

# FUND ACCOUNTING TRAINING

Module 6

## Plant Funds

The University of Texas System

# OBJECTIVES



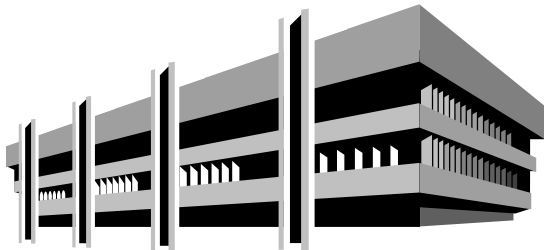
- Define each of the three subgroups of Plant Funds
- Describe sources and uses of funds for each subgroup
- Explain interrelationship among the three subgroups

# PLANT FUNDS

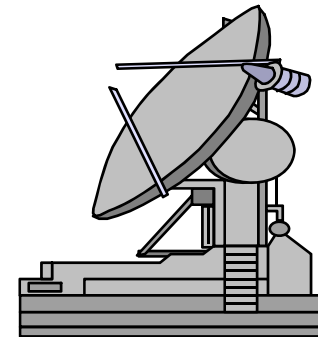
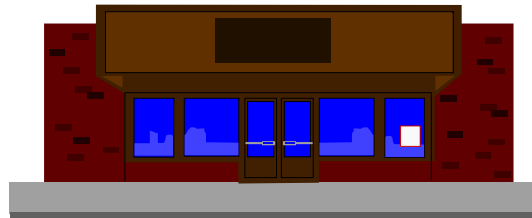
Plant Funds are comprised of the following three subgroups:

- Unexpended Plant Funds
- Retirement of Indebtedness
- Investment in Plant

Each of these subgroups has a specific purpose and is accounted for separately but is related to one or more of the other subgroups.



U. T. System Office of the Controller



# UNEXPENDED PLANT FUNDS

Unexpended Plant Funds are resources that are restricted or specifically designated to be used for construction, acquisition, or renovation of long-lived plant assets but have not been expended at the time of reporting.

Unexpended Plant Funds account for resources committed to fund capital projects approved by the Board of Regents such as construction of a building or renovation of existing facilities. Each capital project is accounted for separately and each fund source for a project must also be recorded separately.

Assets in this subgroup will typically include cash and cash equivalents, and amounts due from other fund groups and U. T. System Administration.

Liabilities are primarily made up of bonds payable and notes and loans payable for the unexpended portion of proceeds. Other liabilities include accounts payable and retainage payable (funds payable to contractors upon acceptance of the completed project).

# UNEXPENDED PLANT FUNDS (CONTINUED)

Net assets will be classified as either restricted or unrestricted depending upon the source of funds. Restricted balances are reported as either **restricted-expendable for capital projects** or **restricted-other expendable** and unrestricted balances should be classified as **reserved for encumbrances, unreserved but allocated for capital projects** or **unreserved-unallocated** in the unrestricted net assets footnote. When funds are transferred from restricted or unrestricted funds to unexpended plant funds, the funds transferred retain their restricted or unrestricted nature. Unrestricted funds do not become restricted because they are internally designated for a project.

Sources of funds include:

- Bond Proceeds
- Proceeds from Notes and Loans
- Gifts, Grants, and Contracts
- Interest on Construction Funds
- Transfers from Other fund Groups

# UNEXPENDED PLANT FUNDS (CONTINUED)

Unexpended Plant Funds may be used for capitalized or non-capitalized expenditures. Capitalized expenditures would be for land, buildings, improvements other than buildings, equipment, library books, and museum or art collections. As these expenditures are made, they are deducted from Unexpended Plant Fund balances and added to the assets in the Investment in Plant subgroup. Capitalized expenditures incurred while a project is in progress are reported as Construction in Progress in the Investment in Plant subgroup. When the project is complete, the capitalized asset is moved within the Investment in Plant subgroup from Construction in Progress to the appropriate asset category (i.e. Building). Non-capitalized expenses reduce net assets and are reported as other operating or nonoperating expenses, depending upon the funding sources.

