



Texas A&M University System

Module 2-Current Funds

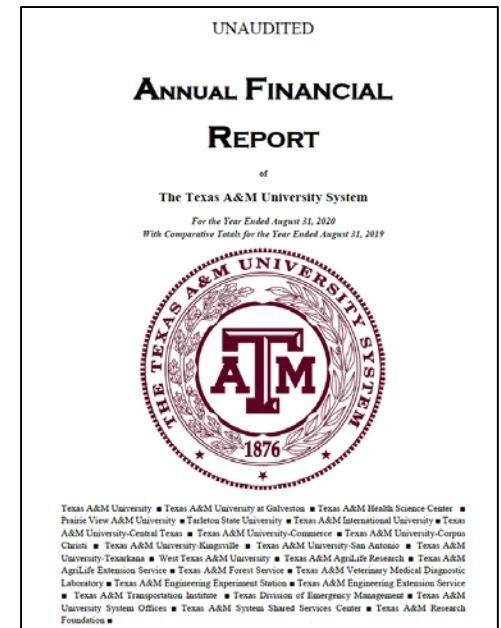
Fund Accounting Training

DEVELOPED BY THE SYSTEM OFFICE OF BUDGETS AND
ACCOUNTING

OBJECTIVES

Obtain understanding of:

- Proprietary Fund Statements
 - Difference between Current Funds and Noncurrent Funds
 - Difference between Unrestricted and Restricted Funds
 - Three fund groups (columns) in Unrestricted Funds:
 - Educational and General
 - Designated
 - Auxiliary Enterprises
 - How/why transactions are posted to these fund groups
 - Some basic journal entries
- Fiduciary Fund Statements
 - Stewardship
 - 5 Types of Activities



BASIS OF ACCOUNTING

The financial statements of the A&M System are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) pronouncements, the requirements of the Texas Comptroller of Public Accounts, and the guidelines from the National Association of College and University Business Officers (NACUBO)

There are two fund types presented in the primary statements

- Proprietary Funds
- Fiduciary Funds

FUND TYPES

Proprietary Funds-the A&M System's proprietary financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting

- Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred
- Operating activities are distinguished from non-operating activities
 - Operating revenues and expenses result from providing services or producing and delivering goods in connection with on-going operations

Fiduciary Funds-the A&M System's fiduciary financial statements are also presented using the economic resources measurement focus and the full accrual basis of accounting

- Under the accrual basis, additions are recognized when earned, and deductions are recorded when an obligation is incurred
- Under GAAP, these funds are considered Custodial Funds

Proprietary Current Funds

BY NACUBO FUND GROUPS

CURRENT FUNDS

Definitions and General Information:

- Current Funds are resources that are expendable, in the near term, for the chief missions of the institution or agency

Instruction	Research
Public Service	Academic Support
Student Services	Institutional Support
Scholarships & Fellowships	Auxiliaries

- These resources are available for operating purposes; therefore, Current Funds are sometimes referred to as “Operating Funds”

CURRENT FUNDS

Definitions and General Information:

The Current Fund group includes two basic subgroups: Unrestricted and Restricted

- Unrestricted Current Funds include all funds received for which a donor or other external agency has not specified an expense purpose
- Restricted Current Funds are available for financing operations but are limited by donors and other external agencies to specific purposes, programs, departments, or schools

UNAUDITED

SCHEDULE III-FUND THE TEXAS A&M UNIVERSITY SYSTEM COMBINED STATEMENT OF NET POSITION BY FUND GROUP FOR THE YEAR ENDED AUGUST 31, 2020

