

Calculations – Surplus Funds - What Is It And Why Is It Important?

Guidance

Always consult the bond covenants or loan agreement (covenants) to determine the specific requirements for Surplus Funds. This may or may not involve consultations with your financial advisor, and or bond counsel.

Financial Compliance may also provide assistance and guidance on Surplus Funds as part of the Final Accounting process.

Definition

Surplus Funds is a term used in the Final Accounting process and refers to an amount of loan or grant proceeds in excess of expenditures for the asset purchased (or constructed) with applicable proceeds.

The Source of Funds (amount of loan or grant) less the Use of Funds (allowable expenditures) is the amount, if any, of Surplus Funds.

A Sources and Uses Form is used to document and report Surplus Funds as part of the Final Accounting process.

Importance

Surplus Funds is an important concept because bond covenants, loan agreements, or loan forgiveness agreements (covenants) provide guidance on the use and disposition of any surplus funds.

Depending upon the covenants, Surplus Funds must be deposited into the Bond Fund (also known as the Interest and Sinking Fund), or if loan forgiveness funds (also known as grants) are involved, returned to the Texas Water Development Board.

Federal Compliance Implications

If federal funding provided the funds, the completion date of the Final Accounting is most significant because compliance with Uniform Guidance (for subrecipients) ends with the fiscal year that contains the date of the Final Accounting. If there is no other federal funding involved, future years would NOT require compliance with Uniform Guidance, or completion of a Single Audit or Certificate of Exemption in lieu of a Single Audit.

As a result of the ending requirement of federal compliance, timely completion of a Final Accounting is advantageous to the borrower.

Additional Guidance

Financial Compliance can provide more guidance on Surplus Funds as part of the overall Final Accounting process. See also Final Accounting - Sources and Uses Form, Preparation of – Example.