

FUND AND REVENUE ACCOUNTING

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I. PURPOSE OF CHAPTER 4

The purpose of this chapter is to provide an overview of the fundamentals for the higher education basic fund accounting and financial reporting structure required by Generally Accepted Accounting Principles (GAAP) and to which the college is audited. This will provide a context for understanding how the Finance System general ledger and chart of accounts are set up to meet these requirements, and why it is necessary do certain things in college and college accounting.

Since the basic fund accounting is driven by the need to classify resources, this chapter also covers revenue accounting.

II. PERTINENT GUIDELINES AND REGULATIONS

A. GAAP

The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report*¹ (Statement 69), defines GAAP for both non-governmental entities and state and local governments, including public institutions of higher education.

Statement 69 ¶2 says the phrase “generally accepted accounting principles” is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Those conventions, rules, and procedures provide a standard by which to measure financial presentation.

The conventions, rules, and procedures applicable to ASC are comprised of documents from various sources such as the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), the National Association of College and College Business Officers (NACUBO), the State Controller, etc. Each of these organizations issues various documents with differing levels of authority such as official statements, interpretations, implementation guides, fiscal rules, accounting standards, etc. Statement 69 provides a GAAP Hierarchy establishing the priority of these documents so that we know what level of importance to place on each. The Statement 69 GAAP Hierarchy Summary in priority order for state and local governments, including public institutions of higher education, is:

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1. GASB Statements and Interpretations, plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation.
2. GASB Technical Bulletins and the following pronouncements if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
3. Consensus positions of the GASB Emerging Issues Task Force and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA.
4. “Qs and As” published by the GASB staff, as well as industry practices widely recognized and prevalent.
5. Other accounting literature, including GASB Concepts Statements; pronouncements in categories (a) through (d) of the hierarchy for non-governmental entities when not specifically made applicable to state and local governments; APB Statements; FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; pronouncements of other professional associations or regulatory agencies, AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

B. Higher Education Financial Reporting GAAP

For ASC, GASB Statement No. 15, *Governmental College and College Accounting and Financial Reporting Models* sets the basic financial statement model through June 30, 2001 (fiscal year 2001). Under the authority of this Statement, the State Controller elected to have Colorado institutions follow the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*. The *Audit Guide* was originally issued in 1973. It was updated in 1975 to incorporate SOP 74-8. The last update was issued in 1992 to include conforming changes as of May 1, 1992. The *Audit Guide* required three basic financial statements to be presented in a “**fund group**” perspective.

- Balance Sheet (Attachment A, Exhibit 1)
- Statement of Changes in Fund Balance (Attachment A, Exhibit 2)
- Statement of Current Funds Revenue, Expenditure, and Other Changes (Attachment A, Exhibit 3)

The primary purpose of the Statement of Current Funds Revenue, Expenditure and Other Changes is to provide the detail behind the summarized figures on the Statement of Changes in Fund Balance.

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GASB Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities* was issued in November 1999 and superseded GASB Statement No. 15. Statement No. 35 directs public colleges and universities to follow GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. These two statements are supplemented by the GASB Statement No. 34 Implementation Guide and the NACUBO Statement No. 35 Implementation Guide. This change is applicable to fiscal year 2002 ending June 30, 2002. Statements 34/35 require the following basic financial statements to be presented on the “**entity-wide**” perspective rather than the *Audit Guide’s* “fund group” perspective.

III. DAY-TO-DAY OPERATIONAL STRUCTURE

Public colleges and universities receive resources from a variety of sources that restrict the use of the resources. These include grants and contracts from sponsors, and gifts from donors. State legislative processes also appropriate state funds to an institution. Legislatures and taxpayers want to know how these funds are used to accomplish the institution’s mission and to be assured that these funds are used in accordance with any appropriation requirements. Additionally, the governing board (management) of the institution will designate resources to be used for certain purposes such as student loans or capital construction. Some operations of the institution, such as Housing, are required to generate revenue sufficient to cover all of their operating expenses and debt payments. This financial environment of public colleges and universities imposes upon higher education a special stewardship obligation to be able to demonstrate that all resources were recorded and used in accordance with the directives of the outside sources providing the resources. This stewardship obligation requires an accounting system that provides for the unique identification and recording of individual resources so that they are not commingled with other resources.

Higher education accounting systems are traditionally based on a “fund accounting” structure. The *Audit Guide* ¶2.02 defines fund accounting as the procedure by which resources for various purposes are classified for accounting and reporting purposes in accordance with regulations, restrictions, or limitations imposed by sources outside the institution, or in accordance with directions issued by the governing board.ⁱⁱ ¶2.03 defines a *fund* as an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance and changes in the fund balance (revenue, expense and cash transfers).ⁱⁱⁱ Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of resources. For accounting and reporting purposes, however, “funds of similar characteristics” are combined into “fund groups.”

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¶2.05 says the fund groups usually encountered in an educational institution are as follows:

- Current funds
- Loan funds
- Endowment and similar funds
- Annuity and life income funds
- Plant funds
- Agency funds.^{iv}

While Statements 34 and 35 change the external reporting orientation from the *Audit Guide*'s fund group perspective to the entity-wide perspective, the college is still required to use its traditional fund accounting system to meet its stewardship obligations. Additionally, the use of the traditional fund groups serves management's needs to plan and manage the financial activity of the institution. Finally, while Statements 34 and 35 change the overall format of the basic financial statements, they do not define the categories of revenue and expense. However, their illustrative statements do use most of the same revenue and expense categories as those presented in the *Audit Guide*. So, while the *Audit Guide* is technically no longer GAAP, the college must still turn to it to define funds, fund groups, revenues, expenses and cash transfers that are used in the ASC accounting system and in day-to-day operations. The good news is that while Statements 34 and 35 represent one of the largest changes in higher education financial reporting history, they will have minimal impact on how departments do their day-to-day accounting in the Finance System. The biggest impact will be on the year-end entries accounting staff make to offset some of the traditional day-to-day operational entries in order to present the college's financial statements on the Statements 34 and 35 entity-wide basis.

The discussion will now turn to an analysis of the *Audit Guide* and how the Finance System is structured to fulfill the *Audit Guide* requirements.

IV. UNRESTRICTED VS. RESTRICTED

All resources of an institution are initially classified as either unrestricted or restricted. This concept is applied to all of the fund groups.

The *Audit Guide* Statement of Position (SOP) defines this concept under Current Funds.

The Current Funds group has two basic subgroups—unrestricted and restricted. Unrestricted Current funds include all funds received by the institution for which no stipulation was made by the donor or other external

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agency as to the purposes for which the funds should be expended. Restricted Current funds are those available for financing operations, but which are limited by donors or other external agencies to specific purposes, programs, departments, or schools. Externally imposed restrictions are to be contrasted with internal designations imposed by the governing board on unrestricted funds. Internal designations do not create restricted funds, inasmuch as the removal of the designation remains at the discretion of the governing board.

The distinction between unrestricted and restricted funds is maintained through the use of separately balanced groups of accounts in order to provide acceptable reporting of stewardship to donors and other external agencies. This distinction also emphasizes to governing boards and other sources of financial support the various kinds of resources of the Current Funds group that are available to meet the institution's objectives.

Separate accounting entities may be provided for auxiliary enterprises, and independent operations in either the Unrestricted Current Funds or the Restricted Current Funds subgroup or both, as appropriate.^v

The first question to ask about every revenue dollar is whether it is an unrestricted or restricted resource. For example, has the resource provider limited the institution's use of the funds for a specific purpose such as financial aid, a specific program such as a sponsored program or a capital construction project, or a specific department such as the Chemistry department. For instance, a gift may be made to the Chemistry department and be unrestricted as to what Chemistry can use it for. However, since it is still restricted to be used only for the Chemistry department, it is considered to be a restricted gift.

