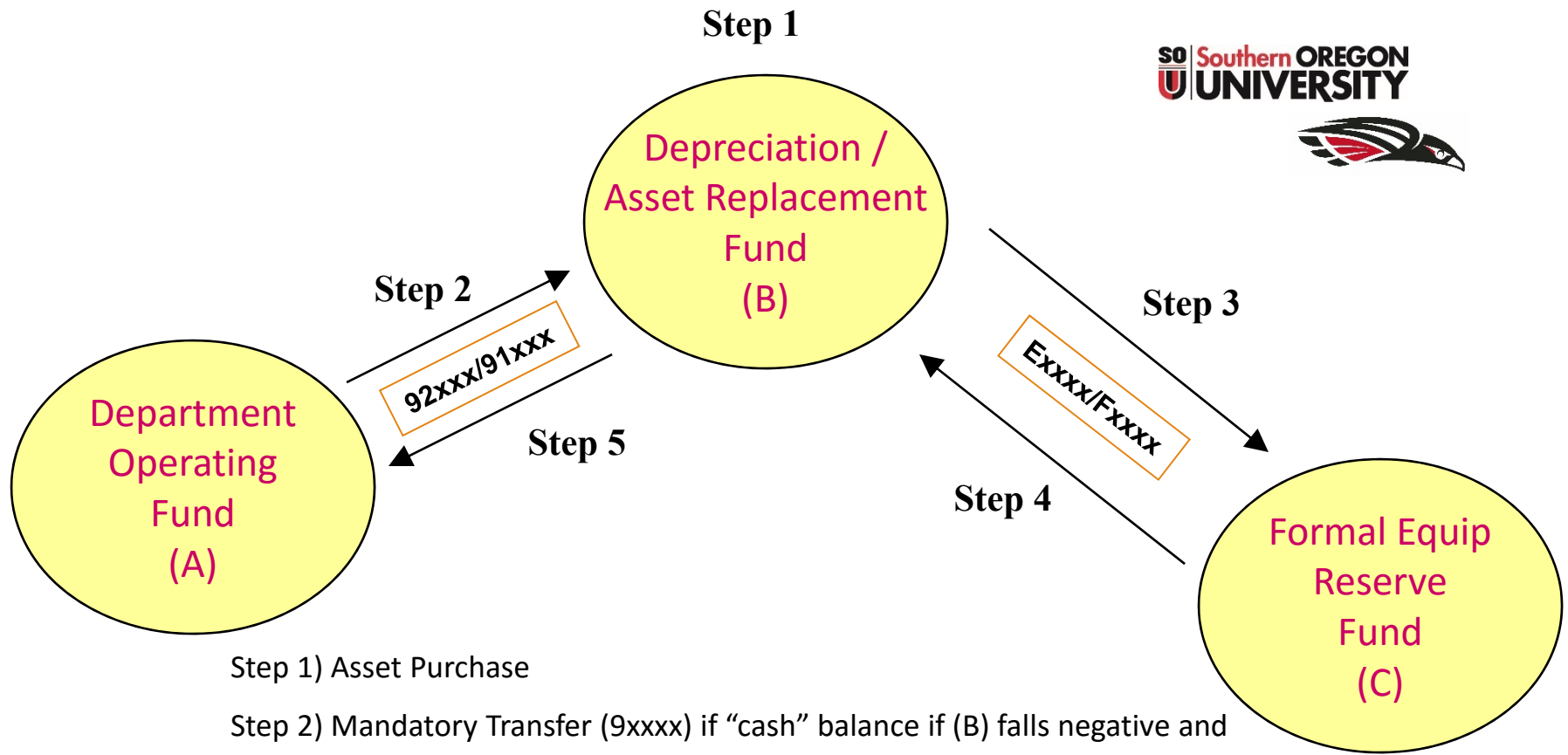


SOU Modified Process



Transfer Funds:

- Cover minimum ER requirement
 - Add inflation factor on future replacements
 - Provide for anticipated “new” purchases
 - Provide for “minor” equipment purchases
- Equipment purchases made here, using GL “Asset” account code
 - Depreciation expense is assessed over life of asset
 - Transfers made from Operating or Reserve Funds to cover required replacement and/or anticipated replacement needs
- Funds transferred as depreciation is accumulated. Funds are returned upon asset disposal.
 - No funds are expended directly out of the ER
(Represents minimum transfer requirement from Operating Fund)



Step 1) Asset Purchase

Step 2) Mandatory Transfer (9xxxx) if “cash” balance if (B) falls negative and insufficient funds reside in the Formal Reserve, or Non-mandatory transfer for departments using (B) to build reserves in excess of the minimum requirement.

