



MONTANA OPERATIONS MANUAL

MANAGEMENT MEMO

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SUBJECT

EXPENDABLE AND NONEXPENDABLE TRUST FUNDS

TO: All State Agencies

FROM: Accounting Division - Department of Administration

INTRODUCTION

This management memo sets forth State accounting policy for recording revenues in and distributions of revenues from Expendable and Nonexpendable Trust Funds (A/Es 08XXX-09XXX).

ACCOUNTING PROCEDURES

Expendable Trust Funds follow the modified accrual basis of accounting. Non-expendable Trust Funds follow the full accrual basis of accounting. Refer to MOM 2-0230.30 for a discussion on "Basis of Accounting".

Trust fund revenues must be recorded first in the earning fund, with routine distributions of the revenue recorded as a transfer out of the trust fund and as a transfer in to the fund receiving the revenue. This means interest earnings and all other transactions resulting from the investment of trust fund principal, including bond swap transactions, must be recorded in the trust fund whose principal is invested.

EXAMPLE: A Nonexpendable Trust Fund (A/E 09XXX) earns interest earnings (see MM 2-87-4 for accruing investment earnings) and distributes 85% to the General Fund and 10% to a Special Revenue Fund; 5% remains in the Nonexpendable Trust Fund. Entries would be as follows:

NOTE: For those agencies that pool their trust money in clearing funds (usually Agency Funds) for investment purposes, the following entry may precede entry 1 below:

A/E 07XXX

- D: C/A 1104 - Cash in Treasury
- C: C/A 25XX - Liability C/A as required

This entry is reversed when entry 1 below is made.

A/E 09XXX

- 1. D: C/A 1104 - Cash in Treasury \$ 100,000
- C: C/A 51XX - Revenue (Revenue Class 13XX - Investment Earnings) \$ 100,000

A/E 09XXX - \* Agency making the distribution

- 2. D: C/A 52XX - Transfers Out (Exp. Obj. 8102 - Distribution of Investment Earnings) \$ 95,000
- C: C/A 1104 - Cash in Treasury \$ 95,000

A/E 01100 (85%) - \* Agency receiving the distribution  
 3. D: C/A 1104 - Cash in Treasury \$ 85,000  
 C: C/A 51XX - Transfers In (Revenue Class 3209 -  
 Transfers In - Interest Earnings) \$ 85,000

A/E 02XXX (10%) - \* Agency receiving the distribution  
 4. D: C/A 1104 - Cash in Treasury \$ 10,000  
 C: C/A 51XX - Transfers In (see 3 above) \$ 10,000

\* Use a Distribution Voucher (SBAS Form 276) or a Journal Voucher (SBAS Form 271) if the distributions are intra-agency; use a No Warrant Transfer (SBAS Form 232) if the distributions are interagency.

INVESTMENT GAINS (LOSSES)

All gains (losses) from investment transactions, including bond swaps, must be recorded in the investing Expendable or Nonexpendable Trust Funds using the completed transaction method [i.e., all gains (losses) are immediately recognized as increases (decreases) in revenue and are not deferred and amortized over the life of the securities]. Gains are recorded as revenues using revenue class 1345 and losses are recorded as negative revenues using revenue class 1346. Investment gains and losses may not be netted with each other or with interest earnings in SBAS. These entries will be input by the Board of Investments.

Each agency administering a Nonexpendable Trust Fund should examine the instrument creating the trust to determine whether -

1. Investment gains (losses) increase (decrease) principal and, if so, whether trust principal (corpus) must be restored in future years for losses; or
2. Investment gains (losses) are to be distributed on the same basis as interest income and, if so, are they distributed when recognized (e.g., when recorded in SBAS) or when realized (e.g., when received in cash).

If investment gains (losses) are not considered permanent increases (decreases) in trust principal and are not distributed when recognized, the portion of fund balance resulting from gains (losses) must be designated, identifying the amount of principal that may have to be restored or revenue that may have to be distributed in future years. This designation is accomplished by the following entry for gains (reverse for losses):

D: C/A 4201 - Reserved Fund Balance  
 C: C/A 4503 - Designated Fund Balance

DISCLOSURES

The following information on each trust fund accounting entity must be submitted to the Accounting Division by August 31 each fiscal year-end for inclusion in Montana's Comprehensive Annual Financial Report (identify non-applicable items as N/A):

Administering Agencies

- (1) a statement whether or not the trust's fund balance is below the legal minimum;

- (2) a description of any court decisions (legal opinions) which describe requirements for fund balance increases/impairments; and
- (3) a description of the plan to restore fund balance, as required.

Board of Investments

- (1) a description of aggregate bond swap losses by accounting entity (include all accounting entities); and
- (2) an explanation of why the bond swaps were made.

CLOSING

Call the Accounting Division at 444-3092 if you have any questions about this management memo.