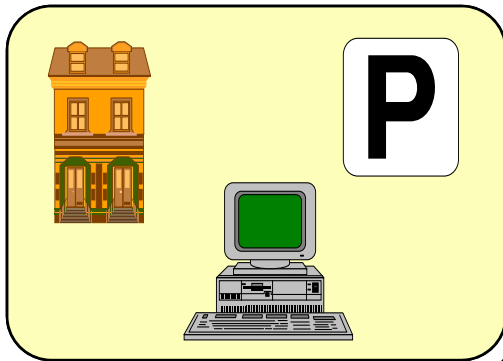
Liabilities resulting from notes or loans are reflected in Unexpended Plant for the portion of the proceeds that have been received but have not been expended. As proceeds are expended for capital assets, an equal amount of the liability must be transferred along with the capitalized asset to Investment in Plant subgroup. Since many construction projects take more than one year to complete, the liability for a particular debt issue will typically be divided between Unexpended Plant and Investment in Plant at fiscal year end.

# UNEXPENDED PLANT FUNDS (CONTINUED)

Within the U. T. System, U. T. System Administration issues all bonds; therefore, U. T. System Administration reports both bond proceeds and bonds payable liability, with the exception of Higher Education Assistance Fund (HEAF) bonds. When the Board of Regents approves bond funding for a particular capital project at an institution, a non-mandatory transfer from U. T. System Administration is booked by the institution for the entire amount of approved funding. However, cash is not received by the institution – a “*Due From*” U. T. System Administration is set up. U. T. System Administration only issues bonds in amounts to cover estimated current needs and cash is only transferred to the institution when expenditures are incurred.

The unissued portion of the authorized bond funding, which is referred to as anticipated proceeds, must be deducted from the institution’s Unexpended Plant Fund balance and the “*Due From*” U. T. System Administration at fiscal year end for reporting purposes.

# UNEXPENDED PLANT FUNDS CAPITAL PROJECTS



Each capital improvement project must go through a decision making process before it is undertaken. First, management at the institution must evaluate capital needs and prioritize the list.

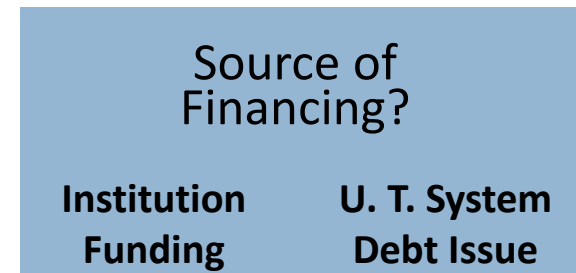
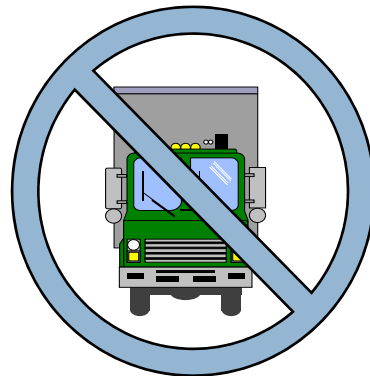


**Institution**



# CAPITAL PROJECT DECISION TREE

Next, projects must go through an approval process which may involve the Texas Higher Education Coordinating Board and the U. T. System Board of Regents. If approved, the funding source must then be decided.



# CAPITAL PROJECT DECISION TREE (CONTINUED)

## Institution Funding



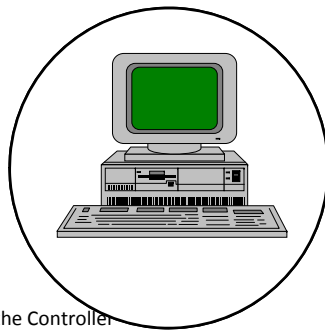
Transfers from Current funds  
Gifts and Sponsored Programs  
Notes and Loans

## U. T. System Debt Issue



Permanent University Fund  
(PUF) Bonds  
Revenue Financing System  
(RFS) Bonds

Funding sources vary from uses of institution's funds, such as computer purchases funded with tuition and fees revenues, to debt issuances carried out through the U. T. System Office of Finance. The two types of debt issuances used are PUF funding, in which earnings of the PUF pay debt service payments, and RFS bonds in which the institution is responsible for debt payments.