Step 3) Depreciation Assessment and associated transfer (Exxx/Fxxx) to the OUS required reserve.

Step 4) Disposal of Asset, initiating funds being “freed up” in the formal reserves (Exxx/Fxxx).

Step 5) Returning funds to main operating fund (9xxxx).



Benefits of Modified Approach

- Maintains OUS required set aside for the formal Equipment Reserve (ER).
- Maintains interest earning capabilities on the formal Equipment Reserve.
- Allows ability to include an inflation factor into anticipated replacement estimates.
- Allowed ability to budget for reserve transfers in the primary Operating fund.
- Allows ability to set aside funds to cover future “new” (non-replacement) equipment needs.
- Allows ability to set aside funds to cover “minor” equipment replacement needs.
- Kept the department’s Operating Fund balance reflective of the funds that are available to meet current day-to-day operational activities.



New SOU Modified Approach

Starting with FY2017 going forward

DETAILED PROCESS FOR
“PROPRIETARY” FUND GROUPS



Impact of New SOU Approach for Accounting for Reserves

EQUIPMENT RESERVES

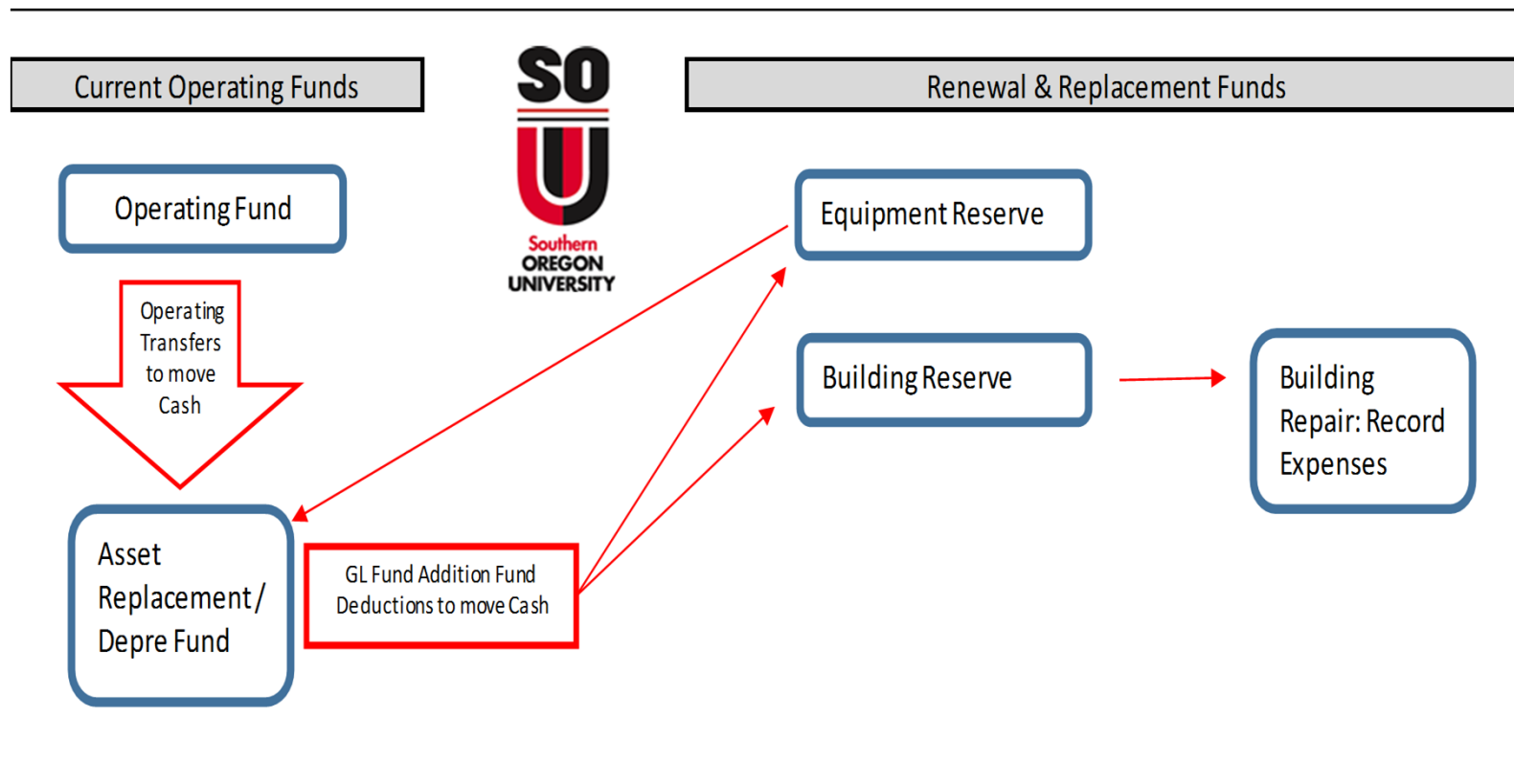
- Current Renewal & Replacement reserves held in the Plant Fund group will be phased out.
- R&R funds can't be immediately eliminated, but as purchase are being made, funds will be transferred (E&F codes) until the funds held here are used up.
- Current "Asset & Replacement" Funds will become the "Equipment Reserves" going forward.

