

Example of Repair and Replacement Reserve

The department has a spectrometer that is used primarily for instructional activity, which costs \$400,000. The spectrometer is replaced approximately every 5 years. The department has had difficulty obtaining funding for the latest purchase and desires to establish a repair and replacement reserve for the purchase the next replacement. The department submits a request to establish the reserve to the University Controller and identifies 198403 as the funding organization. The request is forwarded to the University Budget Director for concurrence before being approved by the Senior Vice President for Finance and Administration. Below is an example of the potential transactions.

- Upon establishment of the reserve in August X1, Financial Reporting transfers \$80,000 (one fifth of \$400,000 based upon a 5-year replacement cycle) from the funding account 198403 to the repair and replacement account PR8199.
- July X2 - Financial Reporting and Analysis transfers \$80,000 from 198403 to PR8199. This transfer will take place annually unless the department requests suspension.
- June X3 - The department identifies \$100,000 of year-end balances available and requests the transfer of the available funds to the reserve account. Upon determination that the department, school, executive level and University have sufficient balances, Financial Reporting transfers the requested amount to the reserve.
- July X3 - Financial Reporting transfers \$80,000 to the reserve. The balance is now \$340,000.
- July X4 - The operating budget has been significantly reduced and the department submits a request to the University Controller to apply the June X3 advance funding to the current year.
- July X5 - The operating budget is further reduced and the department submits a request to the University Controller suspend the transfers. The transfers will be suspended and the account balance frozen pending the resumption of funding.
- July X6 - The suspension of transfers is continued at the request of the department. The continuance of the suspension, when sufficient advance funding does not exist, is determined after discussions with the appropriate Vice President's Office. The Vice President's Office will have the option of transferring the balances in suspended accounts to other repair and replacement reserve accounts.
- July X7 - The department utilizes \$60,000 of the HEETF allocation and the \$340,000 repair and replacement account balance to purchase the replacement spectrometer.