A good test to use in determining whether or not revenue is restricted is to ask if the resource provider has the right to object and demand a return of the funds if the college were to use the funds, for example, to pay the salary of an assistant football coach. If the answer is yes, then these funds are restricted in some form and are restricted funds. If the answer is no, and the Board of Trustees is free to direct the use of the funds for any legal purpose, then these are unrestricted funds.

If the restrictions are such that the funds can only be used for Loan Fund or Plant Fund purposes, then the funds must be reported as revenue of those respective fund groups. It is inappropriate to report funds with loan fund or plant fund purpose restrictions as revenue of the current funds (with a cash and fund balance transfer to the other funds), since according to the restrictions these funds are not available to fund current operating expenses.

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The concept of unrestricted and restricted funds is critical and carries through into the Net Asset section of the GASB 34 and 35 entity-wide Statement of Net Assets.

NET ASSETS

Invested in capital assets, net of related debt

Restricted for:

Nonexpendable:

Expendable:

Unrestricted

Although these are entity-wide perspective statements, there is still a certain amount of fund accounting carried over in order to provide these categories of net assets.

The mandate to maintain restricted funds separately from unrestricted funds prohibits the college from doing cash transfers between these funds.

V. FUND AND FUND GROUPS

As discussed in the previous sections of this chapter, the focus of the *Audit Guide* and a fund accounting system is the proper classification of resources, or revenue. Therefore, the key to higher education fund accounting is a thorough understanding of the proper accounting for all revenues. Once the revenue is properly accounted for in the correct fund, and therefore in the correct fund group, then the expenditure of that revenue naturally follows.

A. Fund

The first building block of a fund accounting system is defining what constitutes a *fund*. Remember, the *Audit Guide* ¶2.03 defines a *fund* as an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance and changes in the fund balance (revenue, expense, and cash transfers).^{vi} Each unique combination is most commonly referred to as an “ACCOUNTING STRING”. Each of these unique accounting strings are a fund set up to account for a unique activity’s resources and use of those resources, separate from the accounting for all other resources and activities of the college. Each ACCOUNTING STRING then uses the accounts from the Chart of Accounts to classify the assets, liabilities, fund balance, revenues, expenses, and cash transfers of that fund. The revenue, expenses and cash transfers are used to report the change in fund balance of that ACCOUNTING STRING from one period to the next. Each ACCOUNTING STRING is a self-balancing set of records for that unique activity’s financial transactions.

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An ACCOUNTING STRING is set up when required by provider restrictions such as for each sponsored program or gift, or when desired to uniquely account for the allocation of unrestricted resources for a designated purpose such as Accounting and Business Support general operations. The resources of the ACCOUNTING STRING can be a budget allocation, revenue, a cash (and fund balance) transfer in, or a combination of these.

B. Fund Group

The second building block is to define the purpose of each fund group and to identify each fund to its proper fund group. The *Audit Guide* illustrative statements ([Attachment A](#), Exhibits 1, 2, 3) present the following fund groups and subgroups.

- Current funds
 - Unrestricted
 - Restricted
- Loan funds
- Endowment and similar funds
- Annuity and life income funds
 - Annuity funds
 - Life income funds
- Plant funds
 - Unexpended
 - Renewals and replacements
 - Retirement of indebtedness
 - Investment in plant
- Agency funds

ASC uses the Finance System fund type to identify its fund groups and thereby assign each ACCOUNTING STRING to the proper fund group or subgroup.

The next section of this chapter will focus on the fund groups used by ASC: Current Funds, Loan Funds, Plant Funds and Agency Funds. All endowments (Fund 60) are accounted for at the system level and not at the campus level. Thus, endowments are not included in this discussion.

The diagram which follows shows how the Finance System funds are identified to the *Audit Guide* fund groups and how the Finance System funds are grouped under the ASC financial statements' fund groups.

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<u>Audit Guide and Finance System Structure</u>	<u>Financial Statement Fund Group</u>
<ul style="list-style-type: none"> ▪ Current Funds <ul style="list-style-type: none"> <u>Unrestricted:</u> <ul style="list-style-type: none"> 1100 – General Fund 3xxx – Auxiliary Enterprises <u>Restricted:</u> <ul style="list-style-type: none"> 2xxx – Restricted Funds ▪ Loan Funds <ul style="list-style-type: none"> 4xxx – Loan Funds ▪ Plant Funds <ul style="list-style-type: none"> <u>Unexpended:</u> <ul style="list-style-type: none"> 91xx – Capital Construction <u>Renewal and Replacement:</u> <ul style="list-style-type: none"> 93xx – Auxiliary R&R <u>Retirement of Indebtedness:</u> <ul style="list-style-type: none"> 95xx – Retirement of Indebtedness <u>Investment in Plant:</u> <ul style="list-style-type: none"> 97xx – Investment in Plant ▪ Agency Funds <ul style="list-style-type: none"> 8xxx - Agency Funds 	<ul style="list-style-type: none"> <li style="margin-left: 40px;">} State Appropriated Funding <li style="margin-left: 40px;">} Auxiliary & Self-funded Activities <li style="margin-left: 40px;">} Restricted Fund <li style="margin-left: 40px;">} Student Loan Funds <li style="margin-left: 40px;">} Unexpended <li style="margin-left: 40px;">} Retirement of Indebtedness <li style="margin-left: 40px;">} Investment in Plant <li style="margin-left: 40px;">} Agency Fund

In addition to these funds, ASC also has Fund 3999, GASB 34 and 35 reporting. This fund is used solely for entries to adjust the *Audit Guide* fund group perspective into the GASB 34 and 35 entity-wide perspective. Most of these entries arise from showing activities between the various fund groups that would result in inflating revenues and expenses if they were not offset. Examples are:

- Unrestricted Current fund indirect cost revenue equal to restricted Current fund indirect cost expense
- Investment in plant fund addition for the retirement of indebtedness equal to the ROI fund deduction for retirement of indebtedness.
- Capital asset purchases in the Current funds equal to additions to plant in the investment in plant fund when the capital asset is added to that fund.

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VI. AGENCY FUNDS (Fund 8xxx)

The *Audit Guide* ¶10.19 says the agency fund group consists of funds held by an institution as custodian or fiscal agent for others such as student organizations, individual students, or faculty members. Agency funds should be accounted for as a separate fund group although, if immaterial in amount, they may be reported as assets and liabilities of current funds. Transactions of agency funds represent charges or credits to the asset and liability accounts and are not transactions of unrestricted or restricted current funds.^{vii}

Agency funds are used to deposit funds that do not belong to and are not under the control of the Trustees, but rather are private funds that belong to the depositor. ASC is essentially providing a banking function for the depositor, and these funds are then disbursed at the direction of the depositor. The most common uses of agency funds are for:

- Independent student organizations
- External entities that have a business presence on campus, and have a need to charge internal services such as telephone, copying and printing, etc.
- Funds sent to the college and held to be applied to a specific student's bill at a later date e.g., third party payment of a student's bills.

Funds deposited by the depositor should be recorded using a revenue account. Expenditures of funds should be recorded using expense accounts. The revenues and expenses will be used to report the cash inflows and outflows from agency funds on the GASB 34 and 35 Statement of Cash Flows.