	CURRENT FUNDS				
	UNRESTRICTED				
	EDUCATIONAL AND GENERAL	DESIGNATED	AUXILIARY	TOTAL	RESTRICTED
Assets and Deferred Outflows					
Current Assets					
Cash and Cash Equivalents [Sch Three-A]	\$ 223,467,584.98	\$ 887,014,039.05	\$ 45,235,817.13	\$ 1,155,717,441.16	\$ 88,345,389.45
Investments					
Restricted					
Cash and Cash Equivalents [Sch Three-A]					66,472,694.54
Investments					
Legislative Appropriations	191,474,575.22			191,474,575.22	
Receivables, Net					
Federal	26,264,216.53	1,259,049.89		27,523,266.42	118,232,477.05
Other Intergovernmental	25,058.20	514,890.84		539,949.04	3,091,122.78
Interest and Dividends	107,424.05			107,424.05	
Gifts			20,152,612.84	20,152,612.84	16,251,698.78
Self-Insured Health and Dental		26,902,455.87		26,902,455.87	
Student	11,560,409.65	19,906,915.19	9,449,106.33	40,916,431.17	2,790.11
Investment Trades					
Accounts	29,295,906.58	43,942,235.93	14,774,643.72	88,012,786.23	89,316,740.00
Other	1,219,218.14	49,688.51	1,819,763.08	3,088,669.73	287,570.21
Due From Other Agencies	14,896,983.47	3,373,507.53		18,270,491.00	25,433,247.24
Due From Other Members	3,750,047.00	257,845,470.62	129,407.74	261,724,925.36	43,536,077.30
Due From Other Funds	3,594,813.43	26,131,680.40	8,100,213.39	37,826,707.22	1,820,368.76

CURRENT FUNDS-RESTRICTIONS AND PURPOSE

- Externally imposed restrictions on funds are NOT the same as internal designations imposed by the governing board
 - Internal designations do not create restricted funds
 - Removal of the designation remains at the discretion of the governing board
- When resources flow into an institution or agency, the purpose for which they are made available dictates the fund group to which they will be added
 - Any resource that could be used for operating purposes must be recorded initially as revenue in Current (Operating) Funds
 - This is true for both unrestricted and restricted funds

For example, suppose a donor stipulates his gift is to be used for the construction of a new gymnasium...since this is a non-operating purpose, it will most appropriately be recorded initially in Plant Funds as non-operating gift revenue for capital acquisition

CURRENT FUNDS-RESTRICTED

- A donor requests her donation be used “for the pharmacy department.” In this case the resources could be used for operating purposes (in the pharmacy department only) and should be recorded in Restricted Funds.
 - However, the constraint does not give a time period for the expense, so the governing board may wish to transfer the resources from Current Funds to Endowment and Similar Funds, where they will “function as an endowment”
 - If this is approved, the donor’s restriction applies to use of the income from the investment
 - The restriction will continue to apply for as long as the funds functioning as endowments exist, and
 - It would also apply to the endowment principal, if the governing board subsequently decided to liquidate the funds function as endowment and spend the principal

EXAMPLES:

A donor stipulates that his gift is to be used to construct a gymnasium

- This is a non-operating purpose
- The gift should be recorded initially in Plant Funds

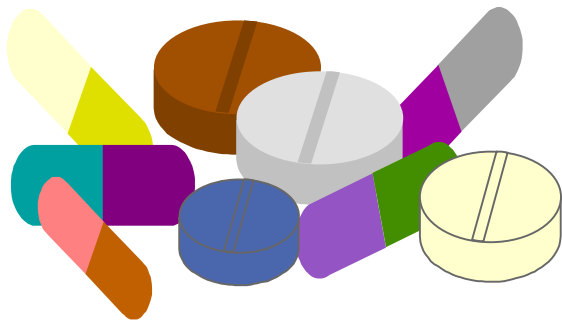


EXAMPLES:

