This document is meant to be a guide when using the ZRCH Report. The guide shows you how to successfully manage your recharge by analyzing the columns within the report. It is to be used as a supplement to the ZRCH Instructions, which can be found on the Costing website. This document will assist you when you want to do the following:

- **Determine Fund Balance**
- **Determine Tolerable Fund Balance**
- **Determine if your recharge operating fund is within tolerance**
- **Determine the amount of Depreciation to transfer to the Depreciation Recovery fund**
- **Determine the amount of Depreciation to transfer to the Depreciation Recovery fund (when a full year of depreciation had not posted)**
- **Determine if proper amount was transferred for Depreciation Expense into the Depreciation Recovery Fund for a FY**
- **Determine that Transfers In were for capital purchases ONLY**
- **Determine if the Recharge Subsidy was processed correctly**

**Determine Fund Balance:**

Fund balance is equivalent to the balance of working capital (current assets less current liabilities). It eliminates the possibility of a falsely inflated fund balance due to fixed assets being included in the calculation of fund balance. Fund balance is calculated using the sum of the columns on the ZRCH report of Cash, Other Current Assets, and Liabilities. If we look at the print screen below, the columns used in the calculation are identified:

![Print Screen](image-url)
Fund balance can be found on the ZRCH report (already calculated) as shown below:

You can see that the sum of the columns identified on the first print screen as being part of the calculation of fund balance equal the amount listed in the fund balance column:

\[
\text{Cash} + \text{Other Current Assets} + (-\text{Liabilities}) = \text{Fund Balance}
\]

\[-$161,137 + $186,120 + (-$4,119) = $20,864\]

**Determine Tolerable Fund Balance:**

The lower limit of tolerable fund balance for any recharge center is -$5,000. The upper limit is the greater of +$5,000 OR 10% of net income OR two months of cash expenses. *Any fund balance below -$5,000 is out of tolerance.*
Firstly, let’s look at where we can find possible tolerable fund balances on the ZRCH Report.

The tolerable fund balance upper limit will be the greater of $5,000 OR the amount in the ‘TFB-10% Inc’ column OR the amount in the ‘TFB-TwoMoExp’ column, as long as these numbers are reasonable. An example of a time when a 10% of income tolerable fund balance may be unallowable would be if a recharge center was overcharging and annual income was significantly greater than annual expenses (without a justifiable reason). In this case, the greater of $5,000 or two months of expenses would be a more reasonable fund balance. **Tolerable fund balance cannot be below -$5,000.**
Now let’s talk about where these numbers come from. Firstly, the ‘TFB-10% Inc’ is the tolerable fund balance based on 10% of Annual Income. This can be calculated using the ‘Annual Inc’ column. Please see below:

The ‘Annual Inc’ column has $850,897 of income for the year, multiplied by 10% gives you the $85,090 as a tolerable fund balance based on income.
Secondly, the ‘TFB-TwoMoExp’ is the tolerable fund balance based on two months of cash expenses (depreciation expense and plant assets retired are non-cash expenses). The ‘TFB-TwoMoExp’ column can be calculated using the ‘Annual Exp’, ‘Depr Exp’, and ‘PLA’ columns. Please see below:

The ‘Annual Exp’ column has $386,875 of expenses for the year less ‘Depr Exp’ of $1,958 per year less ‘PLA’ of $0 = $384,917 of Cash Expenses for the year. $384,917 multiplied by 2/12 (two months out of a total of 12 months in the year) = $64,153 as a tolerable fund balance based on two months of annual cash expenses.

Please note: This would be an example of a time when a department must use discretion in determining tolerable fund balance. Income for the year is significantly higher than expense. Normally when this happens, it means we are overcharging for services of the recharge. If so, 10% of Income is probably not a tolerable fund balance metric that we want to use.
Determine if your recharge operating fund is within tolerance:

When determining if fund balance is within tolerance, first look at if income is greater than $50,000 for the year. If it is less than $50,000, in-tolerance fund balance ranges from -$5,000 to +$5,000. If income is greater than $50,000, in-tolerance fund balance ranges from -$5,000 to a positive 10% of net income OR two months of cash expenses, whichever is greater. **Fund balances less than -$5,000 are not considered to be within tolerance.**

Is Income greater than $50,000? If no, tolerable fund balance is between -$5,000 and $5,000.

In this case, the answer to that question is yes, income is greater than $50,000. Therefore tolerable fund balance upper limit is equivalent to the greater of the tolerable fund balances based on 10% of income or two months of cash expenses, **as long as neither of those balances would result in an unreasonable fund balance based on the discretion of the Recharge Manager.**
For our purposes, we will assume that both of the tolerable fund balances are within reason, although we should take into consideration the note mentioned in the previous section regarding the discretion required when there is a significant discrepancy between income and expenses for the year. (For example, we can assume that a purchase order for $400,000 of supplies has been placed, but we have not yet received the supplies so they have not posted as expenses to our G/L accounts. This would be an example of when the tolerable fund balance based on income would be allowable to use, even though there is a significant discrepancy between income and expense.) Let’s determine the tolerable fund balance for this recharge:

Highlighted below are the two possible tolerable fund balances for the recharge:

| Tolerable Fund Balance based on 10% Income | $85,090 |
| Tolerable Fund Balance based on Two Months Expenses | $64,153 |

Because $85,090 > $64,153 → $85,090 is the upper limit for the tolerable fund balance for this recharge.

**Therefore tolerable fund balance range for this recharge is from -$5,000 to $85,090.**
Now we must determine what actual fund balance is:

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Recharge Activity
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Fund balance in this case is $20,864. Because this fund balance is within the range of our fund balance tolerance zone of -$5,000 to $85,090, this fund balance is within tolerance.

