

Texas A&M University System Module 4 - Plant Funds

DEVELOPED BY THE SYSTEM OFFICE OF BUDGETS
AND ACCOUNTING

OBJECTIVES

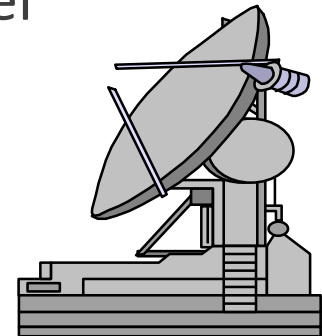
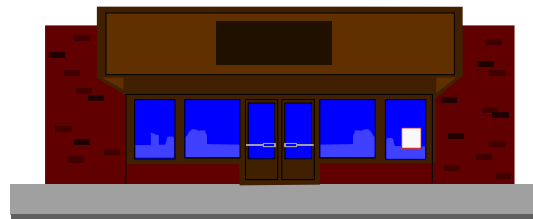
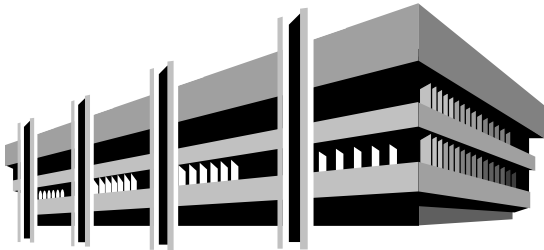
- Define the fund groups related to Plant Funds
- Describe sources and uses for each fund group
- Explain interrelationship among the fund groups
- Describe the A&M System's two debt programs and funding for capital projects

PLANT FUNDS

Plant Funds are comprised of the following four fund groups

- Unexpended Plant Funds (UPF)
- Renewals & Replacements (R&R)
- Retirement of Indebtedness (ROI)
- Investment in Plant (IP)

Each of these fund groups has a specific purpose and is accounted for separately yet they are related to each other



PLANT FUND OVERVIEW

- Funding is placed in Unexpended Plant Funds (UPF) or Renewals & Replacements (R&R) to pay for capital assets
 - Funding can be restricted or unrestricted
- Capital Projects are approved and setup in UPF or R&R
 - Expenses occurs in these accounts
- Capital Assets are recorded in Investment in Plant (IP)
- Debt service payments are paid from the Retirement of Indebtedness (ROI) Funds

UNEXPENDED PLANT FUNDS (UPF)

- Unexpended Plant Funds include resources 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 or management, such as construction of a building or renovation of existing facilities
- Each capital project is accounted for separately and each funding source for a project must also be recorded separately

ASSETS & LIABILITIES IN UPF

- Assets in this fund group typically include cash and cash equivalents, investments and amounts due from other funds and the A&M System Office
- Liabilities are primarily made up of bonds payable, notes and loans payable for the unexpended portion of debt proceeds
 - Other liabilities include accounts payable and retainage payable (it is common to withhold a certain percentage of the contractors invoice until the project has been completed or close to completed)

UPF NET POSITION

- Net position will be classified as either net investment in capital assets, restricted or unrestricted depending on the funding
- Restricted balances are reported as **Restricted-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

UPF-SOURCES

Sources of funds include:

- Bond Proceeds
- Proceeds from Notes and Loans (including commercial paper)
- Gifts, Grants, and Contracts
- Interest on Construction Funds
- Transfers from Other fund Groups

UPF EXPENSES

- Unexpended Plant Funds may be used for capitalized or non-capitalized expenses
 - Capitalized expenses 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 and are over the capitalization thresholds
 - Non-capitalized expenses are for the same types of assets, but the useful life is less than one year or the value falls below the capitalization thresholds

UPF-CAPITAL EXPENSES VS. CAPITAL ASSET

- Capitalized expenses incurred while a project is being built are reported as Construction in Progress (CIP) and Cash reduction
- The CIP expense is reported on the 'Expended for Plant Facilities' in the UPF fund column
- An entry is recorded in the Investment in Plant Fund for the contra CIP expense with the offset to the CIP asset

UPF-CIP PROCESS

- The Investment in Plant fund will record CIP as the project is being built
- When the project is complete, the capitalized asset is moved within the Investment in Plant subgroup from Construction in Progress
 - If the CIP asset resides on the System Office AFR, then it will be transferred to the member and
 - The member reclassifies from CIP to the appropriate asset category (i.e. Building, Infrastructure, Equipment, etc.)