Since agency funds are private funds, the use of these funds does not represent college business and the revenue/expense is not reported in the Statement of Changes in Fund Balance or the Statement of Revenue, Expenses, and Changes in Net Assets. The ACCOUNTING STRING' fund balance is not reported in the fund balance or net assets of the college, but rather it is reported as a liability, Deposits Held In custody, on the balance sheet and Statement of Net Assets. ASC has chosen to combine the balance sheet accounts with the Restricted current Fund reporting on the balance sheet.

All agency funds are administered through one of three offices.

- The AS & F Organization Finance Office oversees independent student organization agency ACCOUNTING STRING.
- The Controller's Office oversees all other agency fund ACCOUNTING STRING in partnership with the Office of Vice President of Finance and Administration, who authorizes an agency relationship with non-student organization entities.

Since agency funds represent entities external to the institution, all business dealing with agency fund ACCOUNTING STRING should be approached in the

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same manner as dealing with any other private individual or business. For example, agency fund operations do not have access to ASC procurement services, as this would extend to private entities state agency privileges such as tax exemption, higher education discounts, state contract discounts, etc. It is inappropriate for private entities to benefit from state agency status. Interdepartmental cash transfers cannot be made to or from agency fund ACCOUNTING STRING. To do so would be the same as providing a gift to a private entity. Payments to ASC departments from charges made to agency fund ACCOUNTING STRING should be accounted for the same as a cash payment from an external entity.

VII. PLANT FUNDS (Funds 9xxx)

The *Audit Guide* ¶9.01 says that the plant fund group consists of

- Funds to be used for the acquisition of physical properties for institutional purposes but unexpended at the date of reporting;
- Funds set aside for the renewal and replacement of institutional properties;
- Funds set aside for debt service charges and for the retirement of indebtedness on institutional properties; and
- Funds expended for, and thus invested in, institutional properties.^{viii}

A. Capital Construction Plant Fund (Fund 91xx)

The Capital Construction plant fund is used to account for all capital construction projects. A capital construction project is defined as any new building construction regardless of cost, and remodeling/renovation projects with an estimated cost of \$100,000 or more for the project. These projects result in the creation of a new capital asset or the addition to the book value of an existing capital asset for the college. The use of a Fund 91xx project ACCOUNTING STRING is required in order to capture all the costs of the construction and fairly present the value of these capital assets on the college's balance sheet and Statement of Net Assets. Capital construction projects are typically managed by Facilities Management.

Resources for the capital construction fund are:

- Donations from private sources restricted to capital construction projects
- Designated appropriations of governmental agencies
- Income and gains from the investment of capital construction funds
- Grants restricted to capital construction projects
- Cash transfers in from other funds groups
- Issued debt.

In the Finance System the expense accounts are used to budget the construction project. A month-end entry is made to offset that month's

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expenses and record them in the asset account construction-in-progress. Beginning in FY 2002, at year-end the construction-in-progress, and any related debt, are moved to the Investment in Plant Fund. This allows the college to use the Finance System to monitor the budget for the project while still showing the gradual creation of a new capital asset with proper year-end accounting for the GASB 34 and 35 statements.

B. Renewal and Replacement Plant Fund(Funds 93xx)

The Renewal and Replacement (R&R) plant funds are used primarily to accumulate resources over the years to save toward a planned capital construction project or the purchase of equipment. As such, the primary funding sources of R&R plant funds are cash and fund balance transfers from other fund groups, most typically the unrestricted current funds.

Resources for the R&R plant funds are:

- Cash and fund balance transfers from other fund groups, most usually the unrestricted current funds
- Income and gains from the investment of R&R funds
- Donations from private sources restricted to R&R funds
- Insurance proceeds from claims on the loss of capital assets
- Proceeds from the sale of equipment.

R&R plant funds are used to:

- Transfer to a capital construction plant fund
- Purchase equipment with a unit cost of \$5,000 or more
- Transfer the cash and fund balance back to the original source funds if not needed for capital asset acquisition.

Since R&R plant funds are only to be used to acquire capital assets, it is inappropriate to spend funds from R&R plant fund ACCOUNTING STRING for any operating expenses (salaries, office supplies, travel, equipment less than \$5,000, etc.). R&R funds should only be spent to purchase equipment with a value of \$5,000 or more. It is acceptable to use the R&R plant fund to build cash and fund balance toward the purchase of non-capital equipment, but the funds should be transferred back to the current fund if they are to be spent for non-capital asset purposes.

ASC has elected to combine capital construction plant funds and R&R plant funds to report them under the Unexpended Plant Fund column in the *Audit Guide* financial statements.

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C. Retirement of Indebtedness Plant Fund (Fund 95xx)

The Retirement of Indebtedness Plant Fund (ROI) is used to pay principal of debt and interest thereon and trustees' fees and expenses. The payment of principal from the ROI plant fund results in a matching reduction of the debt actually recorded in the Investment in Plant fund along with its related capital asset.

Resources for the ROI fund are:

- Cash and fund balance transfers from other fund groups, most usually the unrestricted current funds
- Income and gains from the investment of ROI funds
- Donations from private sources restricted to ROI funds.

D. Investment in Plant Fund (Fund 97xx)

The Investment in Plant Fund (IIP) is used only to record the book value of our capital assets, accumulated depreciation and expense thereon, and any external debt related to the capital assets. The IIP fund balance is the invested in capital assets, net of related debt net assets on the Statement of Net Assets.

VIII. LOAN FUNDS (Fund 4xxx)

The *Audit Guide* ¶7.01 says the loan fund group consists of loans to students, faculty, or staff, and of resources available for such purposes. The terms of the gift agreements usually specify that the funds operate on a revolving basis, i.e., payments of principal and interest are loaned to other individuals. Some loan funds are created on a temporary basis and require that repayments and interest be returned to the grantors. The grants may also designate that the obligations to repay all or part of the loan will be forgiven under certain circumstances. Some gift agreements may also designate the curriculum and geographical domicile of the student borrowers and the financial status of borrowers.^{ix}

Resources for the loan fund are:

- Donations from private sources restricted to loan funds
- Designated appropriations of governmental agencies
- Income and gains from the investment of loan funds
- Grants restricted to loan funds
- Interest charged on outstanding loans
- Payment of principal on outstanding loans
- Cash transfers in from other funds groups.

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IX. CURRENT FUNDS (Funds 1100 and 3xxx)

The current fund discussion is taken primarily from the *Audit Guide* Statement of Position (SOP).

The *Audit Guide* SOP page 51 says that the current funds group includes those economic resources of a college or college that are expendable for the purpose of performing the primary missions of the institution—instruction, research and public service—and which are not restricted by external sources or designated by the governing board for other than operating purposes. The term *current* means that the resources will be expended in the near term and that they will be used for operating purposes.^x

Basically, the current funds are the default funds. If a dollar of resources does not meet the requirements for reporting directly in the Agency Fund, the Loan Fund or one of the Plant Fund subgroups, then by default it belongs in one of the current funds subgroups. **As stated earlier, the key to current funds accounting is a thorough understanding of the proper accounting for revenues. Once the revenue is properly accounted for in the correct fund, and therefore the correct fund group, then the expenditure of that revenue naturally follows.**

A. General Fund (Fund 1100)

The General Fund is used to account for the major revenue and expenses of the college's primary mission of instruction and its support functions of academic support, student services, institutional support, operation of plant, and scholarships and fellowships. The revenues are:

- State appropriations
- All tuition except that charged by Extended Studies
- All instructional fees
- Administrative student fees
- Some student activity fees
- Some miscellaneous revenue such as rent of general fund space.

Some of these revenues are subject to TABOR reporting. Revenue generated through departmental activity should not be recorded in the department's general fund ACCOUNTING STRING. These revenues should be recorded in a 3xxx ACCOUNTING STRING as appropriate for the nature of the revenue.