# PLANT FUNDS - RETIREMENT OF INDEBTEDNESS FUNDS

Funds from Retirement of Indebtedness are used for payments to retire debt incurred for acquisition or construction of long-lived plant assets.

Payments include principal and interest as well as any fees or charges associated with the debt. Very few institutions have funds for retirement of indebtedness on their accounting records. This is because U. T. System Administration manages all long-term debt instruments for U. T. System.

Debt issues include Revenue Financing System (RFS) Bonds and Permanent University Fund (PUF) Bonds. Proceeds from these bond issues are transferred from U. T. System Administration to institutions for board-approved capital projects. Participating institutions subsequently transfer funds to U. T. System Administration to cover the debt service on all bond issues except PUF Bonds. U. T. System Administration pays the debt service for PUF Bonds from the earnings of the PUF, which flow through the Available University Fund (AUF).

## PLANT FUNDS - RETIREMENT OF INDEBTEDNESS FUNDS (CONTINUED)

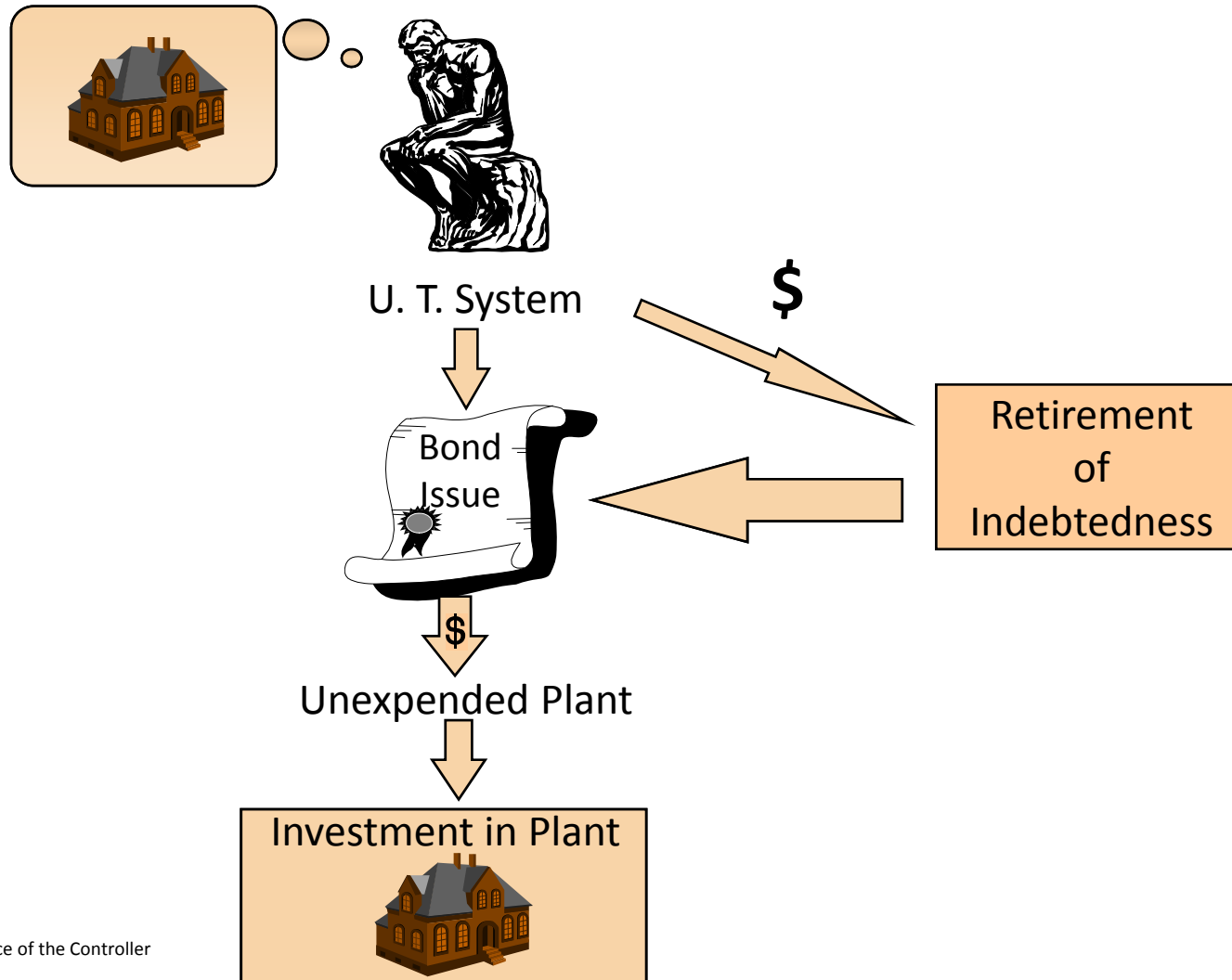
Assets are primarily cash and cash equivalents. There may also be various receivables and amounts due from other funds.