BUILDING RESERVES

- Current Renewal & Replacement reserves held in the Plant Fund group will be phased out.
- R&R funds can't be immediately eliminated, but as purchase are being made, funds will be transferred (E&F codes) until the funds held here are used up.
- New Building Reserves will be created within the Operating Fund group for all Auxiliary units that are maintaining their own buildings.
- Building "Repair" funds will be eliminated. Spending will be recorded directly in the Reserves



Prior Accounting Practice





Prior Practice: Reserves

Equipment Reserves: For the Replacement of "Existing" Assets

(1) All equipment is purchased from the respective "Asset Replacement/Depre Fund", using an equipment Account Code:

A8010	Equipment	N
A8011	Equipment	Y
A8012	Vehicles	Y
A8014	Construction in Progress (Equip)	Y
A8015	Vessels	Y

(2) The inventory values and depreciation values are recorded directly in this "Asset Replacement" fund.

(3) OUS Standard: Transfer Funds to the Equipment Reserve for amounts equal to the Accumulated Depreciation (GL Transfer through the use to Fund Addition/Deduction codes).

(4) If the purchase is a replacement of prior assets, funds will be transferred from the Equipment Reserves, to the extent funds are available. If adequate funds are not available, funds will be transferred from the Operating Fund.

Building Reserves: To Cover "Major" Building Repair Needs.

(1) Funds are transferred to the "Asset Replacement" fund using 9xxxx Transfer Account Codes. Funds are then transferred to the Building Reserves using the GL Fund Addition/Deduction codes.