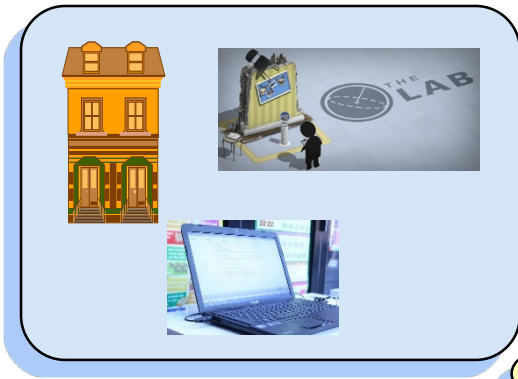
A&M SYSTEM DEBT PROGRAMS

- The A&M System Office manages two debt programs through which all bonds and commercial paper are issued; therefore, the A&M System Office reports both debt proceeds and debt liabilities
- When the Board of Regents approves debt funding for a member's major capital project managed by the A&M System's Facilities Project and Construction (FP&C) team, an A&M System Office account is setup to spend this funding

A&M SYSTEM DEBT PROGRAMS, CONT.

- The A&M System FP&C team manages most of the major projects approved by the Board, related to debt
 - FPC team approves project vouchers
 - The vouchers are paid using debt proceeds from the System Office financial statements
- The System Office only issues debt in amounts to cover estimated current needs

UNEXPENDED PLANT FUNDS CAPITAL PROJECTS



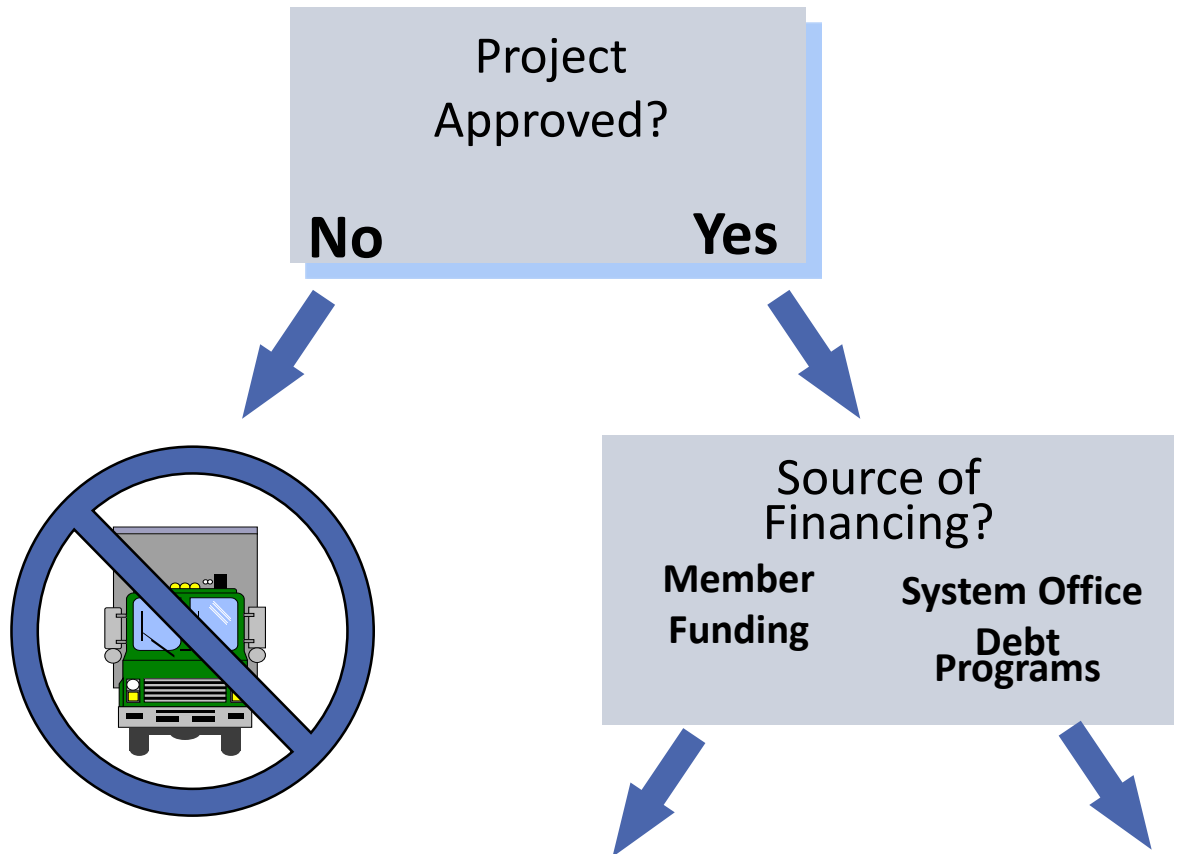
Each capital improvement project must go through a decision making process before it is undertaken. First, management at the member must evaluate capital needs and prioritize the list.



