

PLANT ACCOUNTING: BORROWED FUNDS--LOCAL

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ACCOUNTING FOR BORROWED FUNDS--LOCAL

"If you would know the value of money,
go and try to borrow some."

--Ben Franklin

I. INTRODUCTION

This chapter establishes the procedures for the accounting of funds borrowed by the campuses from banks or vendors (local borrowings). Procedures for the accounting of receipts from authorized bond sales are covered in Accounting Manual chapter P-415-14, Plant Accounting: Debt Service--Local; procedures for accounting and reporting for leases and installment purchases are covered in Accounting Manual chapter L-217-11, Accounting and Reporting for Leases and Installment Purchase Contracts; and procedures for Regents' loans are included in Accounting Manual chapter P-415-8, Plant Accounting: Unexpended Plant Funds.

II. GENERAL

Local borrowings should be recorded in accordance with the procedures outlined in this chapter. The following procedures were established so that borrowed funds and the capital items that are purchased with those funds are properly accounted for during the accounting period to ensure that they are reflected in the University's Changes in Funds Balances report, and to facilitate the year-end preparation of balance sheets.

Upon The Regents' approval of a project for inclusion in the budget for capital improvements, the campus can record the authorized amount in the Unreleased Projects account. After the Vice President of Budget and University Relations has notified the campus that The Regents have approved financing of the project, and the project planning guide has been approved, the campus should establish the project's account and transfer to this account the project's appropriation. All bank loans are negotiated by the Treasurer's Office. To request a bank loan, a campus should contact the Treasurer's Office 90 days prior to the date the funds are required to be expended.

Receipts from local borrowings must be recorded with a 1550 transaction code and a fund number assigned within the fund block 01536-01599. Expenditures should be recorded and capitalized in the same manner as other plant expenditures. At year end, the amount of expenditures financed from

II. GENERAL (Cont.)

borrowed funds must be reflected as a liability on the Investment in Plant balance sheet. Borrowings unexpended at year end must be reflected as a liability on the Unexpended Plant balance sheet. Expenditures exceeding the amounts borrowed (deficit fund balance) must show a corresponding amount as a liability on Investment in Plant to indicate a temporary loan from Unexpended Plant.

III. ACCOUNTING PROCEDURES

Below are the accounting entries used throughout the life of a project funded with local borrowings. All entries are financial unless otherwise indicated. Reversing type 14 financial journals should only be used where indicated.

A. CONSTRUCTION PHASE

- 1) To record the appropriation of the funds in the project expenditures account which will be financed by borrowings from external sources:

Budgetary Entry

Dr. Plant Reserve Fund X-1015XX-015XX-X
Cr. Plant Expenditure Account X-9XXXXX-015XX-9
Account

This entry can be made for the full amount of the loan agreement or for the amount of funds drawn down.

- 2) To record the cash received from local borrowings to acquire/construct (name of equipment or construction project).

If cash is received by the Treasurer, it will be transferred to the campus through financial control. The campus will need to respond the following way:

Dr. Financial Control X-119500
Cr. Plant Reserve Fund X-1015XX-015XX-X-1550

If cash is received by the campus, the cash account (X-1XXXXX) should be debited. This entry should reflect the amount of cash received for each drawdown.

- 3) To record expenditures which are being financed by local borrowings:

Dr. Plant Expenditure	
Account	X-9XXXXXX-015XX-X-XXXX
Cr. Cash	X-1XXXXXX

This entry reflects actual expenditures processed during the fiscal year.

The construction project account should not be charged for debt service (principal and interest) after the project is completed and accepted. All debt service payments must be reported in the Retirement of Indebtedness Funds group. This includes debt service payments for projects that the Corporate Accounting Office services for the Group A Housing or the University Opportunity Fund.

B. FISCAL CLOSING ENTRIES

- 1) If the project is not complete, the campus should transfer expenditures to Construction in Progress on a reversing type 14 financial journal at fiscal year-end, as follows:

Dr. Construction in Progress--	
Investment in Plant	X-101899
Cr. Investment in Plant	X-101999-XXXXX
Dr. Plant Reserve Fund	X-101499-01499-X-2000
Cr. Construction in Progress--	
Unexpended Plant	X-999990-01499-X-XXXX

- 2) If the project is complete, the campus should close out the financial and budgetary expenditure accounts and establish the asset in Investment in Plant. The budget entry is a reversal of the original budget entry. The following is a sample of the financial entry:

Dr. Plant Asset	X-1018XX-XXXXX
Cr. Investment in Plant	X-101999-XXXXX
Dr. Plant Reserve Fund	X-1015XX-015XX-X-2000
Cr. Plant Expenditure	
Account	X-9XXXXXX-015XX-X-XXXX

- 3) If allowed by the loan agreement, after the project is completed, any funds not expended should be transferred to the Retirement of Indebtedness Funds for principal payment as follows:

II. ACCOUNTING PROCEDURES (Cont.)B. FISCAL CLOSING ENTRIES (Cont.)

3)(Cont.)

