

Attachment II

Renewal and Replacement Accounts for Service Centers

What is a Renewal and Replacement Account?

The purpose of a Renewal and Replacement Account 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 Renewal and Replacement Account is used for each Service Center account.

Renewal accounts use the numbering system 3145XX, where XX represents the last two digits of the Service Center operating account.

For example:

314024 – Transportation Services Service Center

314524 – Transportation Services Center Renewal and Replacement Account

Requirement for Renewal and Replacement Accounts

UTD's policy on Renewal and Replacement Accounts is based on OMB Circular A-21, which states: “capital equipment and any required installation costs must be purchased from an equipment replacement account. Each Service Center that purchases equipment will have a separate equipment replacement account that will be funded by the operating account through depreciation. Only allowable capital equipment and maintenance and repair to existing equipment may be purchased from this account, provided the purchase is specific to the Service Center. A Service Center may not use this account for any other purpose.”

Funding the Renewal and Replacement Accounts

The source of funds for the Renewal and Replacement accounts will come from Service Center revenue. Once a year, the depreciation portion of the Service Center billing rate recovery will be transferred to the Renewal and Replacement account. A fund transfer request must be made to move the amount of calculated depreciation from the main Service Center account (014XXX) to the Replacement Account (0145XX). 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 Replacement account instead of the main Service Center account.

Depreciation Expenses

At UTD, detail equipment depreciation records are maintained in its Property System. 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. The Rate Analysis Accountant 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 Controller's Office to transfer fund balance equal to annual depreciation: \$1,000 (calculated as \$6,000 / 6 years) from the Service Center Account (014XXX) to the Renewal and Replacement Account (0145XX).

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 Renewal and Replacement Account until needed. When new equipment is required, it will be purchased out of the Renewal and Replacement Account and not affect the Service Center Account.

Sale of Assets

When an asset is sold by a Service Center, the revenue must be recorded in the Service Center account. Revenues are not permitted in the 0145XX accounts. If there are any questions concerning procedures for disposition of assets, please contact UTD Property Management Office. 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 Renewal and Replacement Account. 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.