

FUND ACCOUNTING TRAINING

Module 3

Loan and Agency Funds

The University of Texas System

OBJECTIVES



- Define Loan Funds and discuss accounting principles and issues unique to Loan Funds
- Define Agency Funds and discuss specific accounting principles

LOAN FUNDS



Loan Funds Definition:

Loan Funds account for resources available to make loans to students. Student loans are commonly part of an integrated financial aid package based on need. Other components of the package may include grants, scholarships, or wages for college Work Study, all of which are generally accounted for in designated or restricted funds. The major difference between student loans and other types of financial aid is that loans are expected to be repaid.

LOAN FUNDS (CONTINUED)

The Loan Funds group includes accounts established to record assets, liabilities, and net assets related to loans made by the institution.

Assets of the fund group typically include restricted cash and cash equivalents, investments, loans and contracts, receivables, and a contra-asset for the allowance for uncollectible notes.

Liabilities in this fund group usually consist of accounts payable for collection fees or amounts refundable to grantors, and amounts due to unrestricted funds for administrative cost recovery. Additionally, U.S. government programs such as the Federal Perkins Loan Programs and the Federal Family Education Loan Programs' capital contributions are liabilities, as the University would be required to refund these amounts contributed upon cessation of the programs.

Net assets for Loan Funds consist primarily of University funds from all other sources.

LOAN FUNDS (CONTINUED)



Increases to Loan Funds typically come from the following sources:

- Transfers from other fund groups for institutional matching of federal loan programs and for Texas Public Education Grant emergency loans,
- Interest earned on outstanding loans,
- Interest income from temporary investments, and
- Private gifts restricted for loan purposes.

LOAN FUNDS (CONTINUED)



Decreases to Loan Funds usually result from loan cancellations and write-offs, administrative cost recovery (transfers to current funds), collection fees, refunds to grantors, or transfers to other fund groups (transfers are very limited due to the restricted nature of loan funds). Expenses are generally not reported in this fund group (except for Bad Debt Expense), as these funds are set-aside for the sole purpose of making loans.

Administrative costs are paid from Current Funds and a portion is reimbursed from Loan Funds as predetermined rates as administrative cost recovery on the federal programs.

LOAN FUNDS (CONTINUED)

Loan Funds are generally operated on a revolving fund basis, with principal and interest repayments remaining in the Loan Funds group for future lending.

Interest earned on outstanding loans should be accounted for on the accrual basis. At year-end, the amount of interest earned on outstanding loans that has not been received should be recorded as revenue, and an asset should be recorded for the interest receivable.

When Loan Funds are invested, income earned should be credited to the individual loan fund principal invested. Realized gains or losses on the sale of the investments should also be added to or deducted from the principal of the individual loan fund.

Issuing notes for new loans and receiving payments of principal on existing loans does not change net assets but merely reclassifies assets between cash and notes receivable. Receiving interest payments increases both assets and net assets.