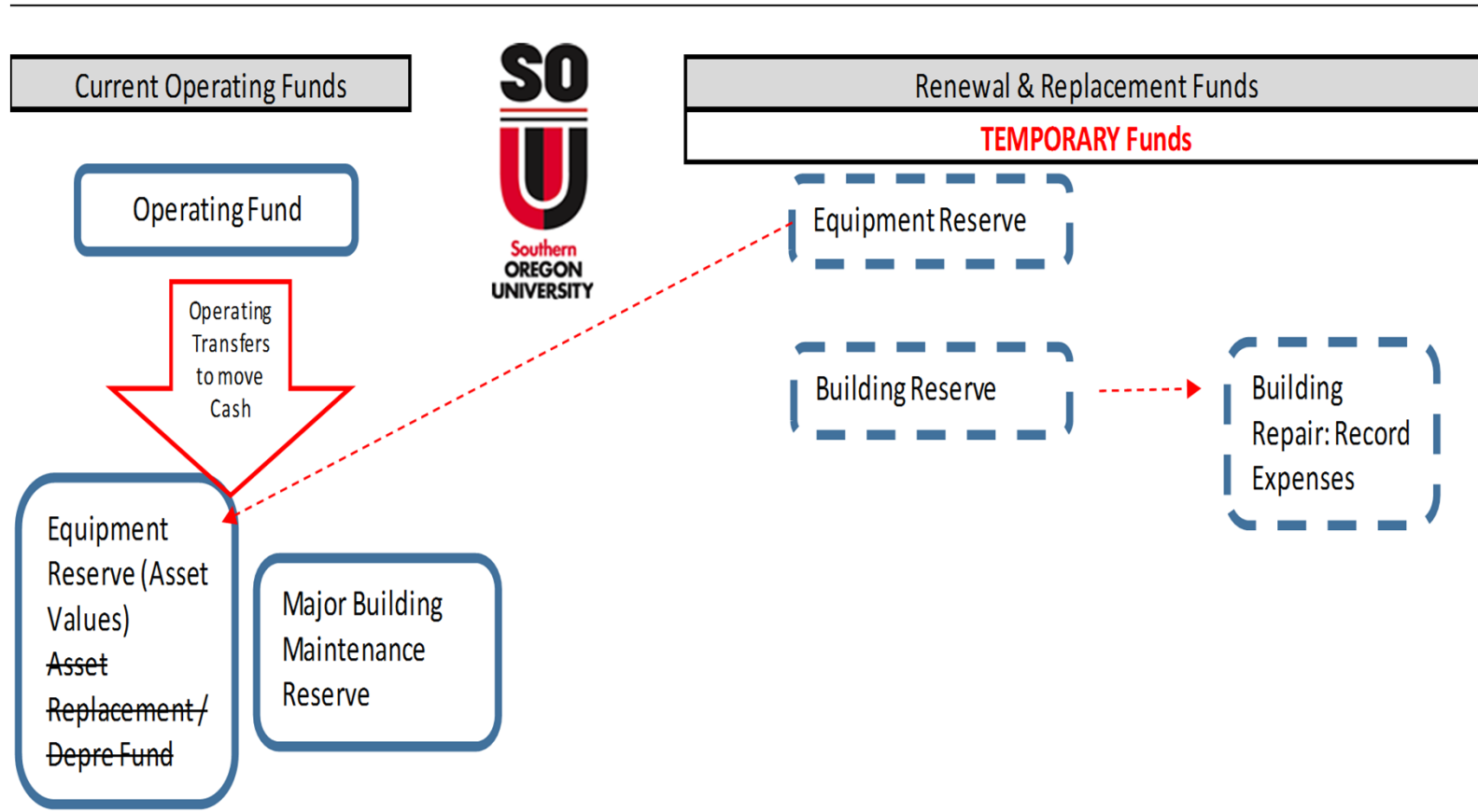
(2) Transfers are based on departments developing estimated 5-Year Building Repair schedules.

(3) Funds are then transferred to the Building Repair fund where all expenses will be recorded.



New Modified Accounting Process

(FY2017 Forward)





New Accounting Practice

(FY2016 Forward)

Equipment Reserves: For the Replacement of "Existing & New" Assets

(1) All equipment is purchased from the respective Operating "Equipment Reserve" (which replaces the former "Asset Replacement/Depre Fund"):

A8010	Equipment	N
A8011	Equipment	Y
A8012	Vehicles	Y
A8014	Construction in Progress (Equip)	Y
A8015	Vessels	Y

- (2) The inventory values and depreciation values are recorded directly in this "Equipment Reserve" Fund.
- (3) OUS Standard: Will be replaced by a new SOU standards will be set for each respective area, in coordination with the needs of the department as it relates to replacing of equipment, and the expansion of operations over the near future.
- (4) As purchases are made, if adequate cash balances are not available in the Equipment Reserve to cover the purchase, additional funds will be transferred from the Operating Fund. If additional funds are not available within the Operating Fund, the department will need to secure internal financing (loan) from the Controller's Division before proceeding with the purchase.
- (5) The funds within the "Renewals & Replacement Fund Group will ultimately be terminated. However, this can not occur until all the cash within these funds has been fully expended. Prior rules still exist when it comes to utilizing these funds. Funds can't simply be transferred out. Funds can only be transferred out of the R&R Equipment Reserve when it comes to "replacing" equipment. As asset purchases are made in the Operating Fund Equipment Reserve, even if there are sufficient "cash" resources in this reserve, funds will be transferred from the R&R Equip Reserve until those resources are depleted. At which point, the R&R Equip Res will be closed.

Building Reserves: To Cover "Major" Building Repair Needs.