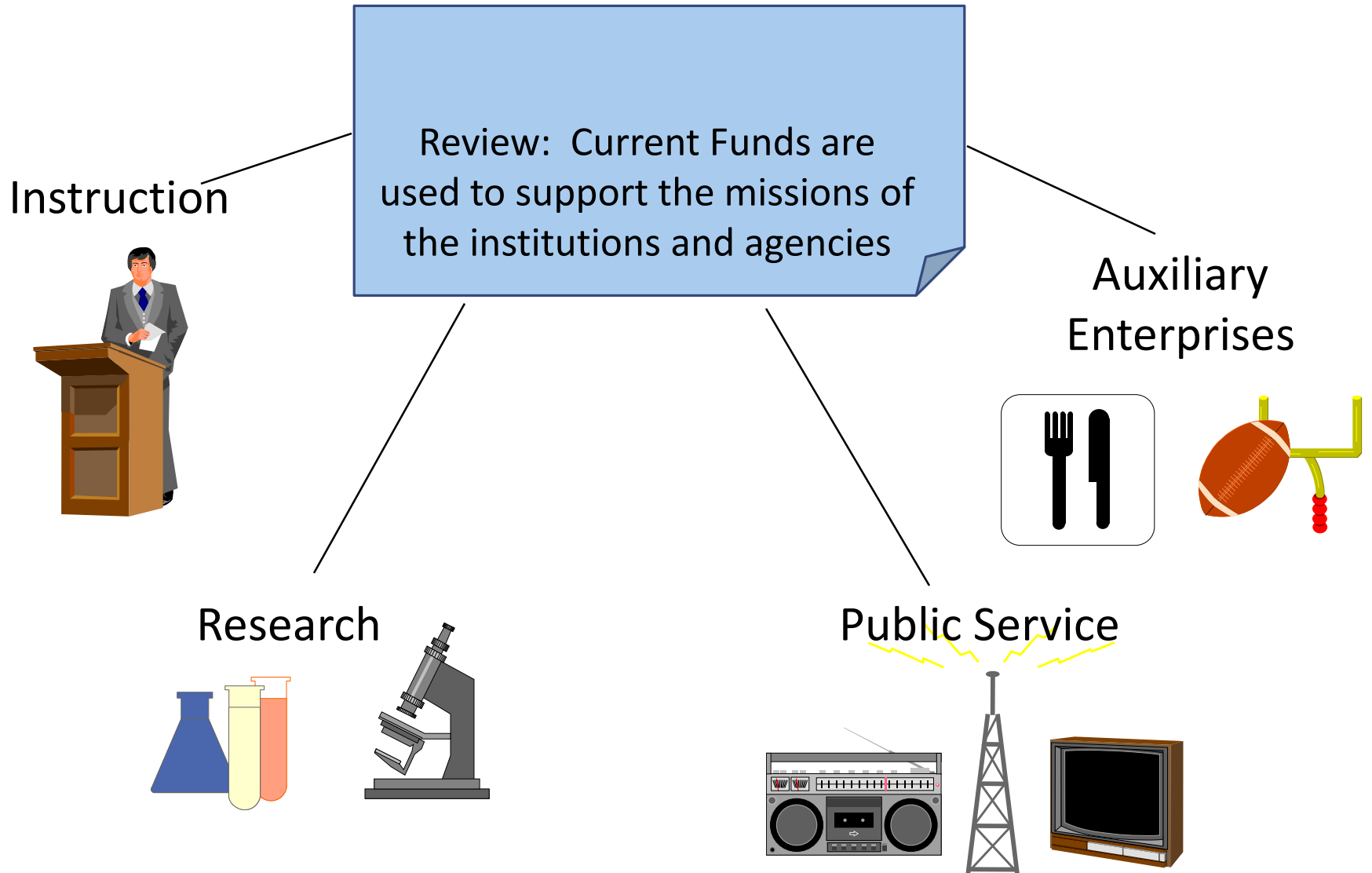
A donor requests her donation be used “for the pharmacy department”

The resources could be used for operating purposes (in the pharmacy department only)