Dr.	Plant Reserve Fund	X-1015XX-015XX-X-3200
Cr.	Retirement of Indebtedness Fund	X-1017XX-XXXXX-X-3200

C. RECORDING THE LIABILITY

- 1) By fiscal closing, campuses should record the full amount of the funds drawn down as a liability in the Investment in Plant section:

Dr.	Investment in Plant	X-101999-XXXXX
Cr.	Investment in Plant Liability	X-1019XX-015XX

- 2) At fiscal year-end, the liability amount of unexpended funds drawn down must be moved from the Investment in Plant liability account to the Unexpended Plant Funds liability account. There is no reclassification required if the liability account 101988 has a debit balance. This should be recorded on a reversing type 14 financial journal as follows:

Dr.	Unexpended Plant Advance/ Loan/Shortfall	X-101988-XXXXX
Cr.	Investment in Plant	X-101999-XXXXX
Dr.	Unexpended Plant Reserve	X-1015XX-015XX-X-1550
Cr.	Unexpended Borrowed Funds	X-100191-015XX

D. SHORTFALL OF BORROWED FUNDS

A shortfall of borrowed funds occurs when the expenditures exceed the amount of funds drawn down. To reflect the shortfall of borrowed funds on the Investment in Plant balance sheet as a temporary loan from Unexpended Plant Funds, campuses should record the following reversing type 14 financial entry:

Dr.	Investment in Plant	X-101999-XXXXX
Cr.	Unexpended Plant Advance/ Loan/Shortfall	X-101988-XXXXX
Dr.	Temporary Advance--Investment in Plant	X-100109-015XX
Cr.	Unexpended Plant Reserve	X-1015XX-015XX-X-1669

The total of the Investment in Plant liability account "Unexpended Plant Advance/Loan/Shortfall" (101988) must equal the difference between the Unexpended Plant liability account "Unexpended Borrowed Funds" (100191) and the receivables account "Temporary Advances--Investment in Plant" (100109).

E. INTERFUND ADVANCES

Below are the procedures used to record interfund advances to Unexpended Plant Funds for plant construction projects.

- 1) To advance Current Funds to Unexpended Plant Funds:

Dr.	Due from Plant Funds	X-112990-XXXXX
Cr.	Unexpended Plant Funds	X-101XXX-01XXX-X-1669

The Due from Plant Funds receivable account linked to the fund number of the current fund source is recorded in Current Funds. In the Unexpended Plant Funds, the campus should use the Advance From Other Funds transaction code.

- 2) At fiscal year-end, the amount of unexpended interfund advance proceeds should be recorded on a reversing type 14 financial journal as follows:

Dr.	Unexpended Plant Funds	X-101XXX-01XXX-X-1669
Cr.	Unexpended Current Advances	X-100190-01XXX

- 3) At fiscal year-end you must increase the liability in Investment in Plant for the amount due to Current Funds on a reversing type 14 financial journal:

Dr.	Investment in Plant	X-10199X-XXXXX
Cr.	Current Fund Advances	X-101986-01XXX

The total increase recorded should equal the summation of unexpended plant transaction code 1669.

The total due from plant funds X-112990 should equal current fund advances X-101986 and unexpended current advances X-100190.

III. ACCOUNTING PROCEDURES (Cont.)

E. INTERFUND ADVANCES (Cont.)

4) To record the repayment to Current Funds:

Dr. Retirement of	
Indebtedness Fund	X-1017XX-XXXXX-X-21X5
Cr. Due from Plant Funds	X-112990-XXXXX

5) To decrease the liability in Investment in Plant:

Dr. Current Fund Advances	X-101986-01XXX
Cr. Investment in Plant	X-10199X-XXXXX

The total decrease recorded should equal the sum of all transaction codes 21X5 for interfund borrowings.

F. RECORDING PRINCIPAL AND INTEREST

The AICPA Industry Audit Guide, "Audits of Colleges and Universities", requires that all principal and interest payments be reported under the Retirement of Indebtedness Funds group in the financial report. Direct payments of principal and interest may be made from Current Funds, Renewal and Replacement Funds or from Retirement of Indebtedness Funds:

1. Payments From Current Funds and Renewal and Replacement Funds

a. To record the payment of principal and interest on equipment capital leases and bank loans from Current Funds or Renewal and Replacement Funds:

Dr. Department Expense	X-72XXXX-XXXXX-X-72XX
Cr. Cash	X-1XXXXX

b. To reclassify the (72XX) payments as a transfer from Current Funds to Retirement of Indebtedness Funds and to record the payments in the Retirement of Indebtedness Funds group under code (2XXX):