- (1) Funds are transferred to the "Asset Replacement" fund using 9xxx Transfer Account Codes. Funds are then transferred to the Building Reserves using the GL Fund Addition/Deduction codes.
- (2) Transfers are based on departments developing estimated 5-Year Building Repair schedules.
- (3) Funds are then transferred to the Building Repair fund where all expenses will be recorded.



Asset Purchases

For Auxiliary and Service Center units:

- Assets valued at \$5,000 or more are to be purchased directly from the Operating Equipment Reserve Fund (formally the “Asset Replacement/Depre” Fund). This is in line with the current process, and done using one of the General Ledger “Asset Acquisition” Account Codes (“A80%” range).

A8000	Fixed Assets
A8001	Personal Property
A8010	Equipment
A8011	Equipment
A8012	Vehicles
A8014	Construction in Progress (Equip)
A8015	Vessels
▪	
▪	
▪	



Transfers from Operations

Transfers will be made to shift funds from the primary Operating fund to the Equipment and Building Reserve funds, based on schedules that will be developed in coordination with the Business Services, Controller's Office.

- For Equipment Reserves, schedules will be developed to address both “replacement” needs for current equipment, plus the addition of “new” equipment going forward. These schedules will be reviewed and updates annually.
- For Building Reserves, schedules will be developed to address a 5-year anticipated major building maintenance needs. These schedules will be reviewed and updates annually.
- Transfers will be made using established 9xxxx Transfer Account Codes. All estimated annual transfers will need to be reviewed by the Business Services Controller, but the department Directors will have the flexibility to transfer to and from the Equipment Reserves as their needs change from year to year.

Example: Bookstore Transfer

<u>Index</u>	<u>Index Description</u>	<u>Acct Code</u>	<u>Debit</u>	<u>Credit</u>
BSKOPR	Bookstore Operations	92001	\$x,xxx	
BSKEDR	Bookstore Depre/Asset Replacement	91001		\$x,xxx



Depreciation

The asset value will remain connected with the Equipment Reserve (formerly: Depre/Asset Replacement) Fund. This is where the actual depreciation expense, and accumulated depreciation will be recorded. Below is a sample depreciation entry.

The Equipment Reserve will reflect:

- 1) Asset Value (cost)
- 2) Depreciation and Asset Accumulated Depreciation
- 3) Reserve Balance (cash)

Accumulated Depreciation

Depreciation Expense Example: Bookstore Depreciation Entry for Non-Vehicle, Non-Vessel Equipment:

<u>Index</u>	<u>Index Description</u>	<u>Acct Code</u>	<u>Debit</u>	<u>Credit</u>
BSKEDR	Bookstore Depre/Asset Replacement	80510	\$x,xxx	
BSKEDR	Bookstore Depre/Asset Replacement	A8511		\$x,xxx

Note: Blue arrows point from 'Depreciation Expense' to the first row and from 'Accumulated Depreciation' to the second row.



Disposal of Assets

- Upon the disposal of an asset, the “asset value” and associated “accumulated depreciation” will be removed from the Equipment Reserve Fund.
- Any proceeds from the sale of the assets should ultimately be deposited to the Equipment Reserve fund. Any recognition of any gain or loss on the sale of the asset will also be recorded at this time.

Example: Bookstore

Original Asset Cost: \$5,000
Five year anticipated life, three years depreciated to date

General Ledger

Asset Value (A8011)	\$	5,000
Accumulated Depreciation (A8511)	\$	3,000
Net Asset Value	\$	<u>2,000</u>

Item is sold at the end of year three for \$2,500

Sample entry to recognize the sale of the asset:

<u>Index</u>	<u>Index Description</u>	<u>Acct Code</u>	<u>Debit</u>	<u>Credit</u>	
BSKEDR	Bookstore Depre/Asset Replacement	A8011 Asset Value		\$ 5,000	Decrease
BSKEDR	Bookstore Depre/Asset Replacement	A8511 Accum Depr	\$ 3,000		Decrease
BSKEDR	Bookstore Depre/Asset Replacement	08030 Gain on Sale		\$ 500	Increase
BSKEDR	Bookstore Depre/Asset Replacement	A0901 Cash	\$ 2,500		Increase

Sample entry to return funds set aside in Formal ER:

<u>Index</u>	<u>Index Description</u>	<u>Acct Code</u>	<u>Debit</u>	<u>Credit</u>	
BSKEDR	Bookstore Depre/Asset Replacement	E0001 Fund Addition		\$ 3,000	Increase
BKSTER	Bookstore Equipment Reserve	F0001 Fund Deduction	\$ 3,000		Decrease
BSKEDR	Bookstore Depre/Asset Replacement	A0901 Cash	\$ 3,000		Increase
BKSTER	Bookstore Equipment Reserve	A0901 Cash		\$ 3,000	Decrease

NET EFFECT: \$5,500 in cash is available in the Asset Replacement Fund, providing resources to purchase the replacement out of BSKEDR Bookstore Depre/Asset Replacement Fund.