The gift should be recorded in Restricted Funds



Restricted Funds differ
from Endowment Funds

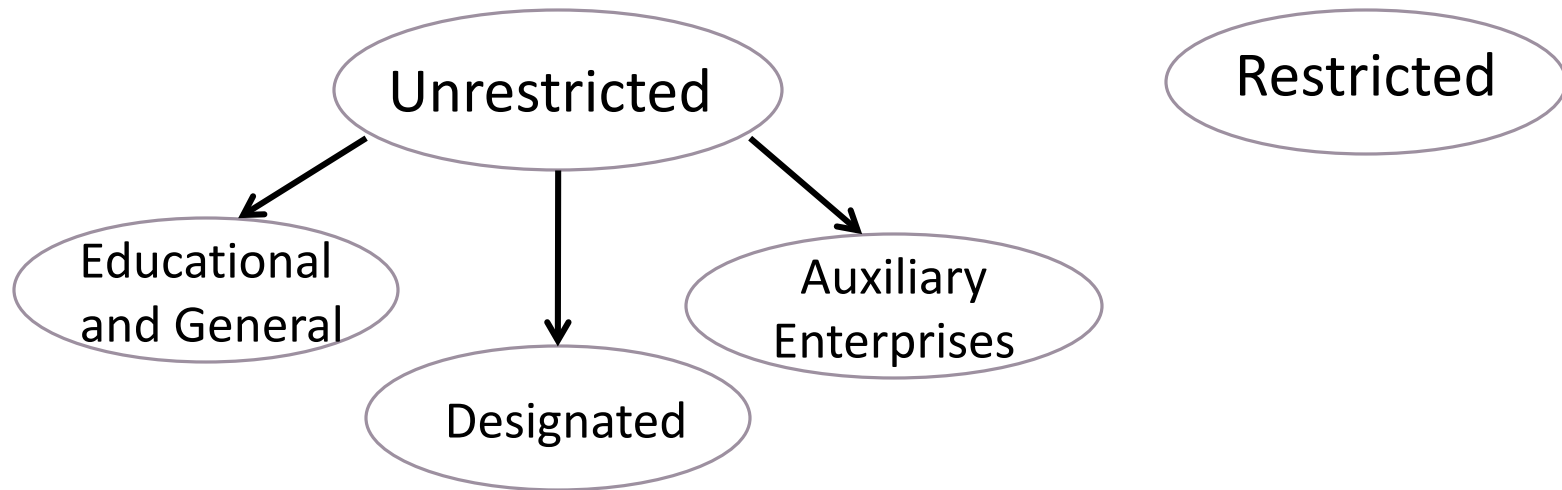


CURRENT FUNDS-FUND GROUP

In addition to reporting revenues by source and expenses by classifications, transactions must be shown in the appropriate fund group.

In Current Unrestricted Funds there are three fund groups:

- Educational and General funds (called “General Funds”)
- Designated Funds
- Auxiliary Enterprises funds



REVENUES

Unrestricted Current Funds are available for any current operating purpose. Because there are no external constraints on the use of these resources, unrestricted fund income is considered revenue when earned. These revenues must be reported by source in the year received on the Statement of Revenues, Expenses and Changes in Net Position (SRECNP). Examples of these sources are:

- Tuition and Fees
- Sales and Services of Hospitals, Educational Activities, or Auxiliary Enterprises
- Professional Fees
- State Appropriations (non-operating)

OPERATING EXPENSES

The *Annual Financial Report* classifies operating expenses by both **functional** and **natural** classifications. The following lists the classifications utilized.

Functional

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operations and Maintenance of Plant
- Scholarships and Fellowships
- Auxiliary
- Depreciation/Amortization

Natural Classifications

- Salaries and Wages
- Payroll Related Costs
- Professional Fees and Services
- Travel
- Materials and Supplies
- Repairs and Maintenance
- Communication & Utilities
- Repair & Maintenance
- Scholarships and Fellowships
- Claims & Losses
- Depreciation/Amortization

E&G FUND REVENUES

Educational and General (E&G) Funds – these funds can be used for any lawful purpose. The largest revenue items in this fund include:

- Tuition & Fees
- Sales of Goods & Services
- State Grant Pass-through
- State Appropriations (non-operating)

E&G FUND EXPENSES

Educational and General Fund expenses are largely attributable to:

- Instruction
- Public Service
- Academic Support
- Student Services
- Institutional Support

DESIGNATED FUNDS REVENUES

Designated Funds – These funds are also known as “Board-Designated Funds,” since management or the Board of Regents has internally designated them for a specific use. These internal designations are not the same as external restrictions. The internal designation may be removed or altered at management’s discretion. The major revenues reported in this fund group include:

- Statutory Tuition & Fees
- Sales and Services of Educational Activities
- Investment Income

DESIGNATED FUNDS EXPENSES

Primary uses of Designated Funds include:

