Fund Accounting for Governmental Organizations

Published – June 2010
Learning Objectives

• To understand:
  • Basics of fund accounting:
    • What is it?
    • Why do we use it?
  • Fund accounting at the University
  • Fund accounting responsibilities
Definitions

• **Fund** – A self-balancing set of accounts where Assets = Liabilities + Net Assets.

• **GASB** – Governmental Accounting Standards Board – the private sector body who sets the accounting rules for state and local governments.

• **Grant** – Activity funded by an external entity (sponsor) for a specific purpose.
Definitions

- **Gift** – Cash or gift in-kind for which the use is restricted by the donor and no direct benefit is received by the donor.
- **Endowment** – A gift where the original principal remains intact for a period of time.
- **Property, Plant, and Equipment (Plant)** – Capital expenditures providing benefit for many years costing more than $5,000.
What is Fund Accounting?

- Accounting system to separate all financial transactions into categories based on:
  - Related activities
  - Source and use of monies
  - Restrictions on time and/or purpose
- Each Fund is a self-balancing set of accounts
- Not a separate legal entity
Why use Fund Accounting?

• Required for external financial reporting
  • Governmental Accounting Standards Board
  • Requirements for governmental universities

• Compliance with external restrictions
  • Restrictions differ by source
  • Various reporting requirements
  • Provide accountability and control
Risks of Using Incorrect Fund

• Non-compliance with external restrictions
  • Penalties and other legal implications
  • Repayment of monies
  • Damage to reputation, such as Donor or Grantor

• Improper management decisions based on inaccurate **reporting**

• Jeopardize future funding sources
University Funds

CURRENT FUNDS

UNRESTRICTED FUNDS
0000-0999
- General Operations
- Auxiliary Operations
- Service Operations
- Self-Insurance

RESTRICTED FUNDS
2000-2299
- Expendable Gift and Endowment Income
- Grants
- State Appropriations

LOAN FUNDS

Unrestricted - 1100
Restricted – 3400

PLANT FUNDS

Unrestricted Plant
1000-1099
Restricted Plant
2300
Net Investment in Plant
4000
Debt Service
2400

ENDOWMENT FUNDS

Quasi-Endowment
1200-1299
True Endowment
3000-3399

RETIREMENT FUNDS
5000 - 5200

AGENCY FUNDS
6000 - 6030
Characteristics of Funds

• Characteristics addressed:
  • The nature of the fund’s activities
  • The source and use of monies
  • The restrictions on the funds and by whom
  • Any unique reporting requirements
  • The level at which the funds are managed
Unrestricted Funds

• University internally decides how to spend these funds.
• May be internally restricted by:
  • Board of Curators
  • Senior Management
  • Other
• External approval not required to change use.
Current Funds - Unrestricted

• **General Operating** - Fund 0000

• Example activity includes:
  • State appropriations
  • General revenue allocations to units
  • Salaries and benefits
  • Activities related to core mission

• Managed by all levels
Current Funds - Unrestricted

- **Auxiliary** - Funds 0100 - 0699
- Example activity includes:
  - Bookstore
  - Dining and Housing
  - Athletics
- Managed by unit/department
Current Funds - Unrestricted

• **Service Operations** - Funds 0700 - 0899

• Example activity includes:
  • Telecommunications
  • Printing
  • Campus Facilities

• Managed by unit/department
Current Funds - Unrestricted

- **Self-insurance** - Funds 0900 - 0999

- Example activity includes:
  - Automobile
  - Medical and Dental
  - Malpractice
  - Worker’s Compensation

- Managed by UM System
Restricted Funds

• External parties determine how resources are expended. Restrictions include:
  • Donor
  • Federal, State, other laws
  • Granting agencies

• External approval required to change use
  • Restrictions differ by source of funds
  • Different reporting requirements
Current Funds - Restricted

• **Expendable Gifts and Endowment Income Funds 2000 - 2009**

• Example activity includes:
  • Gifts restricted as to time/purpose
  • Expendable income earned on endowment principal

• Managed by college/department

• Reporting to donors
Current Funds - Restricted

- **State Appropriations - Funds 2010 – 2099**
- Example activity includes:
  - Missouri Institute of Mental Health
  - Missouri Kidney Program
  - Telehealth
- Managed by college/department
- Reporting to the State
Current Funds - Restricted

- **Grants** - Funds **2100 - 2299**
  - Example activity includes:
    - Grants and contracts – government and private sponsors
    - Program income earned on grant activity
- Managed by all levels
- Reporting to sponsor
Loan Funds

- **Loan** funds include:
  - 1100 – Unrestricted
  - 3400 – Restricted, External restrictions

- Example activity includes:
  - Student loans issued and repayment
  - Federal Perkins Loan program

- Managed by Campus Financial Aid
- Reporting to loan agencies
Plant Funds

- **Plant Funds include:**
  - **1000 - 1049** – Unrestricted plant
    - Repair and renovation for auxiliary/service operations
  - **2300 - 2399** – Restricted expendable plant
    - Purchases of equipment from gift funds
    - Infrastructure projects (roads, buildings)
- Managed by campus/department
- Financial statement reporting and disclosures
Plant Funds

- Related Plant Funds include:
  - **2400 - 2420** - Debt Service
    - Debt issued to finance capital projects
    - Repayments of principal and interest on long-term debt
  - Extensive reporting and compliance requirements
  - Managed by UM System
Endowment Funds

- Endowment Funds include:
  - **1200 - 1299** – Quasi - Unrestricted
  - **3000 - 3399** – Restricted Endowments

- Example activity includes:
  - Endowed professor’s chair
  - Student scholarships

- UM System manages investment and income distribution

- Reporting to donors
Retirement Funds

- **Retirement** - Funds **5000 - 5200**
- University has fiduciary responsibility
- Example activity includes:
  - Contributions to the retirement fund
  - Payment of retiree benefits
  - Investment of funds
- Extensive reporting and compliance requirements
- Managed by UM System
Agency Funds

- **Agency** - Funds **6000 - 6030**
- University is custodian of funds
- Example activity includes:
  - University Club
  - State Historical Society
  - Privately funded student scholarships
- Managed by unit designated as Agent
- Reporting determined by agency
Fund Accounting Responsibilities

• Understand fund restrictions for activities including:
  • Depositing and expending monies
  • Internal and external financial reporting
  • Charging other units
  • Creating journal entries and cost transfers
Concluding Points

• Fund accounting helps us:
  • Comply with financial reporting requirements
  • Ensure compliance with restrictions
  • Demonstrate accountability and control
  • Achieve our core mission and goals
Knowledge Check

• The following three questions reinforce key concepts of this session.
Question 1

A fund is a separate accounting entity, not a separate legal entity.

• True
• False
Question 2

Restricted funds require approval from an external party before the University can change their use.

- True
- False
Question 3

Which of the following is a potential risk of using the incorrect fund when reporting financial activity?

a. Penalties
b. Repayment of monies
c. Damage to the University’s reputation
d. All of the above
Additional Information

• Accounting Policy Manual: **APM 3.50.30 - Fund ChartField**

• Other related training available:
  • **Financial Compliance Training Website**
  • Contact your Accounting or Sponsored Programs Office for departmental training sessions or further discussion

Please Click Here to Complete the Training Survey