POSITION PAPER: REPORTING OF DESEGREGATION FUNDS, SPECIAL ALLOCATION FUNDS, AND CENTERS OF EXCELLENCE/EMPHASIS

Problem: Should we report net assets for the desegregation programs, special allocation programs, and the Centers of Excellence/Emphasis as unrestricted or restricted net assets?

Background: As part of a prior Geier lawsuit settlement, the State was ordered to fund desegregation programs at each of the TBR institutions. This funding is currently included in each institution’s THEC formula recommendation and is appropriated to the institution as a part of their operating appropriation. Additionally, the state has recently reached another settlement with the Geier plaintiffs (the Geier Consent Decree) that includes approximately $76 million for higher education programs over the next five years. It is uncertain how these funds, if approved by the General Assembly, will be appropriated to the institutions. It appear unlikely, however, that the funds will be included as part of the operating appropriation. Both the original settlement programs and the current Consent Decree programs include the stipulation that any funds received by the institutions must be spent for the programs intended or returned to the State.

The Special Allocation program includes funding for eleven programs at six TBR institutions. All special allocation programs were established by the General Assembly. The funding is currently included in each institution’s THEC formula recommendation and is appropriated to the institution as a part of their operating appropriation. All special allocation programs include the stipulation that any funds received by the institutions must be spent for the programs intended or returned to the State.

The Centers of Excellence and Centers of Emphasis programs were established in 1984 by the General Assembly and provide matching funds to the institutions for research programs at the universities (Centers of Excellence) and to demonstrate accreditation or special recognition by disciplinary associations at the two-year institutions (Centers of Emphasis). The funding for the Centers of Excellence and the Centers of Emphasis is appropriated as two separate programs, not as a part of the operating appropriation. All Centers programs include the stipulation that any funds received by the institutions must be spent for the programs intended or returned to the State.

TBR institutions currently report the desegregation programs and the special allocation programs in the unrestricted fund. As discussed above, a separate appropriation was never received for these programs. Instead the funding formula requires a portion of the operating appropriations to be used for this purpose. The Centers programs, however, is appropriately separately and is currently reported in the restricted fund.

Recommendation: Upon review, it appears that the externally established limitations and stipulations placed upon the funding of these three programs would be a more appropriate decision-making tool than the appropriation mechanism. All three programs
appear to meet the following criteria of restricted net assets included in GASB 34, paragraph 34:

Net assets should be reported as restricted when constraints placed on net assets use are . . . externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments.

As such, we are recommending reporting the net assets of the desegregation programs, special allocation programs, and the Centers of Excellence/Emphasis as restricted net assets.