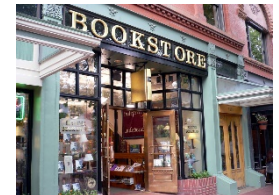
- Instruction
- Research (departmental designated)
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships & Fellowships

AUXILIARY FUNDS

Auxiliary Funds – An auxiliary fund exists to furnish goods or services to students, faculty or staff, and it assesses a charge directly related to, although not necessarily equal to, the costs of the goods or services

Distinguishing characteristics of an auxiliary enterprise is that it is managed as a self-supporting activity, examples of auxiliary enterprises include:

- Dormitories
- Athletic programs
- Food services
- Parking facilities
- Bookstores



AUXILIARY FUNDS REVENUES

There are several revenue categories in this fund group

- Student Fees
- Auxiliary Enterprises
- Gift Revenue (non-operating)
- Investment Income (non-operating)

JOURNAL ENTRY EXAMPLE

To record the receipt of tuition and fees in E&G Funds:

Account/Transaction Description	Dr.	Cr.
Educational and General Funds		
Cash	117,439	
Tuition revenue (Increases Net Position)		117,439

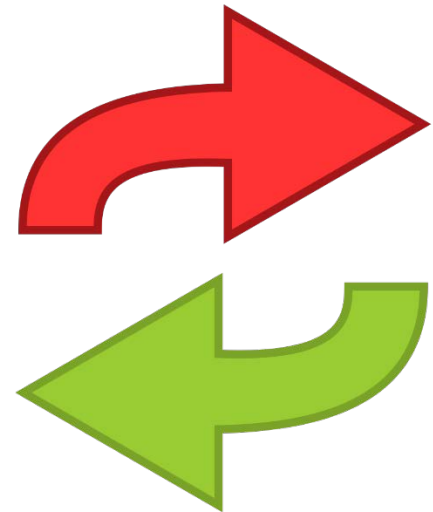
JOURNAL ENTRY EXAMPLE

To record the receipt of Auxiliary Funds:

Account/Transaction Description	Dr.	Cr.
Auxiliary Enterprise Funds		
Cash	27,426	
Student Service Fees (Increases Net Position)		27,246

TYPES OF TRANSFERS BETWEEN FUNDS

- Mandatory –Transfer required by an external source, often debt service requirements
- Non-Mandatory – Transfer based on an internal management decision
- Transfers to Other State Agencies
- Transfers to Other A&M Members
- Transfer of Capital Assets
- Legislative Transfers



Transfers Between Funds

- Transfers Between Funds – Transferring or moving money between various funds is accomplished with a transfer journal entry
- Inter-fund transfers are classified as Non-mandatory
- If the debt transfer is required by an external source or the A&M System (i.e., payments to bondholders) it is referred to as a Mandatory transfer
- Non-mandatory transfer is one based on an internal management decision.
- Transfers made to meet requirements of other Texas state agencies are recorded as transfers to/from other state agencies since the A&M System is part of the State of Texas Consolidated Annual Financial Report (CAFR)

Common Transfers

- In Current Funds, a common Non-mandatory transfer would be the transfer of funds from Designated Funds to Educational and General Funds to fund various educational and general expenses
- Another example of a Non-mandatory transfer from Current Funds would be the transfer of the Designated Tuition Fee allocated to capital projects from Designated Funds to Unexpended Plant funds
- Transfers can include transfer from service centers to Renewals & Replacement fund group to fund future capital purchases

JOURNAL ENTRY EXAMPLE

To record non-mandatory transfer from E&G to Designated Funds, specific FAMIS codes help to ensure the transfers stay in balance.

Account/Transaction Description	Dr.	Cr.
Educational and General Funds		
Interfund-Nonmandatory Transfer to Designated (Reduces Net Position)	4,975	
Cash		4,975
Designated Funds		
Cash	4,975	
Interfund-Nonmandatory Transfer to E&G (Increases Net Position)		4,975

Due To/Due From Other Funds

- Due to/from Other Funds are specific types of receivables and payables
 - Due from is an asset
 - Due to is a liability
- One fund may need to advance funds to another fund on a temporary basis
 - For example, a gift to the University may be contingent upon a particular building being constructed and named after the donor. Unrestricted Current Funds may be advanced to Unexpended Plant Funds to cover construction costs until receipt of the gift, at which time Unexpended Plant Funds would return the advanced funds.

