

Equipment Replacement Reserves – Excluding ISO Plant Funds
Funds 7200, 7300, 7401, 7700
RRC Manager Meeting – 1-15-14

BACKGROUND INFO

- Current funds with balances began receiving TIP distributions under revised TIP policy in 1993.
- Policy/procedures established in January 1998 encouraged units to transfer balances to the plant funds for future capital equipment purchases.
- Audited financial statements (though FY2001) reflected the activity of specific fund groups, thus all investment in plant activity (e.g. capital equipment purchases & debt) were supposed to be reflected in the plant fund.
- TIP distribution policy carried over to the equipment replacement reserves so that units would not lose out on TIP distributions just because they moved their balances to the plant fund.
- Once the funds were in the plant funds, they could not be transferred back to the current fund for spending. All spending was to occur in the plant funds and only for capital purchases.
- Effective FY2003, TIP distributions on current funds were stopped, but the distributions continued for the plant fund balances.
- All TIP fund distributions are added to the existing plant fund balance, increasing the total amount available for capital equipment purchases.

CURRENT STATUS

- 84% of the applicable plant fund balances belong to two units – AUXSV & OITXX
- Approximately \$1,000,000 was distributed to existing plant fund balances in FY13
- Purchases of capital equipment should be recorded in the current fund that is supporting the purchase.
- Audited financials (since FY2002) do not break out plant activity separately; thus no reason to reflect the purchases in the plant fund
- Capitalization threshold is now \$5,000

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RECOMMENDATION

- Discontinue TIP distributions on equipment/building reserve balances in the plant fund, effective current year (FY2014).
- Allow units to transfer equipment replacement reserve balances back to the current fund as a result of the policy change. If the funds are left in the plant fund, they must to be used only for capital equipment/building purchases – not for other expenses. *[Will work with Accounting Services to lay out proper procedures]*
- Any plant fund with a negative balance should be eliminated by transferring in existing current fund balances. *(Excludes ISOs)*
- Future use of equipment replacement reserves should be used only by units that are setting aside funds on a regular basis for large capital projects (e.g., data network, new phone system, parking garage, residence hall upgrades, etc.) Typically this would be OIT and AUXSV.
- Eliminate the following policies and procedures:
 - *Building Reserves for Capital Equipment Replacement (Policy)*
 - *Establishing Equipment Replacement/Reserve Accounts (Procedures)*
 - *Transferring Resources o Equipment Reserve Accounts (Procedures)*
 - *Purchasing from Equipment Reserve Accounts (Procedures)*
- Consider incorporating oversight of plant funds into the policy/procedure regarding: *Budget Oversight for Current Non-Sponsored Funds*