Dr. Unexpended Balance	X-119XX0-XXXXX-X-0544
Cr. Department Expense	X-72XXXX-XXXXX-X-72XX
Dr. Retirement of In-	
debtedness Fund	X-1017XX-XXXXX-X-2XXX
Cr. Retirement of In-	
debtedness Fund	X-1017XX-XXXXX-X-3045

- c. To reclassify the (72XX) payments as a transfer from Renewal and Replacement Funds to Retirement of Indebtedness Funds and to record the payments in the Retirement of Indebtedness Funds group under code (2XXX):

Dr. Unexpended Balance	X-119710-XXXXX-X-3400
Cr. Department Expense	X-72XXXX-XXXXX-X-72XX
Dr. Retirement of In- debtetdness Fund	X-1017XX-XXXXX-X-2XXX
Cr. Retirement of In- debtetdness Fund	X-1017XX-XXXXX-X-3400

2. Payments From Retirement of Indebtedness Funds

The Retirement of Indebtedness Funds accounts should be used to accumulate reserves for debt service payments.

- a. To transfer monies to Retirement of Indebtedness Funds balances from current funds:

Dr. Unexpended Balance	X-119XX0-XXXXX-X-0544
Cr. Retirement of In- debtetdness Fund	X-1017XX-XXXXX-X-3045

- b. To transfer monies to Retirement of Indebtedness Funds balances from Renewal and Replacement Funds:

Dr. Unexpended Balance	X-119710-XXXXX-X-3400
Cr. Retirement of In- debtetdness Fund	X-1017XX-XXXXX-X-3400

- c. To record the debt service payments made from the Retirement of Indebtedness Funds balances:

Dr. Retirement of In- debtetdness Fund	X-1017XX-XXXXX-X-2XXX
Cr. Cash	X-1XXXXX

G. BOND REFINANCING LOCAL BORROWINGS

The University does not report refinancing of loans to bonds on the consolidated changes in funds balances in the financial statements. Therefore, no principal repayment code is to be used for the repayment transaction. When an existing loan is outstanding and

III. ACCOUNTING PROCEDURES (Cont.)G. BOND REFINANCING LOCAL BORROWINGS (Cont.)

is being refinanced with the proceeds from the sale of bonds, the bond proceeds should be substituted for that portion of the liability incurred in a prior year; the balance of the liability must be recorded in the Unexpended Plant with code 1500 or 1550.

1) When projects have been completed and capitalized and the bond debt recorded on the campus Investment in Plant account, the campus should move the amount of the refunded loan to the new bond liability account. This transaction must not be accounted for in the Unexpended Plant Funds group.

2) If the new bond debt is recorded at the Office of the President, the payment for the replaced loan will be recorded by the Corporate Accounting Office, as follows:

Dr. Financial Control	J-1195X0
Cr. Cash	J-1XXXXX

3) In the original Unexpended Plant Funds account, the campus must respond using the following journal (use transaction code 2100 for refunding prior year capitalized construction in progress expenditures and related liabilities; use transaction code 1550 for replacing the current year borrowed fund transaction):

Dr. Plant Reserve Fund	X-1015XX-015XX-X-2100
	and/or
Dr. Plant Reserve Fund	X-1015XX-015XX-X-1550
Cr. OP Financial Control	X-119500

4) The Corporate Accounting Office will transfer the bond proceeds from the Unexpended Plant Funds balance by a journal, using the transaction code 5000 and crediting the campus financial control, as follows:

Dr. Plant Reserve Fund	J-1015XX-015XX-X-5000
Cr. Financial Control	J-1195X0

The campus will respond by the following journal:

Dr. OP Financial Control	X-119500
Cr. Plant Reserve Fund	X-015XX-015XX-X-5000

The campus can indicate the liability decrease due to the refunding on closing schedule Exhibit E, page three, in the liability section "Transfer of Debt to or from Systemwide". Since this line must zero out on the consolidated Exhibit E, page three, the campus must inform the Corporate Accounting Office of this amount.

H. INVESTMENT IN PLANT REDUCTION

The following financial journal is required to recognize the reduction in liability in Investment in Plant resulting from principal payments or refunding reductions made during the fiscal year:

Dr. Investment in Plant Liability	X-1019XX-015XX
Cr. Investment in Plant	X-101999-XXXXX

IV. RESPONSIBILITIES

It is the responsibility of the accounting officers to account for Borrowed Funds--Local in accordance with the procedures established in this chapter.

V. REFERENCES

Accounting Manual chapters:

A-115-3	Accounting Codes: Transaction Codes for Fund Balances Accounts
P-415-5	Plant Accounting: Retirement of Indebtedness
P-415-8	Plant Accounting: Unexpended Plant Funds
P-415-14	Plant Accounting: Debt Service--Local

Director Donald L. Alter, Memorandum to Accounting Officers on Changes in Recording Internal and External Debts, June 13, 1990.

Director Donald L. Alter, Memorandum to Accounting Officers on Revisions to Accounting Manual chapter P-415-12, February 26, 1991

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