Member

CAPITAL PROJECT DECISION TREE

Next, projects must go through a review process which may involve the Texas Higher Education Coordinating Board and the Board of Regents. Funding sources must be identified before the project is approved.



CAPITAL PROJECT DECISION TREE

Member Funding



Transfers from Current funds
Gifts and Sponsored Programs
for Capital Projects

System Office Debt Programs



Revenue Financing System (RFS)
Debt Program
Permanent University Fund (PUF)
Debt Program

Funding sources vary; for example, construction costs may be funded with tuition and fee revenue, RFS debt or PUF debt. Debt is issued through either the Revenue Financing System (RFS) Debt Program or the Permanent University Fund (PUF) Debt Program. The member is responsible for covering the debt service payments for RFS debt while Available University Fund (AUF) is used to pay the PUF debt service. Tuition Revenue Bond (TRB) projects and General Revenue (GR) projects are funded under the RFS debt program. Historically, the State Legislature has appropriated general revenue funds each biennium to reimburse members for the TRB and GR debt service.

FUNDING SOURCES FOR CAPITAL PROJECTS

These funding sources are restricted to E&G use:

- Permanent University Fund (PUF)
- Tuition Revenue Bond (TRB)
- General Revenue (GR)
- Higher Education Fund (HEF)

RESPONSIBILITY OF DEBT SERVICE

- Even though, the State Legislature has normally appropriated general revenue funds each biennium to reimburse members for TRB and GR debt service
 - The Legislature is not obligated to continue to reimburse for TRB and GR debt service
- The member is ultimately responsible for debt service
- Each member's management takes this into consideration before requesting debt

RENEWALS & REPLACEMENT (R&R) FUNDS

- Service Centers are reported in the Designated Fund Group. These funds include activities where goods and services are offered to other member's departmental accounts or external customers; often service centers create Renewal and Replacement funds to transfer funding to help pay for assets being used in operations
- Assets reported in R&R are cash, due from other funds and investment balances
- Liabilities include payables and due to other funds
- The majority of increases to R&R funds comes from transfers from service centers and investment income
- The decreases are recorded as operating expenses or capital expenses

