
I. What is Fund Accounting?

Fund Accounting is a method of segregating resources into categories, (i.e. funds) to identify both the source of funds and the use of funds.

II. What are the Basic Objectives of Fund Accounting?

A. Demonstrating accountability and stewardship

- Did we use the funds in the way instructed?
- Have we documented that the funds were used properly?

B. Determining financial condition

- How much can we do with the resources we have?
- What is the value of buildings and other assets?
- What is the financial impact of maintaining/replacing other assets?

C. Planning and budgeting

- What should we do with the funds we have?
- How much do we need to do the job right?

D. Evaluating organizational and managerial performance

- Are we accomplishing the objectives for which we received the funds?
- What did the program/activity actually cost?
- Are we operating efficiently and effectively?

E. Determining/forecasting cash flow

- How much cash is coming in, how much is going out, and how much do we need for contingencies?

F. Communication

- Are we communicating financial information to all with a need to know?
- Is the financial information relevant, clear, reliable, timely, and comparable?

III. Definitions

A. Fund - A fund is a segregation of resources established to control and monitor resources and to help ensure and demonstrate compliance with legal/administrative requirements.

B. Fund Balance- Equity with a fund (Assets = Liabilities + Fund Equity)

The fund balance is also known as Net Assets, or Capital, or Net Worth.

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- C. Fund Group- A separate entity with a self-balancing set of accounts consisting of assets, liabilities, fund balance, and where appropriate, revenue and expenditure accounts.

IV. Six Basic Fund Groups

A. Current Funds

The Current Fund is a group of funds expendable for operating purposes in support of the institution's mission: expected to be expended in the near term.

1. Restricted- Includes funds available for financing operations, but which are limited by donors/external agencies to specific purposes, programs, or departments. (i.e. Federal funds for contracts and grants, work study funds, endowment income)
2. Unrestricted- Includes all funds received for which a donor or other external agency has not specified the purposes for which they should be expended. (i.e. General funds, Reg. Fee Funds) Please note, that although 19900 may be considered unrestricted, there are some restrictions placed on these funds i.e., purchase of alcohol is prohibited and certain travel restrictions exist.
3. Designated Funds- Unrestricted funds the governing body designated for a special purpose. (i.e. Special State Appropriations, Tobacco Research, Breast Cancer Research)

B. Plant Funds

The plant fund group is used to record acquisition of assets, replacement of assets, pay off debt, and record the investment in assets (equity). There are four subgroups of plant funds:

1. Unexpended Plant Funds- Used for recording construction or acquisition of long-lived assets. This includes such items as land and building acquisition, construction of new facilities, renovation, and remodeling.
2. Renewal and Replacement- Used for extraordinary repairs and maintenance or equipment replacement.
3. Retirement of Indebtedness- Used to record the accumulation of funds and disbursement for repayment of long term debt for assets.
4. Investment in Plant- Used to record the equity of campus assets. This subgroup in plant should reflect the total amount of resources expended for additions for assets.

C. Endowment & Similar Funds Group

This fund group is used to record donations to the University which require that the principal is invested and only the interest income is expendable. Interest income earned on these funds is returned to the campus and expended in the current funds group. There are four types of endowments:

1. True Endowments- Donors have stipulated that the principal of the gift is to remain in perpetuity and is to be invested for the purpose of producing present and future income. (Permanent Endowment)
2. Funds Functioning as Endowments- The governing board of the institution, rather than the donor or other external agency determines that funds (usually a gift) are to be retained and invested as an endowment.
3. Funds Held in Trust by Others- These are funds derived from private gifts and bequests that are held in trust for investment by outside trustees and the University is designated as the income beneficiary.
4. Living Trusts, Annuity Trusts, and Unitrusts- These are donations where the terms stipulate that income must be paid to a designated beneficiary for a specified period, which in most cases is the duration of the beneficiary's life. At the end of the specified payment period, income from these funds reverts to the University.

D. Annuity and Life Income Funds

1. Annuity- Institution is obligated to pay stipulated amounts periodically to the donor's beneficiary. When the agreement terminates, the remaining funds become property of the institution.
2. Life Income- Established when a college/university is the trustee and remainder for a charitable remainder trust. Income and expenses are paid to beneficiary for life. Principal returns to the institution when beneficiary dies.

E. Loan Funds

Loan funds are used to record activity on funds available for loans to students, faculty and staff. (i.e. Student Financial Aid Loan Fund, Faculty Home Mortgage Loan, and Staff Emergency Loan Fund).

F. **Agency Funds**

Used to record funds held by the University for outside groups who have a close relationship with the University. Funds in this group do not belong to the Regents and are not reported in the UC Financial Statements. Examples include scholarship funds held by others, fraternities and sororities, the UCSB Foundation and the UCSB Alumni Association.

Accounting for agency funds involves recording transactions as a balance sheet item, not as income and expense. To keep their activity separate, a special account series should be used. During fiscal closing, any balances in these agency accounts are transferred to a balance sheet payable account. Agency accounts affect the campus' STIP earnings; therefore, the accounts should have a positive or zero balance at all times.

V. **Financial Transfers Between Fund Groups**

In fund accounting it is necessary to identify sources and uses of funds. There are four types of financial transfers: mandatory, non-mandatory, temporary, permanent.

1. Mandatory transfers are necessary when the transfer results from requirements imposed by external sources.
2. Non-Mandatory transfers occur when an administrative decision is made either by the campus or the Regents to move funds from one group to another.
3. Temporary transfers affect the current year only
4. Permanent transfers permanently move monies from one funding source to another.