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B. Auxiliary Enterprise Funds (Fund 3xxx)

[This section describes the TABOR situation for the college prior to the college—as a whole—gaining enterprise status on July 1, 2005.]

The Auxiliary TABOR Enterprise Fund is used to account for the revenues and expenses of those self-funded entities that have been formally designated by the Board of Trustees as TABOR Enterprises. The revenues are exempt from TABOR reporting. A new entity cannot be added to this fund group without the Board of Trustees formally designating that entity as a TABOR Enterprise. Existing TABOR Enterprise entities can add new ACCOUNTING STRING to account for a new activity as long as that activity is consistent with the role and mission that was the basis for their original TABOR Enterprise designation. For example, if Housing were to build a new dormitory, then the new ACCOUNTING STRING could be added to Housing in Fund 20 for that dormitory. If the director of a TABOR Enterprise is given an assignment to manage an additional and new activity that is different from the activity that was the basis for the entity's TABOR Enterprise designation, then that new activity may have to be accounted for in another, non-TABOR exempt fund. Each case has to be evaluated based on its nature and merits.

A Brief History and Overview of TABOR

In November 1992, Colorado voters approved an amendment to the State Constitution—Article X, Section 20—called the *Taxpayer's Bill of Rights* or TABOR. This amendment, also known as Amendment One, imposes various limitations on state and local governments, including limitation on the imposition of new or increased taxes, the issuance of multiple fiscal year obligations, and permitted levels of fiscal year spending.

The restrictions imposed by TABOR do not apply to entities or activities characterized as *enterprises*. An enterprise is defined as a government-owned business which has the authority to issue its own revenue bonds, and which does not receive more than 10% of its annual revenues in “grants” from state and local governments.

During the 1993 legislative session, HB93-1355 was enacted to clarify which auxiliary facilities and activities operated by institutions of higher education within the state might qualify as enterprises. HB93-1355 provides a statutory framework in which auxiliary facilities and activities managed by the Board of Trustees may qualify as enterprises so that they comply with the provisions of TABOR. The importance of qualifying as an enterprise lies in the fact that the revenue of the respective auxiliary facility or activity is removed from the revenue and expenditure limits of Amendment One.

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C. Grants and Contract Funds (Fund 2xxx)

The Grants and Contracts Funds are used to account for sponsored programs negotiated through the Office of Contracts and Grants and certain financial aid programs.

X. REVENUE CLASSIFICATIONS

The *Audit Guide* Statement of Position (SOP) page 53 says that unrestricted and restricted Current funds revenues should be grouped into the following major classifications by source of funds. The highlighted classifications are those adopted by the State Controller for Colorado institutions and used by ASC.

Tuition and Fees
Federal Appropriations
State Appropriations
Local Appropriations
Federal Grants and Contracts
State Grants and Contracts
Local Grants and Contracts
Private Gifts, Grants and Contracts
Endowment Income
Sales and Services of Educational Activities
Sales and Services of Auxiliary Enterprises
Sales and Services of Hospitals
Other Sources
Independent Operations.^{xi}

Some of these revenue classifications can be a little challenging to understand. One thing that helps in understanding the revenue classifications is to look at the expense classifications. The *Audit Guide* SOP page 59^{xii} discusses the options of classifying expense in terms of programs, functions, organizational units, projects and object class (Finance System accounts). The *functional* classification pattern—educational and general, auxiliary enterprises, hospitals, independent operations, and their subcategories—provides the greatest comparability of data among institutions. The *Audit Guide* SOP page 60^{xiii} suggests that the following functional classification be followed. These classifications have been adopted by the State Controller for Colorado institutions. Transfers have been omitted from this list and will be discussed later.

- Educational and General (E&G)
Instruction

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- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships and Fellowships
- Auxiliary Enterprises
- Hospitals
- Independent Operations.

By comparing the revenue classifications to the functional classifications, it becomes apparent there is a correlation between the two.

<u>Revenues</u>	<u>Functions</u>
<ul style="list-style-type: none"> ▪ Educational and General (E&G) <ul style="list-style-type: none"> Tuition and fees Federal Appropriations State Appropriations Local Appropriations Federal Grants and Contracts State Grants and Contracts Local Grants and Contracts Private Gifts, Grants and Contracts Endowment Income Sales/Services of Educ Activities Investment and Interest Income Indirect Cost Reimbursement Other Sources ▪ Sales/Services of Auxiliary Enterprises ▪ Independent Operations 	<ul style="list-style-type: none"> Educational and General (E&G) <ul style="list-style-type: none"> Instruction Research Public Services Academic Support Student Services Institutional Support Operation/Maintenance of Plant Scholarship & Fellowships Auxiliary Enterprises Independent Operations

Since there is an obvious correlation between Auxiliary Enterprise and Independent Operations revenues and functions, it is logical to conclude that the other revenues fund the education and general functions.

This now gives a little clearer picture on how to look at and understand the current funds revenue and expense accounting. The discussion will concentrate on the education and general and auxiliary functions. ASC does not have any Independent Operations.

Before beginning the revenue discussion, it is important to understand that not all revenue accounts are available to be used in all funds. Acting as a control mechanism, the Fund-Account Edit Table in the Finance System restricts the use of revenue accounts to certain funds.

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A. Auxiliary Enterprise Revenue

Before examining auxiliary enterprise revenue in great detail, it is important to made a distinction between those auxiliary facilities, operations and programs that are

- designated as an auxiliary enterprise according to the *Audit Guide*
- designated as a TABOR enterprise by the Board of Trustees.

In brief, the *Audit Guide* defines an auxiliary enterprise as an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods and services.^{xiv}

A TABOR enterprise is defined as a government-owned business which has the authority to issue its own revenue bonds, and which does not receive more than ten per cent of its annual revenues in grants from state and local governments.

The *Audit Guide* Statement of Position (SOP) defines sales and services of auxiliary enterprises as all revenues generated through operations by auxiliary enterprises. This category is limited to revenue derived directly from operation of the auxiliary enterprise. Revenues from gifts, grants, or endowment income restricted for auxiliary enterprises should be reported under their respective categories.^{xv}

In order to know if there is auxiliary enterprise revenue, it is necessary to know if the revenue was generated from an auxiliary enterprise. All revenues of, and only revenues of, auxiliary enterprises are classified as sales and services of auxiliary enterprises revenue. If the revenue is not generated from an auxiliary enterprise, then it has to be reported as one of the education and general revenue classifications. So, what is an Auxiliary Enterprise?

As previously noted, the *Audit Guide* SOP defines an auxiliary enterprise (both in its revenue and functional definitions) as an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods and services.^{xvi} The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Examples are residence halls, food services, student union, faculty and staff parking.

This category includes all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance

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of plant and for institutional support; also included are other direct and indirect costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units.

A number of key concepts about auxiliary enterprises and their associated revenue warrant further discussion.

1. An Auxiliary Enterprise is an Entity

First of all, an auxiliary enterprise is an *entity*. Webster's *Seventh New Collegiate Dictionary* defines entity as **1a**: BEING, EXISTENCE, *esp*: independent, separate, or self-contained existence **b**: the existence of a thing as contrasted with its attributes **2**: something that has separate and distinct existence and objective or conceptual reality.^{xvii}

When the definition of entity is combined with the examples, the conclusion is that the *Audit Guide* intended an auxiliary enterprise to be a major, on-going business operation separately identifiable within the college and one that would likely be found in the private sector. In a college setting, departments (or centers, institutes, etc.) are the basic, separately identifiable organizational units. Therefore, our first task is to look at a department and decide whether or not the department as a whole should be classified as an auxiliary enterprise. This is contrasted with the frequent mistake of looking at an individual activity and classifying the activity as an auxiliary enterprise independent of the classification status of the department conducting the activity. For example, the Chemistry department sells Chemistry department tee shirts to its students. Clearly this activity is furnishing goods to students so the tendency is to classify "the activity" as an auxiliary enterprise. This would be in error because an auxiliary enterprise has to be an entity, and not just an activity. The Chemistry department (the entity) is not classified as an auxiliary enterprise, therefore any revenue it generates cannot be auxiliary enterprise revenue.