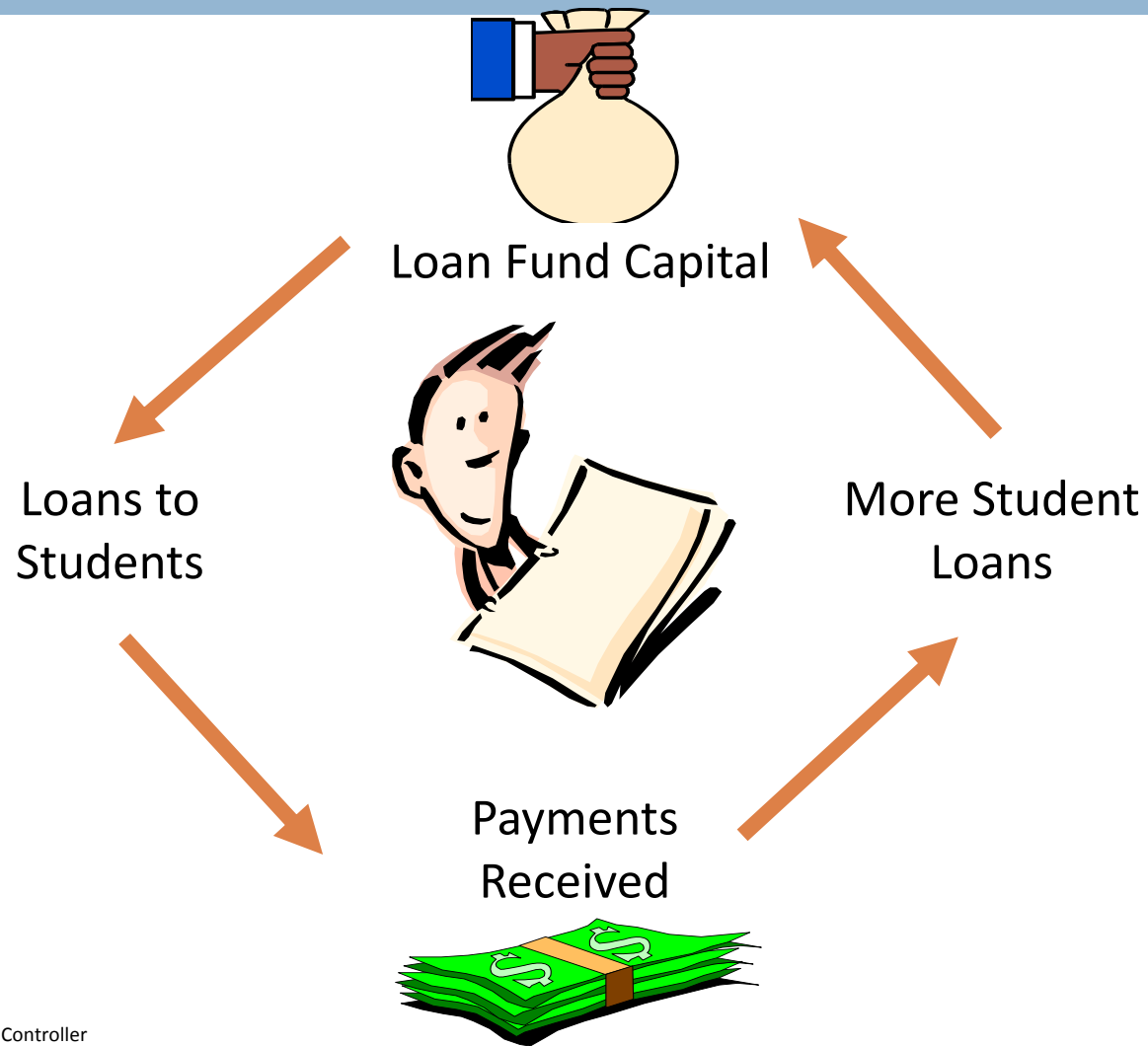
LOAN FUNDS (CONTINUED)