JOURNAL ENTRY EXAMPLE

To record Due to Designated Funds and Due from Unexpended Plant Funds

Account/Transaction Description	Dr.	Cr.
Designated Funds		
Due From Unexpended Plant funds (asset)	100,000	
Cash (No affect on Net Position)		100,000
Unexpended Plant Funds		
Cash (No affect on Net Position)	100,000	
Due to Designated Funds (liability)		100,000

RESTRICTED FUNDS

- Restricted Current Funds, which are restricted as to how they can be spent, consist primarily of
 - Gifts and
 - Sponsored program (grant and contract) funds from federal, state, and local governments, foundations, or private donors
 - The largest donor categories are typically “private” and “federal”
- The primary purposes these funds are expended for is research and student aid

INDIRECT COST RECOVERY (IDC)

- Often a portion of research grants include “indirect cost recovery” from the Donor
 - Utilities or custodial services attributable to sponsored projects are examples of reimbursable indirect costs
 - These expenses are generally recorded in Unrestricted Current Funds, normally in Designated Funds
 - The actual expenses are not directly traced to particular sponsored projects
 - Instead, an “indirect cost recovery rate” is calculated and applied to the project direct costs



For example, a National Institutes of Health grant for \$100,000 direct costs with an indirect cost recovery rate of 50%, would receive a total \$150,000 (\$100,000, plus \$100,000 x 50%)

JOURNAL ENTRY EXAMPLE

To record expenses for the direct and indirect expenses associated with a reimbursable federal grant

Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Expenses - Direct	100,000	
Cash (Reduces Net Position)		100,000

JOURNAL ENTRY EXAMPLE

To record the entry to establish a receivable from the federal government and to record indirect cost expense which is later recognized in Designated Funds

Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Federal Accounts Receivable	150,000	
Federal Revenue-Operating (Increases Net Position)		150,000
Indirect Cost Recoveries Expense	50,000	
(Decrease in Net Position)		
Cash		50,000

JOURNAL ENTRY EXAMPLE

To record indirect costs recovered on federal grants as revenue in Designated Funds

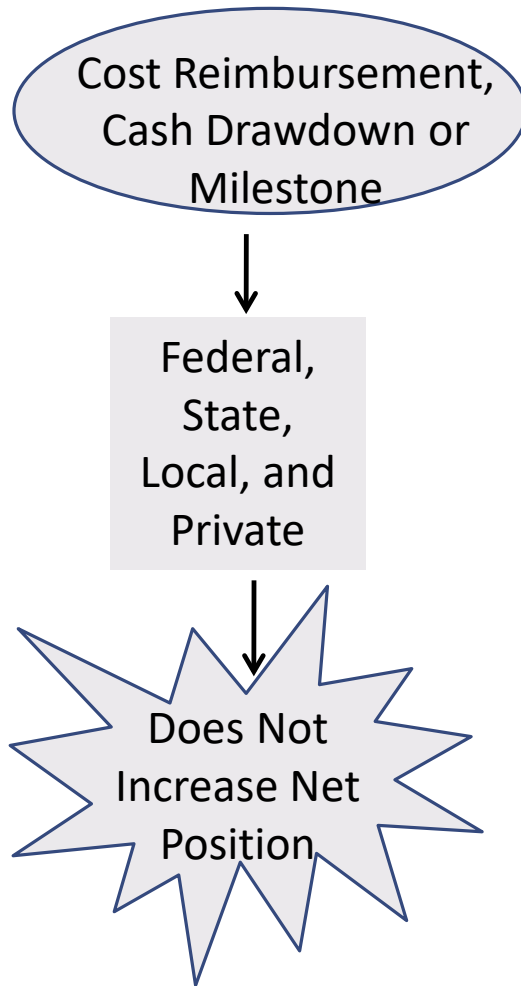
Account/Transaction Description	Dr.	Cr.
Designated Funds		
Cash	50,000	
Indirect Costs Revenue (Increases Net Position)		50,000