Care must be taken regarding what is defined as a department, because the same administrator may be responsible for more than one department or major activity. For example, the Director of Housing is responsible for the housing function and the conference function. Just because both of these functions are located under the same director, it does not mean that these constitute one department. In fact these would be two departments: Housing, an auxiliary enterprise, and Conferences, an education and general activity.

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2. An Auxiliary Enterprise Charges a Fee Directly Related to the Cost of Goods and Services

Secondly, an auxiliary enterprise “charges a fee directly related to, although not necessarily equal to, the cost of the goods and services.” Again, combining this criterion with the private sector business examples, it is possible to conclude that the *Audit Guide* intended an auxiliary enterprise to charge a fee to those customers who use the goods and services. The fact that the fee does not have to equal the cost of the goods and services means that a surplus can be generated. It also means that a loss may be generated, and that the loss may be supplemented by other resources.

3. Auxiliary Enterprises are Managed as Essentially Self-Supporting Activities

Thirdly, “the distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities.” It is important to look at this criterion in relation to the charging of a fee directly related to, although not necessarily equal to, the cost of the goods or services. The *Audit Guide’s* intent is that the business charges a fee to its customers based on the goods and services provided to each customer. A loss from these exchange transactions can be incurred and that loss can be supplemented from other sources, such as a student activity fee allocation. However, if the entity’s on-going financial plan is such that it incurs annual losses of a material amount that must be supplemented from other sources, then it loses its auxiliary enterprise status and becomes an education and general operation since it is no longer essentially self-supporting. Also, if the entity’s on-going financial plan is to get an allocation of other resources, such as student activity fees, in order to provide services for free to all registered students (even though all students won’t use the services), then it loses its auxiliary enterprise status and becomes an education and general operation because it is not charging a fee directly related to the cost of goods or services and it is not essentially self-supporting. This concept is also supported in the examples of intercollegiate athletics (only if essentially self-supporting), and student health services when operated as an auxiliary enterprise.

It is clear that the *Audit Guide* envisioned two scenarios for these two entities. The first is when these entities charge a fee to only those customers using their services, and this fee allows the entity to be essentially self-supporting—an auxiliary enterprise. The second is when these activities are materially supplemented by an allocation of other resources, usually student activity fees, and makes a certain range of services free to all students, even though not all students paying the fee

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and supporting the entity will use its services—an education and general operation. Many cases are very clear and others are quite gray. A case-by-case analysis has to be made and professional judgment must be used to decide one way or the other in the gray cases.

4. An Auxiliary Enterprise Pays for All of Its Operating Costs

Fourthly, “this category includes all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant and for institutional support; also included are other direct and indirect cost, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units.” This criterion is consistent with the private business concept of an entity, in which the entity pays for all its operating costs, including space costs and administrative overhead. In the previously noted Chemistry tee shirt example, the department set up to account for the tee shirt sales likely is only paying the costs of buying the tee shirts. It is likely that no administrative costs of this activity, such as the salaries, wages and benefits of the general fund staff who designed, ordered and sold the tee shirts; an allocation of departmental administrative staff time such as the department chair or departmental administrator managing the department; or an allocation of cost of the space where the activity is conducted and paid for by general fund budget; were allocated to the department.

5. Determining if a department is an Auxiliary Enterprise

So, how do departments know whether its particular department is classified as an auxiliary enterprise? Are all Fund 3xxx ACCOUNTING STRING auxiliary enterprises? No.

All Fund 3x ACCOUNTING STRING are reported under the Auxiliary *and* Self-funded Activities fund group in the financial statements. This clearly indicates that within the 3x funds there are a mixture of auxiliary enterprises (the auxiliary part of the fund group) and non-auxiliary enterprises (the self-funded part of the fund group). Once again, it is necessary to look to the expense structure of a transaction in order to answer the revenue question. Financial statement functional classifications are assigned to program and project chartfields via the Expense Purpose Code attribute. The auxiliary operating expenditures function expense purpose code is 1900.

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6. Auxiliary Enterprise Revenue Account Numbers

Auxiliary enterprises must use only auxiliary enterprise revenue accounts to record all of their revenue. An auxiliary enterprise cannot use the miscellaneous revenue accounts.

The definition of auxiliary enterprise revenue is the revenue of an auxiliary enterprise. Therefore, if an entity is defined as an auxiliary enterprise, then all of its revenue is auxiliary enterprise revenue. Note: Internal sales of goods/services between departments are usually recorded in such a way as to avoid inflating revenues and expenses from internal sales. Refer to Section J, located on page 39 of this chapter in *The Guide*, for additional information.

However, the *Audit Guide* SOP page 53 provides an exception for auxiliary enterprises. "Certain intra-institutional transactions, however, should be reflected in the operating statements as revenues and expenditures. Sales and services of auxiliary enterprises to other departments, for example, catering by the food services department in the entertainment of institutional guests and sales by the college store to instructional departments, should be treated as sales and services revenues of the respective auxiliary enterprises and as expenditures of the unit receiving the services or material."^{xviii}

B. Educational and General Revenue (E&G)

If the revenue is not generated through the operations of an auxiliary enterprise, then it must be classified under one of the E&G revenue classifications.

1. Tuition and Fees Revenue

This classification should include all tuition and fees assessed against students (net of refunds) for educational purposes. Tuition and fees should be recorded as revenue even though there is no intention of collection from the students. The amounts of such remissions or waiver should be recorded as expenditures and classified as Scholarships and Fellowships or as staff benefits associated with the appropriate expenditure category to which the personnel relate. This definition has been modified by GASB 34/35 and the application of NACUBO Advisory Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*, September 1, 2000. Beginning July 1, 2001 it is inappropriate to inflate tuition and fee revenue and scholarship & fellowship expenses for tuition and fees charged but not intended to be collected. Departments should continue their current practices of accounting for financial aid.

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Corrections for the scholarship allowance requirement will be made by staff at year-end.

Refer to the SOP for a discussion on fees restricted or pledged for other than current operating purposes such as debt service on educational plant.

Revenues from tuition and student fees of an academic term that encompasses two fiscal years, for example, a summer session, should be reported as revenue of the two fiscal years based on the services provided in each fiscal year. ASC uses the number of days of each summer session that falls in each fiscal year to prorate the tuition and fees between the two years.

Tuition is defined as those charges to students for formal course work based on the tuition rates approved by the Board of Trustees. All tuition, except that charged by Extended Studies, shall be recorded in the General Fund (Fund 1100). Extended Studies records tuition in its 3xxx fund ACCOUNTING STRING.

Instructional Fees are defined as those mandatory fees approved by the Board of Trustees and charged to students where the fee is directly related to specific instructional programs. This includes whole academic programmatic fees as well as to specific course fees. Instructional fees are recorded in the same fund as the related tuition.

Student Activity Fees are defined as those mandatory fees approved by the Board of Trustees and charged to the student body as a result of their attending the institution. The fund accounting for student activity fees is determined on a fee by fee basis.