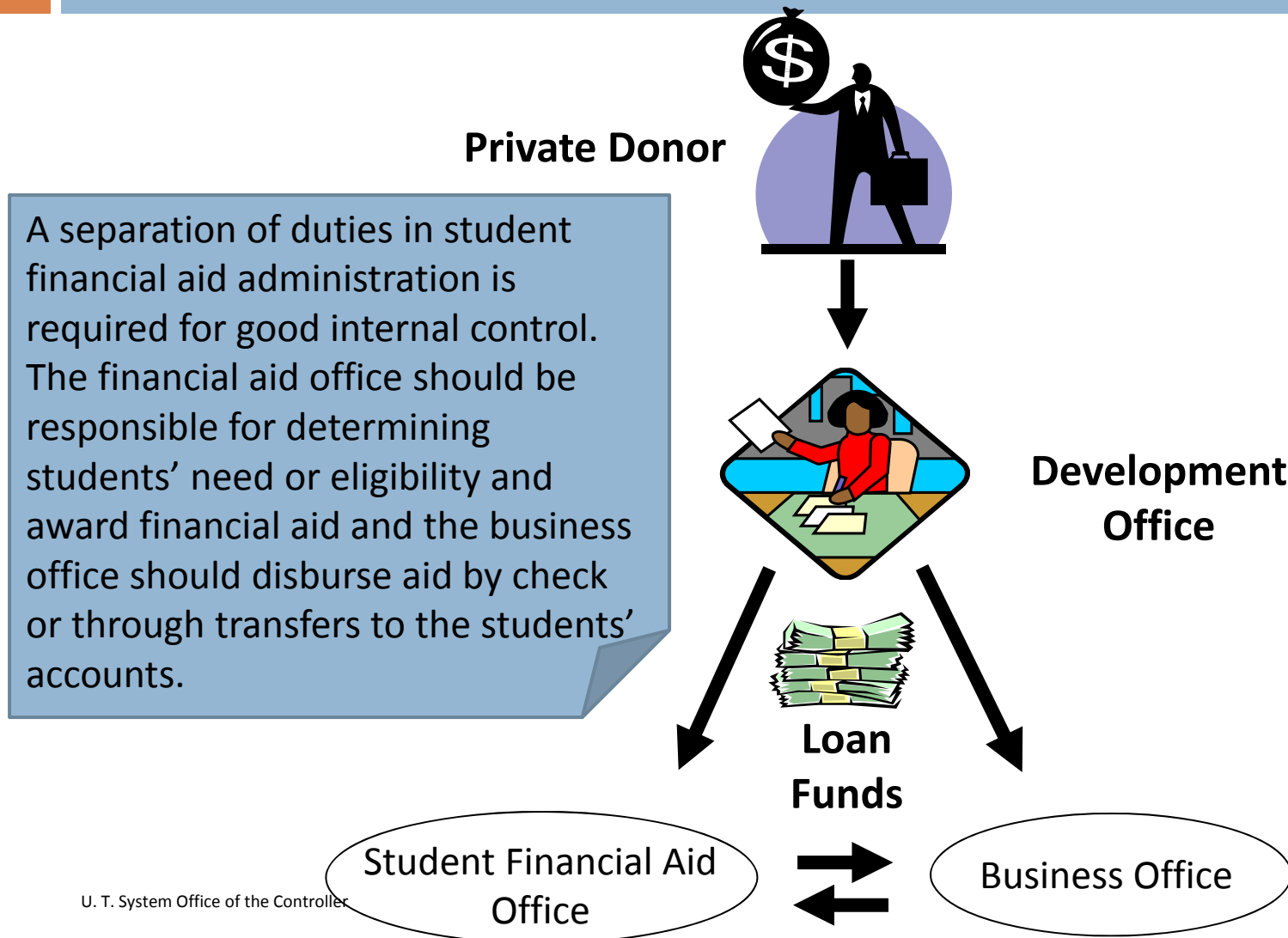
Donors may place restrictions on funds as the recipients of loans, rates of interest to be charged, amount of individual loans, repayment terms, and forgiveness conditions.

Accordingly, detailed records should be maintained for each individual loan fund in order to facilitate following any donor restrictions placed on the funds. This will also require a great deal of cooperation between the institutional development office, the student financial aid office, and the business office.

REVOLVING LOAN FUNDS



GIFTS RECEIVED FROM PRIVATE DONORS RESTRICTED FOR LOAN PURPOSES



JOURNAL ENTRY EXAMPLE

To record a non-mandatory interfund transfer between Designated and Loan Funds to allocate a portion of tuition set aside for Texas Public Education Grants emergency loans:

Account/Transaction Description	Dr.	Cr.
Designated Funds		
Interfund Transfer (Reduces Net Assets)	498	
Cash		498
Loan Funds		
Cash	498	
Interfund Transfer (Increases Net Assets)		498

JOURNAL ENTRY EXAMPLE

To record a mandatory transfer from Designated Funds to Loan Funds to fulfill the 1/3rd matching requirements of federal loan programs:

Account/Transaction Description	Dr.	Cr.
Designated Funds		
Interfund Transfer (Reduces Net Assets)	841	
Cash		841
Loan Funds		
Cash	841	
Interfund Transfer (Increases Net Assets)		841

JOURNAL ENTRY EXAMPLE

To record the distribution of funds to students for loans awarded for the fall semester:

Account/Transaction Description	Dr.	Cr.
Loan Funds		
Notes Receivable	1,000	
Cash (No affect on Net Assets)		1,000

JOURNAL ENTRY EXAMPLE

To record payments received for principal and interest on outstanding student loans:

Account/Transaction Description	Dr.	Cr.
<p style="text-align: center;">Loan Funds</p>		
Cash	2,877	
Notes Receivable		950
Interest on Notes Receivable (Increases Net Assets)		1,927

LOAN FUNDS (CONTINUED)

Generally accepted accounting principles require allowances for uncollectible loans. These allowances should be recorded against each loan category (i.e. Federal Perkins, Institutions Perkins, etc.).

