

FUND ACCOUNTING TRAINING

Module 6

Plant Funds

The University of Texas System

OBJECTIVES



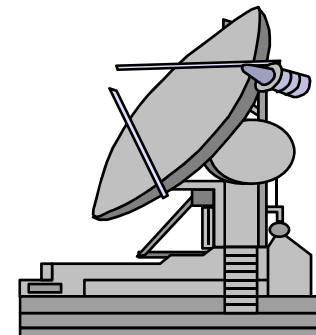
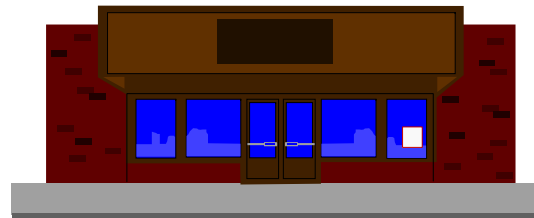
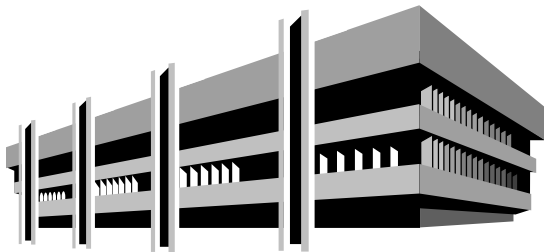
- Define the fund groups related to Plant Funds
- Describe sources and uses for each fund group
- Explain interrelationship among the three fund groups

PLANT FUNDS

Plant Funds are comprised of the following three fund groups:

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

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



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.

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 fund group will typically include cash and cash equivalents, and amounts due from other funds 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 position will be classified as either restricted or unrestricted depending upon the source of funds. Restricted balances are reported as **restricted-expendable for capital projects** and unrestricted balances should be classified as **unrestricted for capital projects**. 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, facilities and other improvements, infrastructure, equipment, vehicles, library books, museum or art collections, construction in progress, and intangible assets such as software and software licenses with a life of more than one year. As these expenditures are made, they are deducted from Unexpended Plant Net Position and added to the assets in the Investment in Plant fund group. Capitalized expenditures incurred while a project is in progress are reported as Construction in Progress in the Investment in Plant fund group. 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 position and are reported as other operating expenses.

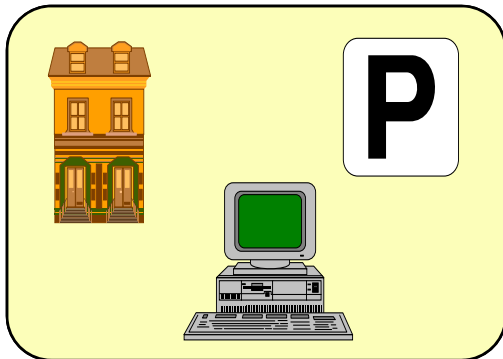
Liabilities resulting from notes or loans are reflected in Unexpended Plant for liabilities for construction projects.

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. 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 once expenditures are incurred and reimbursed.

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

UNEXPENDED PLANT FUNDS CAPITAL PROJECTS



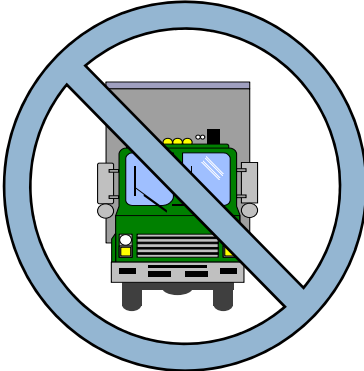
Each capital improvement project must go through a decision making process before it is undertaken. First, management at the institution must evaluate capital needs and prioritize the list.



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.



Project Approved?
No **Yes**

Source of Financing?
Institution Funding **U. T. System Debt Issue**

CAPITAL PROJECT DECISION TREE (CONTINUED)

Institution Funding



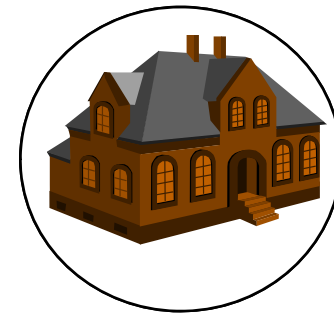
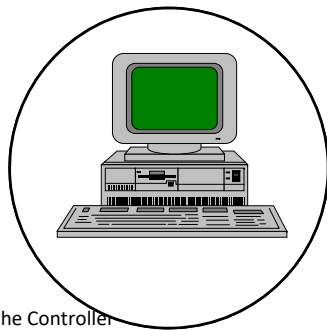
Transfers from Current funds
Gifts and Sponsored Programs
for Capital
Notes and Loans

U. T. System Debt Issue



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

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 three types of debt issuances used are PUF funding, in which earnings of the PUF pay debt service payments, RFS bonds in which the institution is responsible for debt payments, and TRB which is funded from State Appropriations.