Other Revenues—there are many charges that are commonly called a “fee” but for financial reporting purposes are not included in the tuition and fee classification. Examples include application fees, graduation fees, late payment fees, bad check fees, room and board fees, matriculation fee, etc. Each of these fees is recorded in the revenue classification and accounts based on the nature of the fee and the entity charging the fee.

2. State Appropriations Revenue

This classification includes only the “general fund” appropriated to the College in the annual Long Bill. State appropriations funding current operations are accounted for in the General Fund (Fund 11).

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3. Investment and Interest Income Revenue

This classification primarily consists of endowment investment income, interest on student loans receivable, and interest on ASC funds specifically invested by the Treasurer that usually occurs only in the ROI Fund.

4. Federal, State and Local Grants and Contracts Revenue

These revenue classifications include the revenues from sponsored program grants and contracts. The sponsors are federal, state and local governments. This revenue typically only occurs in the Grant and Contract Funds. However, it can also occur in the Capital Construction Fund (Fund 91xx) if there is a sponsored program restricted to funding a construction project.

5. Private and Other Gifts, Grants and Contracts Revenue

This revenue classification includes private grants and contracts, and gifts.

Private grants and contracts include revenues from sponsored program grants and contracts. The sponsors are non-governmental entities, but do include foreign government sponsors. This revenue typically only occurs in the Grant and Contract Fund. However, this type of revenue can also occur in the Capital Construction Fund if there is a sponsored program restricted to funding a construction project.

Gifts include all monies, real property and personal property (both tangible and intangible) provided to the college for which the donor does not receive equal value in exchange for the money. The donor may put time and/or purpose and/or matching requirements on the gifts, but there is no equal value returned in exchange for the money. Gifts may be deposited initially with the ASC Foundation, and then be transferred into the college's financial system in order to spend the gifts, or gifts may be deposited directly to the College, depending on the donor wishes. There is often some restricted purpose for the gifts.

- Those gifts available to fund current operating expenses should be recorded in the Gift fund.
- Those gifts restricted to Loan or Plant Fund purposes must be deposited in those funds.

6. Indirect Cost Reimbursement Revenue

This classification includes the revenue from the facilities & administrative (F&A or indirect) cost charges to sponsored programs, and some student loan programs (Fund 4xxx). The General Fund and some self-funded entities incur the costs that generated the revenue. The revenues generated by the General Fund are recorded in the ICR Fund.

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7. Other Sources

This revenue classification includes all sources of current funds revenue not included in the other classifications. Examples are miscellaneous rentals, and sales such as cash sales of internal service centers. Auxiliary enterprises should not use this revenue classification. As previously stated, all revenue of an auxiliary enterprise should be recorded in the auxiliary enterprise revenue accounts.

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XI. EDUCATIONAL AND GENERAL FUNCTIONS

A. Instruction (Program Code 1100)

This category should include expenditures for all activities that are part of an institution's instruction program. Expenditures for credit and noncredit courses for academic, occupational, and vocational instruction, and for regular, special, and extension sessions should be included in the instruction function.

Expenditures for departmental research and public service that are not separately budgeted should be included in this classification. The instruction category excludes expenditures for academic administration when the primary assignment is administration, for example, assistant provost. However, expenditures for department chairs, in which instruction is still an important role of the administrator, are included in this category.

B. Research (Program Code 1200)

This category should include all expenditures for activities specifically organized to produce research outcomes, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. This category does not include all sponsored programs (training grants are an example) nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this category under the circumstances described above. Expenditures for departmental research that are separately budgeted for research are included in this category.

C. Public Service (Program Code 1300)

This category should include funds expended for activities that are established primarily to provide non-instructional services beneficial to individuals and groups external to the institution. These activities include community service programs (excluding instructional programs) and cooperative extension services. Included in this category are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting and similar non-instructional services particular to sectors of the community.

D. Academic Support (Program Code 1400)

This category should include funds expended primarily to provide support services for the institution's primary mission—instruction. It includes (1) the retention, preservation, and display of educational materials—for example, libraries, museums, and galleries; (2) the provision of services that directly assist the academic functions of the institution, such as demonstration schools

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associated with a department, school, or college of education; (3) technology such as computing support; (4) academic administration and personnel providing administrative support and management directions to the primary mission; and (5) separately budgeted support for course and curriculum development.

E. Student Services (Program Code 1500)

This category should include funds expended for offices of admissions and registrar, and also those activities whose primary purpose is to contribute to the student's emotional and physical well-being and to his intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenditures for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is operated as an integral part of the department of physical education and not as an essentially self-supporting activity), supplemental educational services to provide matriculated students with supplemental instruction outside the normal academic program (remedial instruction is an example), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an essentially self-supporting activity).

F. Institutional Support (Program Code 1600)

This category should include expenditures for: (1) central executive-level activities concerned with management and long-range planning of the entire institution, such as the governing board, planning and programming, and legal services; (2) fiscal operations; (3) administrative data processing; (4) employee personnel; (6) logistical activities that provide procurement and printing services to the institution; (7) support services to faculty and staff that are not operated as auxiliary enterprises; and (8) activities concerned with community and alumni relations, including development and fund raising.

Appropriate allocations of institutional support should be made to auxiliary enterprises and any other activities not reported under the Education and General heading of expenditures. This is done at the time the auxiliary and self-funded sources are spent, whether from the current funds or plant funds.

G. Operation of Plant (Program Code 1700)

This category should include all expenditures of current operating funds for the operation and maintenance of physical plant. It does not include expenditures made from the institutional plant fund accounts.* It includes all expenditures for operations established to provide services and maintenance related to grounds and facilities. Also included are utilities, fire protection, property insurance and similar items. NACUBO has recently added safety and

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security expenditures to this category. These were previously included in the institutional support category.

* Under the *Audit Guide* there was an expenditure line called *Expended for Plant Facilities* to report plant fund expenditures. This expenditure line was abolished under the GASB 34/35 reporting. Therefore, any non-capitalized expenditures in the plant funds now must be categorized under the appropriate function. As a result, effective July 1, 2001, a control was put in place in the Finance System to only allow the use of fixed assets expense accounts in the Funds 9x.

H. Scholarships and Fellowships (Program Code 1800)

This category (also referred to as financial aid) should include expenditures for scholarships and fellowships in the form of outright grants to students selected by the institution and financed from current funds, restricted or unrestricted. It also should include trainee stipends, prizes and awards, except for those trainee stipends awarded to individuals who are not enrolled in formal course work, which should be charged to instruction, research, or public service as appropriate. If the institution is given custody of the funds, but is not allowed to select the recipient of the grant, (for example, the federal Basic Educational Opportunity Grants program or ROTC scholarships), the funds should be reported in the agency funds group rather than in the current funds group.

The recipient of an outright grant is not required to perform service to the institution as a consideration for the grant, nor is the recipient expected to repay the amount of the grant to the funding source. When services are required in exchange for financial assistance, as in the College Work-Study Program, the charges should be classified as expenditures of the department or organizational unit to which the service is rendered. Aid provided to students in the form of tuition or fee remissions also should be included in this category.

XII. TRANSFERS

Transfers are the movement of cash and fund balance from one fund to another. No goods or services are provided in exchange for the cash transfer. Remember that the *Audit Guide* ¶2.03 defines a *fund* as an accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance.^{xix} A portion of the assets is cash, and there are occasions when management wants to move cash and fund balance from one fund (ACCOUNTING STRING) to another fund (ACCOUNTING STRING) without there being a sale of goods or services between the two ACCOUNTING

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STRING. Examples include funding a new program for start-up costs, funding a capital construction project, or funding a renewal and replacement reserve.

Transfers are further classified as “mandatory” or “voluntary” (or non-mandatory).