Liabilities are minimal but may include accounts payable, other accrued liabilities or amounts due to other funds. Liabilities for bonds payable are recorded in the Unexpended Plant and Investment in Plant subgroups. As debt service payments are made from this subgroup, the debt liability (Bonds Payable) is reduced by the principal portion of the payment.

Net assets are typically identified as restricted because bond covenants require sufficient amounts be held in reserve to cover annual debt service payments.

Primary sources of funds are transfers from other fund groups and investment income.

# CAPITAL PROJECTS FINANCED THROUGH DEBT ISSUE



# PLANT FUNDS - INVESTMENT IN PLANT FUNDS

Investment in Plant accounts for the carrying value of all long-lived plant assets that have been acquired by the institution.

Investment in Plant subgroup includes land, buildings, facilities and other improvements, infrastructure, equipment, vehicles, library books, museum and art collections, construction in progress, and intangible assets such as software and software licenses with a life of more than one year.

Assets in this fund group are long-lived plant assets valued at historical cost or market value at the time of acquisition or donation to the institution. No cash or investments are maintained in this fund group.

Any liability incurred by the institution while acquiring a plant asset is also reported in this fund group. This will include bonds payable, notes and loans payable, and lease purchase payable. Liabilities for bonds payable and notes and loans payable are recorded with assets as Unexpended Plant Funds are expended.

## PLANT FUNDS - INVESTMENT IN PLANT FUNDS (CONTINUED)

Net assets of this subgroup are reported as Invested in Capital Assets, Net of Related Debt.

Increases to this subgroup primarily occur due to capitalized expenditures made from either Current Funds or Unexpended Plant. Other increases may occur from gifts received from private donors, the AUF or Agency Funds.

Depreciation, write-offs, and deletions are the only decreases to this subgroup.

# JOURNAL ENTRY EXAMPLE

To record the capitalization of expenditures for renovations paid for by Unexpended Plant funds:

| Account/Transaction Description                     | Dr.    | Cr.    |
|---|--------|--------|
| <b>Unexpended Plant Funds</b>                       |        |        |
| Expense for Plant Facilities (Reduces Net Assets)   | 10,000 |        |
| Cash  |        | 10,000 |
| <b>Investment in Plant</b>                          |        |        |
| Buildings   | 10,000 |        |
| Expense for Plant Facilities (Increases Net Assets) |        | 10,000 |



# JOURNAL ENTRY EXAMPLE

To record the funding for renovations that were partially provided by a long-term note. This entry moves the liability for the unexpended portion of these funds from Unexpended Plant Funds to Investment in Plant Funds:

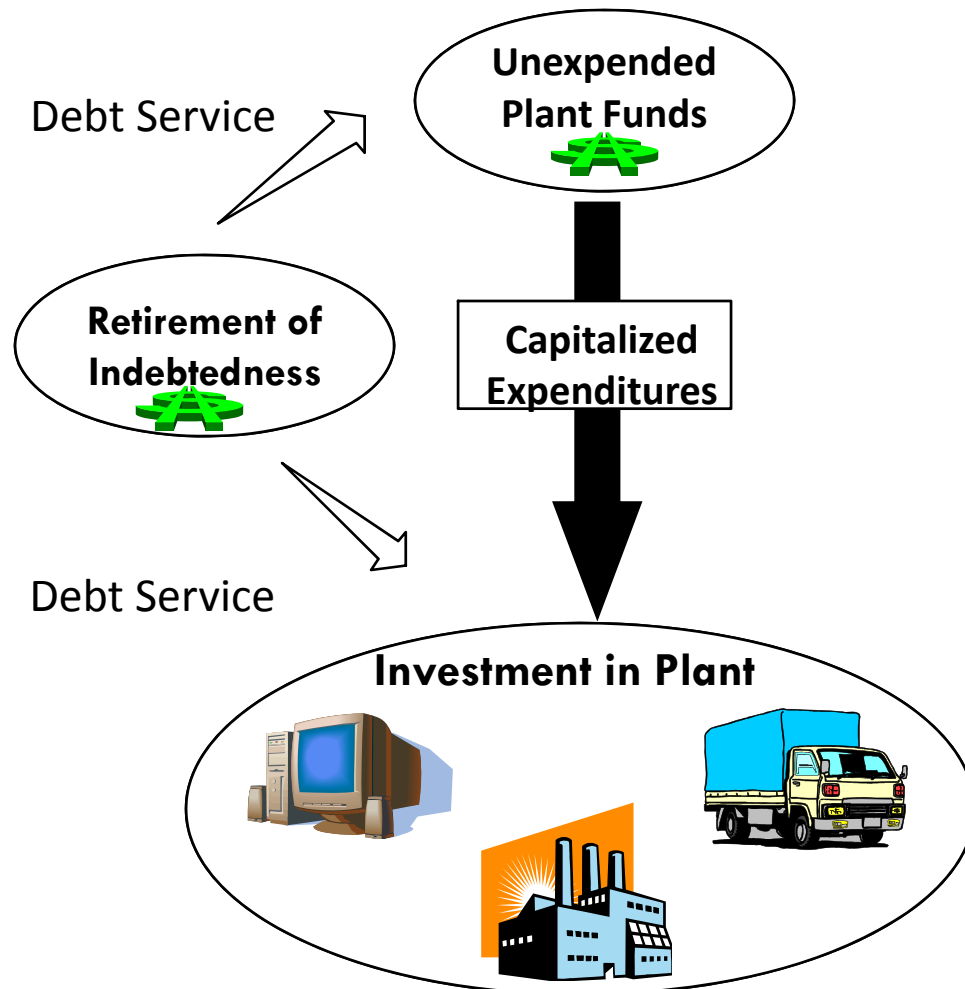
| Account/Transaction Description                                  | Dr.   | Cr.   |
|--|-------|-------|
| <b>Unexpended Plant Funds</b>                                    |       |       |
| Notes and Loans Payable  | 5,000 |       |
| Decrease in Notes and Loans Payable<br>(Increases in Net Assets) |       | 5,000 |
| <b>Investment in Plant</b>                                       |       |       |
| Increase in Notes and Loans Payable (Reduces Net Assets)         | 5,000 |       |
| Notes and Loans Payable  |       | 5,000 |

# JOURNAL ENTRY EXAMPLE

To record non-capitalized expenses in Unexpended Plant Funds for clean-up costs on the renovation project.

| Account/Transaction Description            | Dr.   | Cr.   |
|--|-------|-------|
| <b>Unexpended Plant Funds</b>              |       |       |
| Nonoperating Expenses (Reduces net Assets) | 1,250 |       |
| Cash                                       |       | 1,250 |

# INTERRELATIONSHIPS BETWEEN PLANT FUND SUBGROUPS



## In Summary:

Unexpended Plant and Investment in Plant have the most direct relationship among the plant fund subgroups and are the most widely used within the U. T. System.

Unexpended Plant simply accounts for the money that will be used to purchase plant assets for the institution. Once the money is spent, the asset that is purchased is then accounted for in Investment in Plant.

Both of these subgroups are indirectly related to the Retirement of Indebtedness subgroup. Unexpended Plant and Investment in Plant account for the liability of any long-term debt issued to purchase plant assets. Retirement of indebtedness funds are then used to pay off that debt.

# 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>