JOURNAL ENTRY EXAMPLE

To record the cash reimbursement received from the federal government

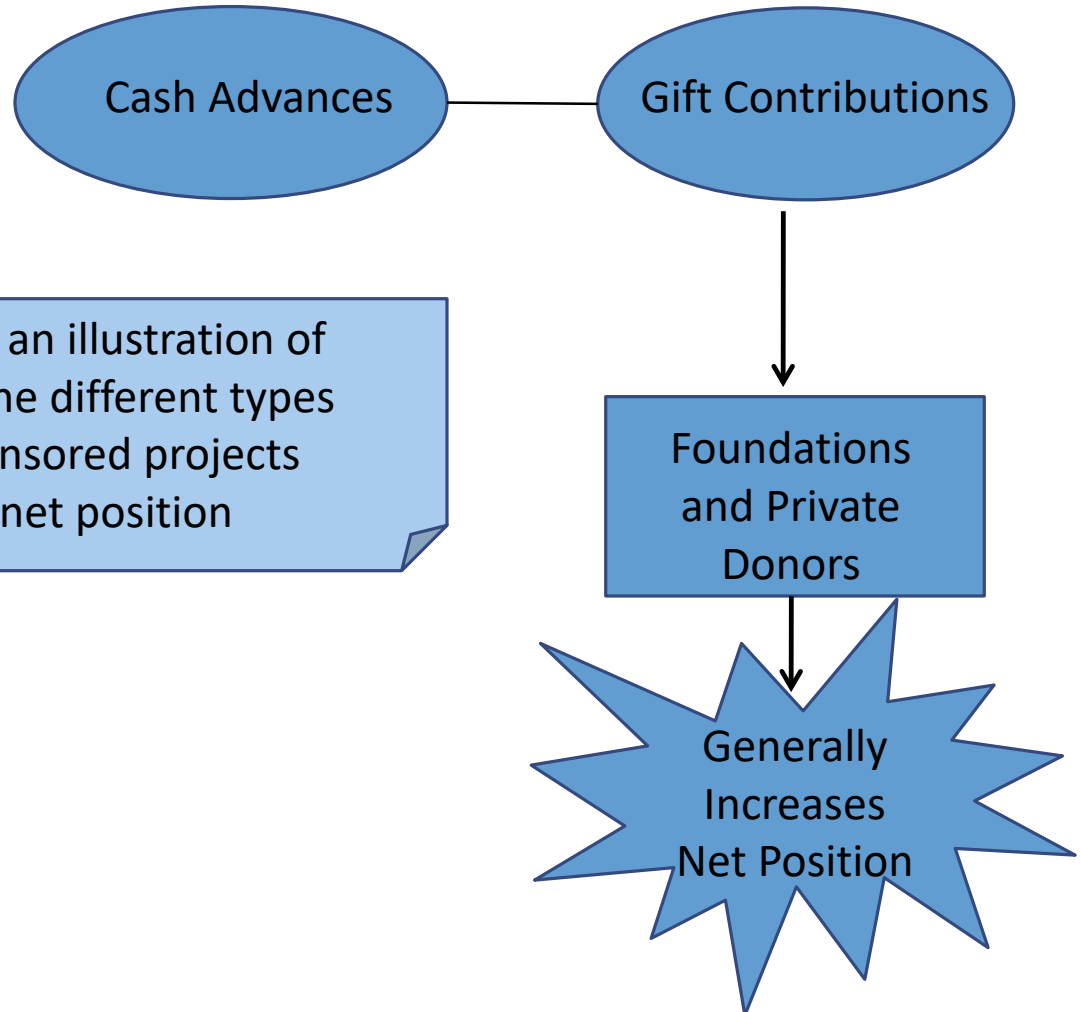
Account/Transaction Description	Dr.	Cr.
Restricted Funds		
Cash	150,000	
Federal Accounts Receivable		150,000

Sponsored Projects ----- (Grants and Contracts) -----



This is an illustration of how the different types of sponsored projects affect net position