A. Mandatory Transfers

Mandatory transfers include transfers from the current funds group to other fund groups arising out of (1) binding legal agreements related to the financing of educational plant, such as amounts for debt retirement, interest, and required provisions for renewals and replacements of plant not financed from other sources and (2) grant agreements with agencies of the federal government, donors, and other organizations to match gifts and grants to loan and other funds. Mandatory transfers may be required to be made from either unrestricted or restricted current funds.

B. Voluntary Transfers

Voluntary transfers include those transfers from the current funds group to other fund groups made at the discretion of the governing board (management) to serve a variety of objectives, such as additions to loan funds, additions to quasi-endowment funds, general or specific plant additions, voluntary renewals and replacements of plant, and prepayments on debt principal. Voluntary transfers also may involve the re-transfer of resources back to the current funds. Cash and fund balance transfers should not be done by moving revenue or expense.

C. Restrictions on Transfers

Cash transfers are not permitted between all fund combinations. For example, the transfer of cash from the restricted current fund to the unrestricted current fund changes the nature and financial reporting of that cash. The transfer of cash between an agency fund and any other fund is never allowed, since agency funds represent an outside, private interest, and the processing of gifts to the college is guided by various administrative policies.

XIII. REVENUE DEFINITION

Now that the various classifications of revenue have been defined, it is important to identify what *is* revenue. Identifying what is revenue is critical not only from an accounting and financial reporting audit standpoint, but also to ensure that the college is in full compliance with the TABOR reporting requirements. For example, one of the dangers the institution must constantly guard against is the tendency to describe a cash receipt as an “expense reimbursement” and account

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for it as a credit (reduction) of expense rather than as revenue. This is “netting revenue against expense” and is a violation of both GAAP and TABOR

The first task in identifying revenue is to look at every dollar received from an outside source, versus another ACCOUNTING STRING, and decide whether it is:

- Revenue according to the directives in the *Revenue Definition and Recognition* APS suite,
- A balance sheet activity, or
- A credit expense.

Certain payments may need to be posted to a balance sheet account. Examples include:

- Accounts receivable—if this is a payment from a customer on account
- Loans receivable—if this is a principal payment on an outstanding loan due from a student
- Travel advance or expense advance—if an employee is returning unused advances
- Sales tax payable—if this is sales tax collected on a sale
- Unearned revenue—if this is payment from a customer in advance of you providing the goods/services
- Undistributed receipts—if the purpose of the payment is not evident and therefore has to be researched
- Deposits held in custody—if this is payment held as security for the issuance of something such as a lab tray, key, blueprints, agency fund deposits, etc. to be held and returned to the depositor upon the satisfactory return of the issuance
- Bonds or other debt payable—if debt was issued.

If it is determined that the payment does not qualify under any of the above criteria, or with respect to any other balance sheet account, then the assumption should be that the payment is revenue. Select the proper revenue account based on the discussions above.

Sometimes, a department receives payment from an outside source in exchange for providing goods and services, and wants to credit the payment against expense. The logic used by the department is that “the outside entity is just reimbursing us for our expense or the cost of providing the goods and services.” For example, a faculty person is working temporarily at another college, but the faculty is still on the ASC payroll and the other college is “just reimbursing us for the salary and benefits of our faculty member.” It is not appropriate to use ASC business processes to pay the expenses of an outside entity, and then be reimbursed for those expenses. ASC business processes are to be used only for ASC business. Therefore, since the faculty member is still on the ASC payroll, it

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must be assumed that the faculty is engaged in ASC business and that, consequently, ASC is selling faculty services to the other college. Thus, the payment must be recorded as revenue. This holds true for all other situations in which ASC is incurring an expense by providing goods and services to an outside entity, and then that entity subsequently pays the college for those good or services. The absence of a profit in the transaction does not change the fact that there is revenue.

XIV. REVENUE RECOGNITION TIMING

Another major issue in revenue accounting is when to recognize or record the revenue. A common practice is to record the revenue when we receive payment (cash) from the customer. This is referred to as the cash basis of accounting. However, the college uses the accrual basis of accounting and that means we record the revenue at the point of sale regardless of when we receive payment from the customer.

A. Exchange Transactions

Revenue from exchange transactions (each party receives and gives up essentially equal values, GASB 33, ¶1)^{xx} occurs and should be recorded when the goods and/or services have been provided per the agreement with the customer. Under an accrual accounting system, the recognition of revenue is independent from when the cash is received.

If cash is received at the time of providing the goods/services, then a cash receipt form should be used to record the revenue when the cash is deposited through the cashier.

If cash is to be received at a later date, an online journal entry should be used to record accounts receivable and revenue in the month in which the goods/services were provided. Follow the guidelines in Chapter 12, [Accounts Receivable and Allowances](#), of *The Guide*.

If cash is received in advance of providing the goods/services, then the cash has been received before it has been earned, and it is *Unearned Revenue*. The cash receipt form should be used to deposit the cash into Unearned Revenue, liability account. Upon providing the goods/services, an online journal entry should be completed to reduce unearned revenue and record revenue.

The above pertains only to exchange transactions with customers **external to the college**. All internal transactions (ISC sales, miscellaneous sales between departments) should not be accrued as receivables and payables between departments, but should be recorded as revenue/expense upon providing the goods/services.

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B. Nonexchange Transactions

Sometimes the receipt of money is the result of a nonexchange transaction. GASB 33 ¶1 defines a nonexchange transaction as one in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange¹. Footnote 1 discusses exchange-like transactions.^{xxi} Nonexchange transactions are further classified as ‘**imposed nonexchange transactions**’ and ‘**voluntary nonexchange transactions**.’

1. Imposed Nonexchange Transactions

GASB 33 ¶7.b. describes imposed nonexchange revenues as those resulting from assessments.^{xxii} Examples include fines and penalties such as late payment fees, parking tickets, bad check fees, etc. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is *imposed* by that government on an act committed or omitted by the provider that is not an exchange transaction. Revenue and accounts receivable from these imposed nonexchange transactions should be recorded in the month in which an enforceable legal claim to the assets arises (GASB 33 ¶17).^{xxiii}

2. Voluntary Nonexchange Transactions

GASB 33 ¶7.d. describes voluntary nonexchange transactions as those resulting from legislative or contractual agreements⁶ (other than exchanges) entered into willingly by two or more parties. Footnote 6 says that the contractual agreements include oral as well as written contracts, provided they are verifiable.^{xxiv}

Examples of voluntary nonexchange transactions include certain grants, certain entitlements, and donations by nongovernmental entities, including individuals (private donations). Frequently, the provider establishes purpose restrictions and eligibility requirements. In many cases, the provider may require the return of the resources if the purpose restrictions or eligibility requirements are contravened after recognition of the transaction. (Refer to GASB 33 for a complete discussion on purpose restrictions and eligibility requirements.) The principal characteristics of voluntary nonexchange transactions are (1) they are *not* imposed on the provider or the recipient and (2) fulfillment of eligibility requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur. The primary source of voluntary nonexchange transactions for ASC is gifts. All gifts are recorded as revenue when transmitted from the Foundation to ASC or when deposited directly to a gift ACCOUNTING STRING from the donor.

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XV. ATTACHMENTS

Exhibits that provide examples of the *Audit Guide* financial reports as well as the GASB 34/35 financial reports can be found on the pages that follow.