Under the accrual basis of accounting, the basic year-end entry for the adjustment to the allowance account would debit bad debt expense in the loan fund and credit the allowance account for the estimated amount.

When a loan is determined to be uncollectible during the fiscal year, the allowance account is debited and notes receivable is credited. Both past collection experience and present delinquency rates should be used to estimate the amount of uncollectible loans.

The allowance should be measured against the entire amount of loans outstanding, not just the portion currently in collection because the purpose of the allowance is to provide an estimate of the portion of the total balance of notes receivable that may not be collected.

JOURNAL ENTRY EXAMPLE

To record the fiscal year-end adjustment to the Allowance for Uncollectible Notes for outstanding student loans:

Account/Transaction Description	Dr.	Cr.
<p style="text-align: center;">Loan Funds</p>		
Bad Debt Expense (Reduces Net Assets)	518	
Allowance for Uncollectible Notes		518

JOURNAL ENTRY EXAMPLE

To record the write off of a student loans defaulted on or canceled:

Account/Transaction Description	Dr.	Cr.
Loan Funds		
Allowance for Uncollectible Notes	490	
Notes Receivable (No affect on Net Assets)		490

LOAN FUNDS (CONTINUED)



There are several student loan programs sponsored by the federal government. Perkins Loans, Nursing Student Loans, and Health Professions Student Loans are funded directly by the federal government and by institutional matching funds of one-third the federal portion.

The institution is responsible for awarding loans according to students' need and eligibility. Institution must also comply with the government's "due diligence" collection procedures and is responsible for submitting various periodic reports for the loan programs. One such report is the annual *Application and Fiscal Operations Report*, which requires extensive cumulative detail for the Perkins Loan Program.

LOAN FUNDS (CONTINUED)



Outside financial institutions such as banks or credit unions make loans for the Stafford, PLUS, and SLS programs with the federal government guaranteeing repayment. These loan programs are not included in loan funds because the loan agreements are between the outside financial institution and the student. However, extensive student financial aid records must still be maintained in order to satisfy the federal program requirements.

Separately issued government manuals provide detailed accounting, record keeping, and reporting instructions for all federally sponsored loan programs.

FEDERAL GOVERNMENT SPONSORED LOAN PROGRAMS



Funded by the federal government and institutional matching funds:

- Perkins Loans
- Nursing Student Loans
- Health Professions Student Loans

FEDERAL GOVERNMENT SPONSORED LOAN PROGRAMS (CONTINUED)

Funded by outside financial institutions and guaranteed by the federal government:

- Stafford Loans
- Parent Loans for Undergraduate Students
- Supplemental Student Loans

AGENCY FUNDS



- Agency Funds account for resources held by the institution as custodian or fiscal agent for outside organizations or individuals such as Direct Loans and student organizations.

AGENCY FUNDS (CONTINUED)



Assets typically include restricted cash and cash equivalents, restricted investments, and receivables. Liabilities include accounts payable, and funds held for others. Unlike other fund groups, Agency Funds have no net assets, as all the resources held are owned by another entity. Separate liability accounts or subsidiary records should be maintained for each deposit account established in Agency Funds. These records should show the details of all deposits and withdrawals by the individual or organization.

Earnings on investments of these funds should be credited to the net liability balances or the respective Agency Funds.

AGENCY FUNDS (CONTINUED)



The Balance Sheet is the only primary financial statement on which Agency Funds are reported. Assets and liabilities are displayed by major types, including the liability for balances held for others. Because the net balance in each Agency Fund is a liability, not a net asset, the SRECNA does not reflect this fund group.

However, a supplemental schedule entitled Schedule of Changes in Funds Held in Custody for Others – Agency Funds is encouraged to be voluntarily prepared for material agency fund holdings.

CONCLUSION



You have completed this module of the Fund Accounting Training. Exit the training by clicking the link below and access the next module.

<http://www.utsystem.edu/cont/training.html>