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. U. T. System Administration manages all long-term debt instruments for U. T. System.

Debt issuances include Permanent University Fund (PUF) Bonds, Revenue Financing System (RFS) Bonds, and Tuition Revenue Bonds (TRB). Proceeds from these bond issuances 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 for RFS bonds issuances. 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) and Tuition Revenue Bonds are paid from State Appropriations.

PLANT FUNDS - RETIREMENT OF INDEBTEDNESS FUNDS (CONTINUED)

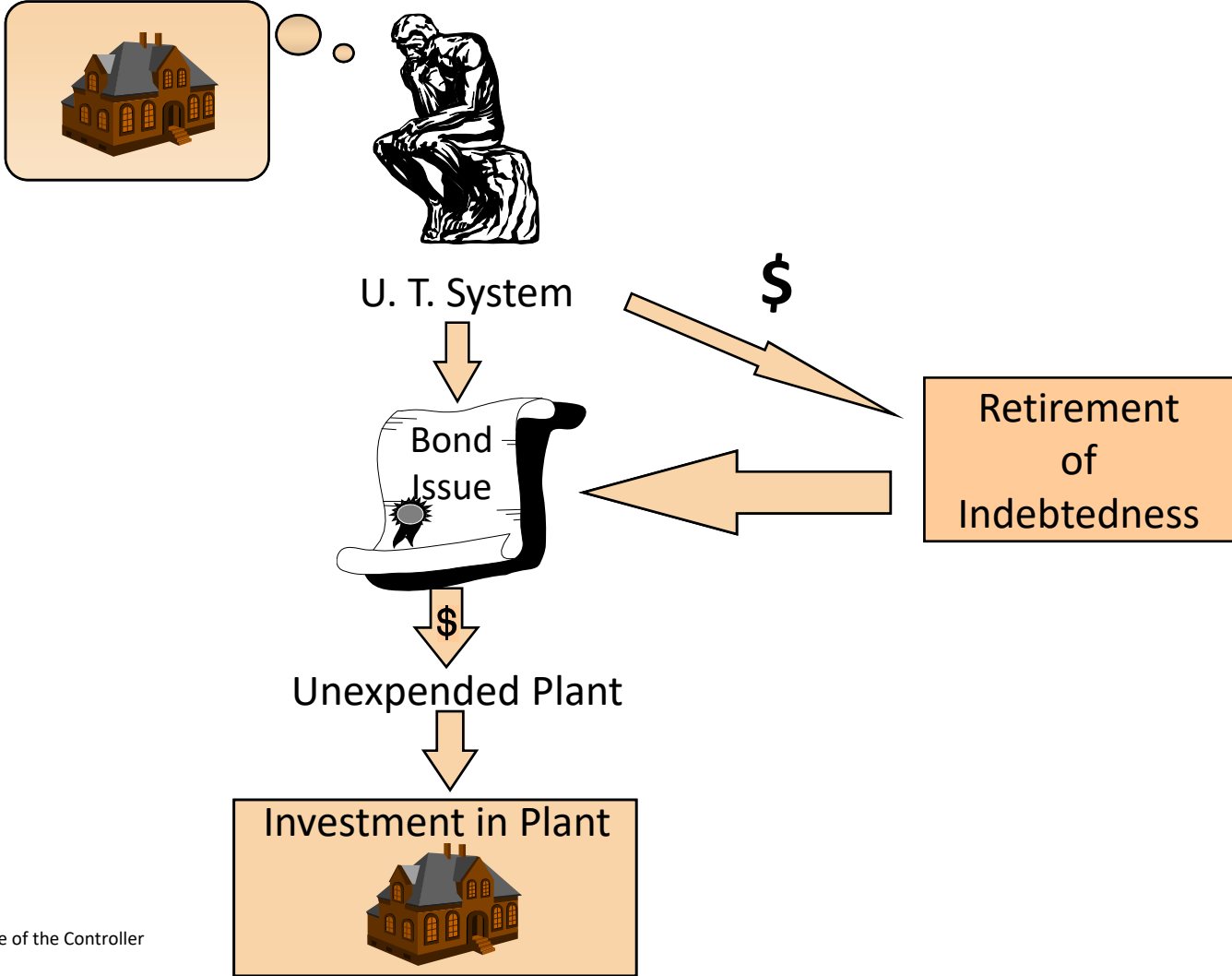
Assets are primarily cash and cash equivalents. There may also be various receivables and amounts due from other funds.