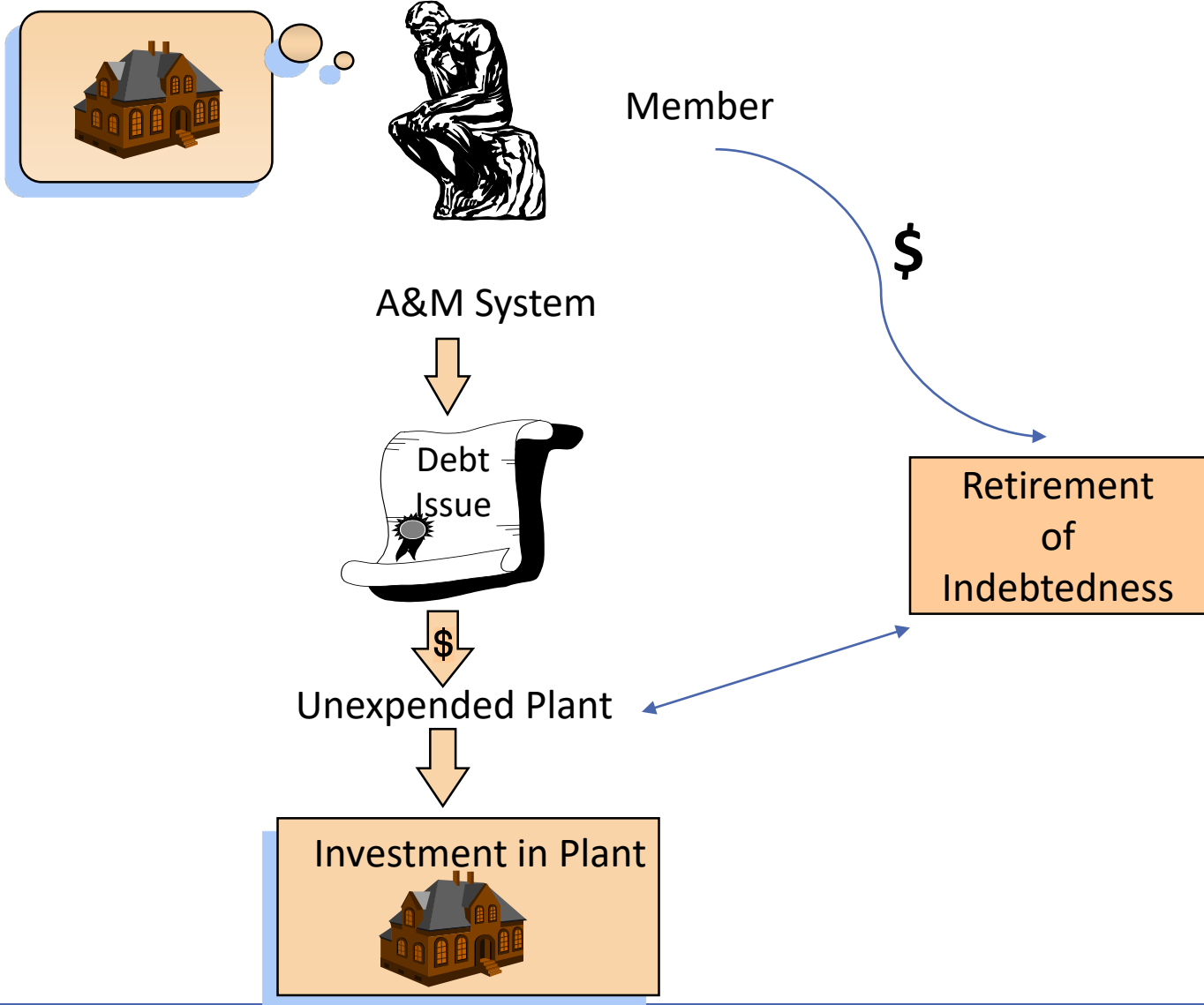
RETIREMENT OF INDEBTEDNESS FUNDS

- 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
- Debt (bonds and commercial paper) are issued under either the Revenue Financing System (RFS) Debt Program or the Permanent University Fund (PUF) Debt program
 - Proceeds from these debt issuances are held and paid out from the System Office or transferred to the A&M members
 - Participating institutions subsequently transfer funds to the System Office to cover the debt service for RFS debt
 - The A&M System Office pays the debt service for PUF debt from the earnings and transfers from the UT System, which flow through the Available University Fund (AUF)

RETIREMENT OF INDEBTEDNESS FUNDS

- Assets are primarily cash and cash equivalents and there may also be various receivables and amounts due from other funds
- Deferred Outflows of Unamortized Loss on Refunding of Debt is also reported
- Liabilities include accounts payable, and the Unamortized Premium
- 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 net investment in capital assets 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



REPORTING OF INVESTMENT IN PLANT FUNDS

- Investment in Plant accounts for the carrying value of all long-lived plant assets
- 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 useful life of more than one year and
 - The asset meets the capitalization threshold for the asset type
- 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
- Assets also include contra balances for Accumulated Depreciation and Amortization