Changes to Reserve Index/Fund

Former Asset/Depre Fund

	Assets/Equipment Reserve	Old Equipment Reserve	Status	New Building Reserve	Old Building Reserve	Old Repair Funds
Service Centers:						
FMP: Motor Pool	PPMPDR/090038	PPMPER/837010	Closed	N/A	N/A	N/A
FMP: Equipment Pool	PPEPDR/090037	PPEPER/837020	Closed	N/A	N/A	N/A
IT: Telecom	TELMER/090058	TELMER/837100	Closed	N/A	N/A	N/A
Print & Copy Center	DUPEDR/090016	DUPLER/837070	Remaining Balance	N/A	N/A	N/A
Auxiliary Units:						
Stevenson Union Operations	SUADDR/110111	SUFDER/847030	Closed	SUMBMR/110113	SUIOBR/844040	841012/841012
SU Food Service (Clear out to Dining Service)	SUFODR/110121	SUFDER/847030	Closed	N/A	N/A	N/A
Health Center	HEAEDR/130099	HEALER/847130	Closed	HEABMR/130098	HEALBR/844020	841201/841201
Parking	PKGEDR/140011	PKGXER/847100	Closed	N/A	N/A	N/A
Residence Halls	RESEDR/101150	RESHER/847020	Remaining Balance	RESBMR/101152	RESHBR/844060	841011/841011
Family Housing	SUFHDR/103103	SUFHER/847090	Remaining Balance	SUFBMR/103104	SUFHBR/844030	841015/841015
Rental Property	SURED/103201	SURPER/847080	Remaining Balance	SURBMR/103202	SURPER/844090	841014/841014
Dining Services	RESCDR/101211	N/A	N/A	RESDBR/101310	N/A	N/A
Childcare	SUCEDR/110619	SUCEQR/847091	Closed	N/A	N/A	N/A
Athletics - McNeal	ATHEDR/120299	ATHMER/847060	Remaining Balance	ATHBMR/120298	ATHLBR/844070	841016/841016
Fitness Center	FITNER/190011	FITNER/847010	Remaining Balance	FITBMR/190013	FITNBR/844010	841017/841017
Library Document Services	LIBEDR/190051	LIBRER/847120	Remaining Balance	N/A	N/A	N/A
JPR - Cascade Theatre	N/A	N/A	N/A	JPRBRS/957127	ADMCBR/844080	841018/841018



Return of Funds to Operations

- For assets that are not going to be replaced, or in situations where a department has been setting aside additional fund, and has determined that they have over estimated their other replacement needs, fund can be transferred out of the Asset Replacement Fund at the discretion of the department director, in coordination with the Business Service Controller.
- Annually, Business Services will work with the Service Center and the unit Director to determine the schedule of transfer to be made to the Equipment and Building Reserves. These will be reviewed in connection with current balances, additions, reductions, CPI estimates, replacement cycles, and future plans of the unit. Annual transfers to equipment will be based on these reviews. Transfers to Building Reserves will be based on individual unit 5-year major building repair needs.
- If situations arise where proprietary fund Directors are running short on cash needed to address unusual, or unanticipated, repair or replacement needs, inter-funds loans can be made in coordination with the Controller at Business Services. An inter-fund loan agreement will be drafted and signed off by the respective Director and VP. Cash will be transferred based upon the loan agreement, and payments made as additional funds are transferred from the Operating fund to the Reserve over time.



Summary

- ❑ Reviewed the plans for the elimination of the Renewals and Replacement Funds.
- ❑ Reviewed new accounting changes addressing Equipment Reserves and Major Building Maintenance Reserves for Proprietary Funds.
- ❑ Reviewed process for ongoing making transfers to/from reserves.
- ❑ Reviewed process for recording internal loans as needed.



Questions?



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