**Determine the amount of Depreciation to transfer to the Depreciation Recovery fund:**

There are two popular ways to transfer depreciation to the Depreciation Recovery Fund – annually or monthly. Annually is the only way that is required, but if your dollars are significant, you may want to move them on a more regular basis. Depreciation may also be moved on a quarterly basis, if that is what makes the most sense for your recharge.

If you want to move depreciation on an annual basis:
Run your ZRCH Report for the entire fiscal year:

Then use your page right button and determine the depreciation expense for the entire year:

Depreciation Expense for the year was $1,958, so that is the amount that should be transferred to the Depreciation Recovery Fund. The entry should look like this:

<table>
<thead>
<tr>
<th></th>
<th>FUND-COST CENTER (OPER RCHG)</th>
<th>59XXX</th>
<th>$1,958</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>FUND-COST CENTER (DEPR REC)</td>
<td>49XXX</td>
<td>$1,958</td>
</tr>
</tbody>
</table>
If you want to move depreciation on a monthly basis:

Run your ZRCH report for the one month at a time. The report below is run from Period 8 to Period 8 to get the monthly depreciation amount for February:

![Fund Balance Calc for Recharges: Selection](image)

The output and the entry will be the same as for the entries based on annual depreciation expense, but using the depreciation expense amount for just one month. Monthly entries for depreciation expense are usually only recommended for recharge centers with large amounts of capital equipment, and therefore large amounts of depreciation expense hitting each month. If we were running the report to transfer depreciation on a quarterly basis, we would run the report from Period 0 to Period 3 for the first quarter, from period 4 to period 6 for the second quarter, etc.

**Determine the amount of Depreciation to transfer to the Depreciation Recovery fund (when a full year of depreciation had not posted):**

Now let’s assume that it is June 1, 2010 and we want to transfer depreciation for the entire year of 2010 so our fund balance will be in order for the Annual Fund Balance Review. Depreciation for the month of June will not post until the 30th (or the last working day of the month). We can assume that the depreciation expense that will hit June 30 will be approximately equal to the depreciation that has hit every other month of the current year, as long as there have been no huge equipment purchases mid-year.
Run your ZRCH Report from Period 0 to Period 11:

The output will appear as follows:

Depreciation Expense YTD is $1,958. If we determine how much depreciation there is per month, we can estimate the depreciation expense for the entire year. To get a per month factor, we will divide the current depreciation expense by the number of months in which the depreciation has posted (in this case 11 months), and then multiply by the total number of months in one year. For this example, we’ll take the $1,958 of depreciation expense divided by a total of 11 months that have occurred, and multiply by 12 total months in a year. $1,958 / 11 months * 12 months = $2,136.
Determine if proper amount was transferred for Depreciation Expense into the Depreciation Recovery Fund for a FY:

Transfers out should ideally only be for transfers from our recharge operating fund to the depreciation recovery fund. Therefore, we can determine if the proper amount was transferred for depreciation at year end by comparing the two columns.

These numbers are pretty close, but transfers out are higher than depreciation expense for the year, which may indicate a problem. There are occasionally charges for work orders done for Physical Facilities that hit the transfer G/L accounts, and that would be a reconciling item.

Another example of a reconciling item would be if the recharge forgot to transfer their depreciation in the previous fiscal year, and corrected that mistake in the current fiscal year. If there is a discrepancy between these columns, please take a look at your GR55 Z100 to determine what is within those transfer G/Ls and make sure that the difference can be explained easily. Be prepared for the Costing Office to ask why there is a discrepancy between transfers out and depreciation expense when doing the Annual Fund Balance Review.
**Determine that Transfers In were for capital purchases ONLY:**

Transfers in to a recharge operating fund should be for capital purchases only. The funds for a capital purchase should come from either a depreciation recovery account (if depreciation has been recovered through the rate in previous years) or from an outside funding source (for initial purchases). Subsidies for a recharge operating fund require the use of specific G/L accounts, as mentioned in the next section of this document. Do not use transfer G/L accounts (49-types and 59-types) to process recharge center subsidies.

The following is an example of a new recharge center that was set up. The initial funding for the purchase of the capital equipment came from outside funds and was transferred into the recharge. Therefore, the ‘Transfers In’ column and the ‘CptlAssts’ column are equivalent to each other.

![Recharge Activity table]

<table>
<thead>
<tr>
<th>Column</th>
<th>Trans In</th>
<th>Trans Out</th>
<th>CptlAssts</th>
<th>AccumDep</th>
<th>Dep Exp</th>
<th>Chrg Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>22028016 Civil Field Wa</td>
<td>44,797</td>
<td>44,797</td>
<td>6,844</td>
<td>6,844</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If there were already assets within the center, the Transfer In should be equivalent to the new equipment purchased within the fiscal year.

**Process of a Subsidy:**

A subsidy is necessary when a recharge has a deficit that causes the center to be out of tolerance, and the center is not expected to recoup the deficit through the rate. The subsidy may be processed continually throughout the fiscal year by charging the subsidy account on the monthly intramural invoice voucher, using a set rate per unit for each subsidized departmental transaction. Alternatively, the subsidy may be billed to the subsidizing account on an intramural invoice voucher periodically or even just once a year.

When a subsidy is processed, debit the funding source using G/L account 523110 (Recharge Subsidy) and credit the recharge operations account using G/L account 433080 (Recharge Subsidy Income).
The subsidy will appear in your ZRCH Report as follows:

If the manager of the recharge center knows that a subsidy was processed, but does not see the subsidy in the ZRCH report, then the proper G/L account was not used on the document and the document should be corrected. Because this is not a transfer using the transfer G/L account (49-type and 59-type G/Ls), an FMBB document is not required to be processed.