Private Donations



PLEDGES-REVENUE RECOGNITION

- A private donor may pledge to give an institution a restricted gift for operating or capital construction purposes
 - Restrictions stipulated by the donor can have several forms
 - Time requirements (time period of when funds may be used) and/or
 - Purpose restrictions (purpose for which funds are required to be used)
- In some cases, the entire pledge amount (recorded at present value if a multi-year pledge and offset with an uncollectible allowance, based on past experience) of the gift pledge is recognized when all applicable requirements are satisfied or funds are received, whichever occurs first

PLEDGES-REVENUE RECOGNITION

- Restricted Net Position increases by the amount of the gift pledge receivable
- When funds are transmitted in advance of all eligibility requirements being satisfied, then Restricted Net Position does not increase because an unearned revenue liability is recognized

Note: Indirect cost recoveries do not apply to gifts and gift pledge arrangements

PLEDGE EXAMPLE

As an example, a four-year, \$1,000,000 gift pledge (\$250,000 per year) is received from a private donor for student scholarships (no eligibility requirements)

- In the financial statements, the present value discounted amount would be reported as a Gift Pledge Receivable in the amount of \$835,779 (present value) and gift revenue
 - The Gift Pledge Receivable will be separated into current and non-current
- As the pledge is collected, the pledge receivable is reversed and cash is recognized on the Statement of Net Position
- The difference between the present valued pledge and the cash received is recorded as gift revenue on the SRECNP
- Unlike cost reimbursement contracts and grants, gift revenues are not recognized to the extent of related expenses

PLEDGED CAPITAL ASSETS

- Gift pledges for endowments, historical treasures, and similar assets to capitalized collections are only recognized in the financials when resources are received, provided that all eligibility requirements have been met
- The Capital Asset is recorded in Plant Funds with the Capital Contribution revenue
- The net position must be reported as 'restricted' net position for as long as the provider's purpose restrictions or time requirements remain in effect
 - Net position is defined by the fund group

Fiduciary Funds

CUSTODIAL FUNDS BY TYPE

Fiduciary Funds

- Fiduciary Funds were required to issue their own set of Financial Statements in FY 2020
- All Fiduciary Funds are considered custodial funds, there are no component units, pension or trust funds established
- Fiduciary activities criteria focuses on
 - (1) whether a government is controlling the assets of the fiduciary activity and
 - (2) the beneficiaries with whom a fiduciary relationship exists

Categories (columns)

- Student Organizations
- Foundations/Alumni Associations
- Public Private Partnerships (P3's)
- Other (consortiums)
- Funds Invested for Outside Universities (System only)

Statement of Fiduciary Net Position

- Assets, Liabilities and Net Position
- Asset are reported in liquidity order
- Net Position considered Restricted
 - Restricted for Individuals, Organizations and Other Governments

Statement of Changes in Fiduciary Net Position

- Separate section for Contributions
- More focus on Investment Income to show the custodial relationship
- Subtotal for Investment Income net of Investment Fees
- Additions & Deductions are more summarized, more items included in 'Other'
- Review Transfers
 - Allowed Between Agency and Agency, or between Fiduciary and Fiduciary
 - Not allowed between Agency and Fiduciary, or any other fund groups
 - Transfers from Other Funds and Transfers to Other Funds must match

JOURNAL ENTRY EXAMPLE

To record the cash contributions from Foundations/Alumni Associations

Account/Transaction Description	Dr.	Cr.
Custodial Fund-Foundation/Alumni Associations		
Cash	3,000,000	
Contributions (Addition section)		3,000,000

JOURNAL ENTRY EXAMPLE

To record the cash payments from Foundations/Alumni Associations accounts

Account/Transaction Description	Dr.	Cr.
Custodial Fund-Foundation/Alumni Associations		
Payment Professional Services (Deduction section)	1,200,000	
Cash		1,200,000

JOURNAL ENTRY EXAMPLE

To record investment income and fees

Account/Transaction Description	Dr.	Cr.
Fiduciary-Custodial Funds		
Cash	2,000	
Investment Income-Interest		500
Investment Income-Realized Gain on Sale of Investments (Increases Net Position)		1,500



CONCLUSION

Congratulations!

You have completed Module 2

Select the next presentation to continue to learn about TAMUS and Fund Accounting