REPORTING OF INVESTMENT IN PLANT FUNDS

- Liabilities will include bonds payable, notes payable, assets held in trust, other non-current payables
- Net position of this fund group are reported as 'Net Investment in Capital Assets'
- Increases to this fund group primarily occur due to capitalized expenses made from either Current Funds or Unexpended Plant Funds
- Increases can also occur due to donations and these are reported as Capital Contributions
- Disposals, transfers out, and depreciation/amortization are the decreases to this fund group

JOURNAL ENTRY EXAMPLE

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

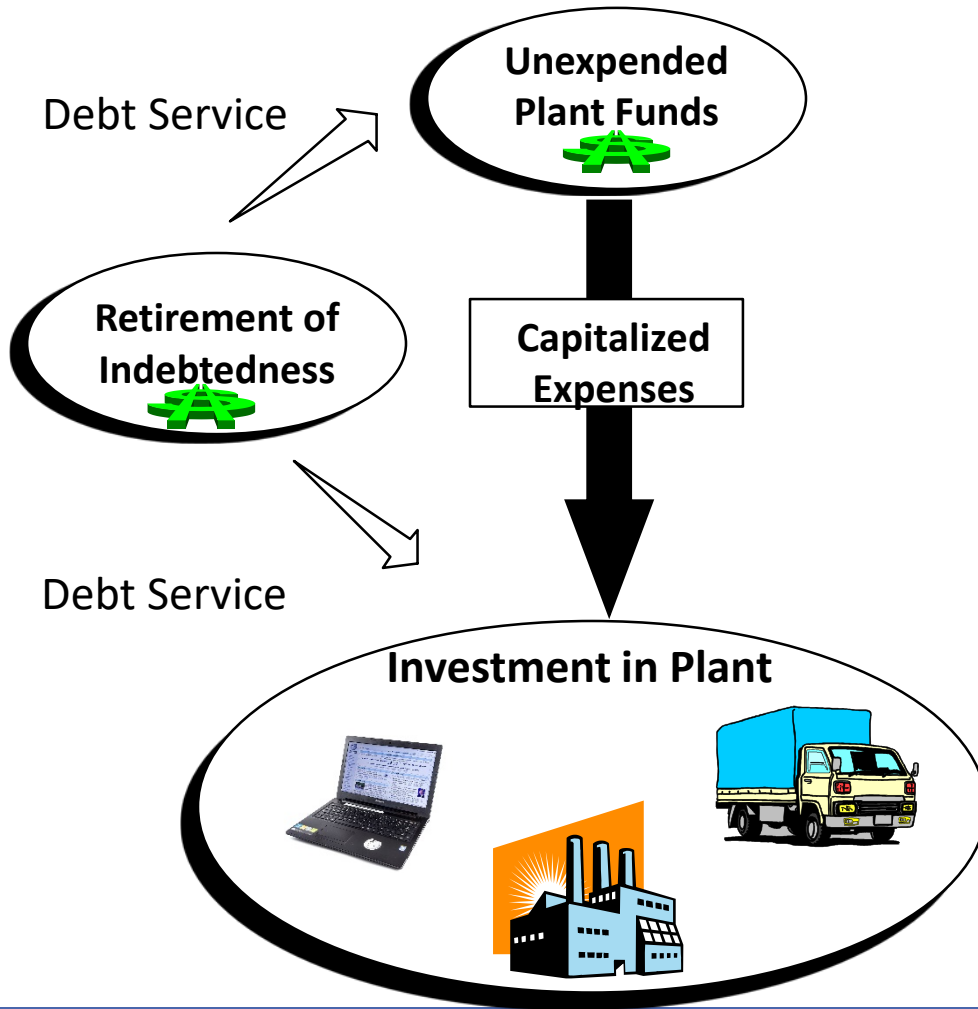
Account/Transaction Description	Dr.	Cr.
Unexpended Plant Funds		
Expended for Plant Facilities (Reduces Net Position)	100,000	
Cash		100,000
Investment in Plant		
Buildings	100,000	
Expended for Plant Facilities (Increases Net Position)		100,000

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. Unexpended Plant simply accounts for the money that will be used to purchase plant assets. 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

Congratulations!

You have completed Module 4