VI **Fund Accounting System and Budget Control**

Budgets are the most widely used method for control in colleges and universities. Fund accounting assists in budget control through providing information to enable managers to keep expenditures within allocation and demonstrate compliance with funding sources. Budget entries are the reverse of financial entries; revenue entries are budgetary debits and appropriations to expenditure accounts are budgetary credits.

VII. **Encumbrances**

In managing available resources in a nonprofit organization, we need to recognize future commitments of resources prior to an actual expenditure. Encumbrances (or liens) are used to reflect these

commitments in the accounting system and attempt to prevent overspending. When the order/services are received and the University is invoiced, the original encumbrance entry is cancelled and the expense and related cash payment is recorded.

VIII. Financial Statements for Colleges and Universities

The purpose of financial statements is to communicate financial condition and operating results to internal users such as managers, analysts, internal auditors, Regents, and Office of the President and also to external users such as external auditors, creditors and lenders, state government and granting agencies. The financial reports for UCSB can be found on the Accounting Website:
<http://www.accounting.ucsb.edu>

IX. Profit versus Non-Profit Organizations

A. Profit Organizations- Accounting emphasis is on profit determination

- Generally have only one accounting/business entity
- Encumbrances are not used
- Accounting information on costs and revenues can usually be readily aggregated.
- Financial Statements include: Balance Sheet, Income Statement, Statement of Cash Flows and Statement of Stockholders' Equity

B. Non-Profit Organizations- Accounting emphasis is on controlling funds and showing the sources and uses of funds

- Have a multitude of accounting/business entities; i.e. various funds. (*See attachment for a list of University fund numbers*). This can be a challenge for many departments who may have to manage hundreds of different funds. Departments with many contracts and grants need to review the different terms, conditions and regulations each one may have.
- Encumbrances are used
- Accounting information is segregated and can be difficult to aggregate
- Financial Statements include: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and s Statement of Cash Flows

University Fund Groups

| <u>Fund Numbers</u> | <u>Fund Category</u> |
|-----------------------------|---|
| 00300-01999 | Plant Funds Group |
| 00300-01599 | Unexpended Plant Funds |
| 00300-00699 | Gifts and Private Grants |
| 00700-00799 | Federal Grants |
| 00800-00999 | State Appropriations |
| 01000-01480 | University Funds |
| 01481-01599 | Borrowed Funds |
| 01600-01699 | Unassigned |
| 01700-01799 | Retirement of Indebtedness Funds |
| 01800-01989 | Unassigned |
| 01990-01999 | Investment in Plant |
| 02000-02199 | Unassigned |
| 02200-03999 | Loan Funds Group |
| 02200-03969 | University Loan Funds |
| 03970-03999 | University Matching Loan Funds-Federal Programs |
| 04000-04099 | Unassigned |
| 04100-09599 | Endowment and Similar Funds Group (Principal) |
| 09600-17999 | Unassigned |
| | |
| <i>Current Funds Groups</i> | |
| 00001-00299 | Agency Funds |
| 04100-09799 | Endowment and Similar Funds Group -Prin. Apprriated |
| 18000-19999 | State of California |
| 18000-18199 | Special State Appropriations (Also 20501-20599) |
| 18200-18999 | State Agencies (also 20400-20499 & 20600-20939 as specified below) |
| 19000-19899 | Unassigned |
| 19900-19999 | General Funds |
| 20000-20399 | Student Tuition and Fees |
| 20000-20289 | Various Student Fees |
| 20290-20299 | Summer Sessions |
| 20300-20399 | University Extensions |
| 20400-20499 | Unassigned (may be used for State Agencies through June 30, 1996) |
| 20500 | Unassigned |
| 20501-20599 | Unassigned (may be used for Spec. State Approp. through June 30, 1996) |
| 20600-20999 | Local Government |
| 20600-20939 | Grants and contracts (also 20950-20999) may also be used for State Agencies through June 30, 1996 |
| 20940-20949 | Appropriatons |
| 20950-20999 | Grants and Contracts (also 77001-77149 & 20600-20939) as specified below) |
| 21000-33999 | Unites States Of America |
| 21000-21099 | Appropriatons |
| 21100-24999 | Grants (also 29000-33999) |
| 25000-26999 | Cost Reimbursement Contracts |
| 27000-28999 | Lump Sum Contracts |
| 29000-33999 | Grants (also 21100-24999) |
| 34000-34099 | Unassigned |
| 34100-39599 | Endowment Income (also 39600-39799 as specified below) |

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|-------------|---|
| 39600-39799 | Endowment Income (also 34100-39599) may also be used for Private Gifts and Grants--Unrestr. through June 30, 1996 |
| 39800-39999 | Private Gifts and Grants-- Unrestricted (also 39600-39799 as specified below) |
| 40000-59999 | Private Gifts Grants and Contracts-- Restricted (also 78000-79999) |
| 60000-62999 | Sales and Services of Educational Activities (also 64000-65999) |
| 63000-63999 | Sales and Services of Teaching Hospitals |
| 64000-65999 | Sales and Services of Educational Activities (also 60000-62999) |
| 66000-69999 | Other Sources |
| 66000-66099 | Service Enterprises |
| 66100-69999 | Other |
| 70000-74999 | Sales and Services of Auxiliary Enterprises |
| 75000-75999 | Reserves |
| 76000-76999 | Reserves for Renewals and Replacements |
| 77000 | Unassigned |
| 77001-77149 | Unassigned (may be used for Local Government Grants and Contracts through June 30, 1996) |
| 77150-77999 | Unassigned |
| 78000-79999 | Private Gifts, Grants and Contracts-- Restricted (also 40000-59999) |
| 80000-89999 | Unassigned |
| 90000-99997 | UCRS Funds Group |