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 fund groups. As debt service payments are made from this fund group, the debt liability (Bonds Payable) is reduced by the principal portion of the payment.

Net position is 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 fund group 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 at the time of acquisition or acquisition value at the time of 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.

PLANT FUNDS - INVESTMENT IN PLANT FUNDS (CONTINUED)



Net position of this fund group are reported as Net Investment in Capital Assets.

Increases to this fund group primarily occur due to capitalized expenditures made from either Current Funds or Unexpended Plant.

Disposals, transfers out, and depreciation are the only decreases to this fund group.

JOURNAL ENTRY EXAMPLE

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

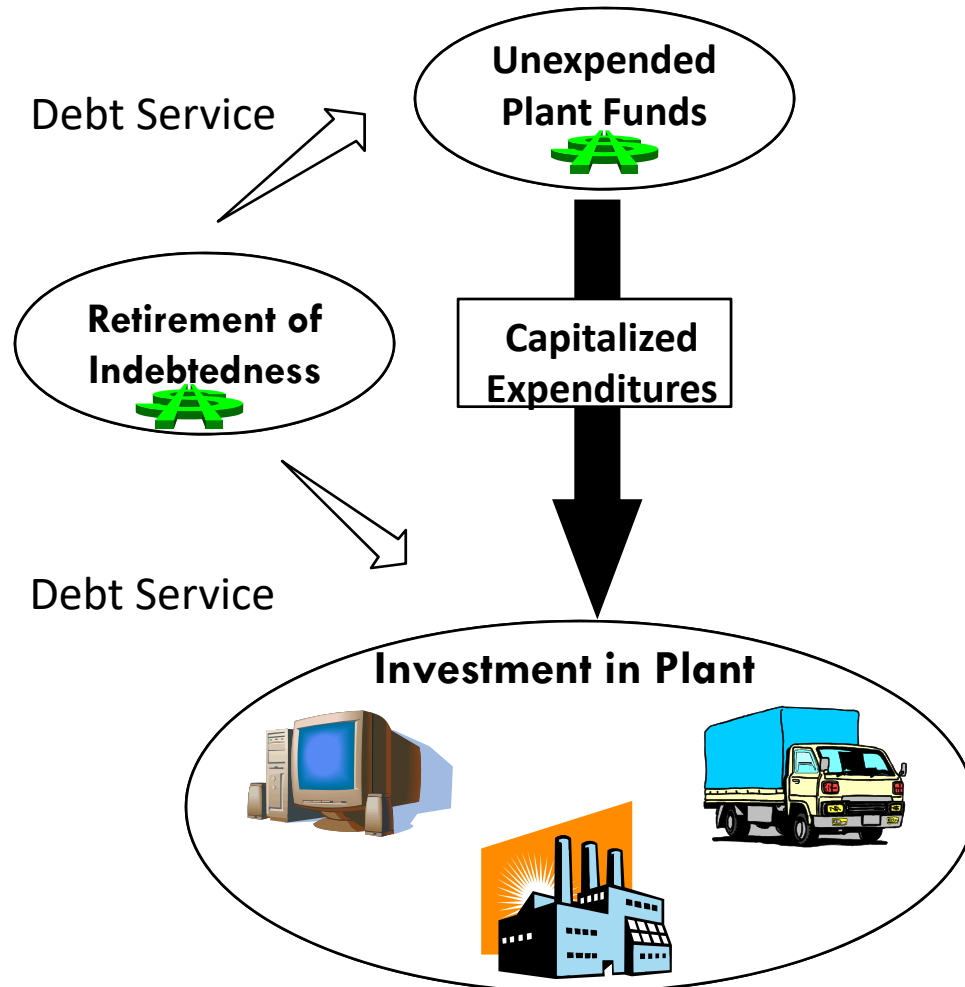
Account/Transaction Description	Dr.	Cr.
Unexpended Plant Funds		
Capital Asset Purchase (Reduces Net Position)	10,000	
Cash		10,000
Investment in Plant		
Buildings	10,000	
Capital Asset Purchase (Increases Net Position)		10,000

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.
Unexpended Plant Funds		
Operating Expenses (Reduces Net Position)	1,250	
Cash		1,250

INTERRELATIONSHIPS BETWEEN PLANT FUND GROUPS



In Summary:

Unexpended Plant and Investment in Plant have the most direct relationship among the plant fund groups 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 fund groups are indirectly related to Retirement of Indebtedness. 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



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