Attachment A—*Audit Guide* Statements

- Exhibit 1 Balance Sheet
- Exhibit 2 Statement of Changes in Fund Balances
- Exhibit 3 Statement of Current Funds Revenues, Expenditures and Other Changes

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Attachment A - Exhibit 1

**SAMPLE EDUCATIONAL INSTITUTION
Balance Sheet
June 30, 200x
with comparative figures at June 30, 200x**

<u>Assets</u>	<u>Current year</u>	<u>Prior year</u>	<u>Liabilities and Fund Balances</u>	<u>Current year</u>	<u>Prior year</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
Cash	\$ 210,000	\$ 110,000	Accounts payable	\$ 125,000	\$ 100,000
Investments	450,000	360,000	Accrued liabilities	20,000	15,000
Accounts receivable, less			Student's deposits	30,000	35,000
allow-	228,000	175,000	Due to other funds	158,000	120,000
ance of \$18,000 both years			Deferred credits	30,000	20,000
Inventories at lower of cost			Fund balance	<u>643,000</u>	<u>455,000</u>
(first-in	90,000	80,000			
first-out basis) or market					
Prepaid expenses & deferred	<u>28,000</u>	<u>20,000</u>			
charges					
Total unrestricted	<u>1,006,000</u>	<u>745,000</u>	Total unrestricted	<u>1,006,000</u>	<u>745,000</u>
Restricted:			Restricted:		
Cash	145,000	101,000	Accounts payable	14,000	5,000
Investments	175,000	165,000	Fund balances	446,000	421,000
Accounts receivable, less					
allow-	68,000	160,000			
ance of \$8,000 both years					
Unbilled charges	<u>72,000</u>	-----	Total restricted	<u>460,000</u>	<u>426,000</u>
Total restricted	<u>460,000</u>	<u>426,000</u>	Total Current funds	<u>1,466,000</u>	<u>1,171,000</u>
Total Current funds	<u>1,466,000</u>	<u>1,171,000</u>			
Loan funds:	30,000	20,000	Loan funds:		
Cash	100,000	100,000	Fund balances:		
Investments			U.S. government grants	50,000	33,000
			refundable		
Loans to students, faculty, &			College funds		
staff,			Restricted	483,000	369,000
less allowance of \$10,000	550,000	382,000	Unrestricted	<u>150,000</u>	<u>100,000</u>
Current					
year and \$9,000 prior year			Total loan funds	<u>683,000</u>	<u>502,000</u>
Due from unrestricted funds	<u>3,000</u>	-----			
Total loan funds	<u>683,000</u>	<u>502,000</u>			
Endowment and similar funds:			Endowment and similar funds:		
Cash	100,000	101,000	Fund balances:		
Investments	<u>13,900,000</u>	<u>11,800,000</u>	Endowment	7,800,000	6,740,000
			Term endowment	3,840,000	3,420,000

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			Quasi-endowment unrestricted	1,000,000	800,000
			Quasi-endowment restricted	<u>1,360,000</u>	<u>941,000</u>
Total endowment and similar funds	<u>14,000,000</u>	<u>11,901,000</u>	Total endowment and similar funds	<u>14,000,000</u>	<u>11,901,000</u>

continued

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FUND AND REVENUE ACCOUNTING

**SAMPLE EDUCATIONAL INSTITUTION
Balance Sheet, continued**

<u>Assets</u>	<u>Current year</u>	<u>Prior year</u>	<u>Liabilities and Fund Balances</u>	<u>Current year</u>	<u>Prior year</u>
Annuity and life income funds:			Annuity and life income funds:		
Annuity funds:			Annuity funds:		
Cash	55,000	45,000	Annuities payable	2,150,000	2,300,000
Investments	<u>3,260,000</u>	<u>3,010,000</u>	Fund balances	<u>1,165,000</u>	<u>755,000</u>
Total annuity funds	<u>3,315,000</u>	<u>3,055,000</u>	Total annuity funds	<u>3,315,000</u>	<u>3,055,000</u>
Life income funds:			Life income funds:		
Cash	15,000	15,000	Income payable	5,000	5,000
Investments	<u>2,045,000</u>	<u>1,740,000</u>	Fund balances	<u>2,055,000</u>	<u>1,750,000</u>
Total life income funds	<u>2,060,000</u>	<u>1,755,000</u>	Total life income funds	<u>2,060,000</u>	<u>1,755,000</u>
Total annuity and life income funds	<u>5,375,000</u>	<u>4,810,000</u>	Total annuity and life income funds	<u>5,375,000</u>	<u>4,810,000</u>
Plant funds:			Plant funds:		
Unexpended:			Unexpended:		
Cash	275,000	410,000	Accounts payable	10,000	-----
Investments	1,285,000	1,590,000	Notes payable	100,000	-----
Due from unrestricted	<u>150,000</u>	<u>120,000</u>	Bonds payable	400,000	-----
Current funds					
			Fund balances:		
Total unexpended	<u>1,710,000</u>	<u>2,120,000</u>	Restricted	1,000,000	1,860,000
			Unrestricted	<u>200,000</u>	<u>260,000</u>
			Total unexpended	<u>1,710,000</u>	<u>2,120,000</u>
Renewals and replacements:			Renewals and replacements:		
Cash	5,000	4,000	Fund balances:		
Investments	150,000	286,000	Restricted	25,000	180,000
Deposits with trustees	100,000	90,000	Unrestricted	<u>235,000</u>	<u>200,000</u>
Due from unrestricted	<u>5,000</u>	-----			
Current funds			Total renewals and replacements	<u>260,000</u>	<u>380,000</u>
Total renewals and replacements	<u>260,000</u>	<u>380,000</u>			
Retirement of indebtedness:			Retirement of indebtedness:		
Cash	50,000	40,000	Fund balances:		
Deposits with trustees	<u>250,000</u>	<u>253,000</u>	Restricted	185,000	125,000
Total retirement of indebtedness	<u>300,000</u>	<u>293,000</u>	Unrestricted	<u>115,000</u>	<u>168,000</u>
			Total retirement of indebtedness	<u>300,000</u>	<u>293,000</u>
Investment in plant::			Investment in plant::		
Land	500,000	500,000	Notes payable	790,000	810,000
Land improvements	1,000,000	1,110,000	Bonds payable	2,200,000	2,400,000
Buildings	25,000,000	24,060,000	Mortgages payable	400,000	200,000
Equipment	15,000,000	14,200,000	Net investment in plant	<u>38,210,000</u>	<u>36,540,000</u>
Library books	<u>100,000</u>	<u>80,000</u>			
Total Investment in plant	<u>41,600,000</u>	<u>39,950,000</u>	Total Investment in plant	<u>41,600,000</u>	<u>39,950,000</u>

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Total plant funds	<u>43,870,000</u>	<u>42,743,000</u>	Total plant funds	<u>43,870,000</u>	<u>42,743,000</u>
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continued

FUND AND REVENUE ACCOUNTING

**SAMPLE EDUCATIONAL INSTITUTION
Balance Sheet, continued**

<u>Assets</u>	<u>Current year</u>	<u>Prior year</u>	<u>Liabilities and Fund Balances</u>	<u>Current year</u>	<u>Prior year</u>
Agency funds:			Agency funds:		
Cash	50,000	70,000	Deposits held in Custody for others	<u>110,000</u>	<u>90,000</u>
Investments	<u>60,000</u>	<u>20,000</u>			
Total agency funds	<u>110,000</u>	<u>90,000</u>	Total annuity funds	<u>110,000</u>	<u>90,000</u>

FUND AND REVENUE ACCOUNTING

Attachment A - Exhibit 2

**SAMPLE EDUCATIONAL INSTITUTION
Statement of Changes in Fund Balances
Year Ended June 30, 200x**

	Current Funds			Endow- ment & Similar Funds	Annuity & Life Income Funds	Plant Funds			
	<u>Unre- stricted</u>	<u>Re- stricted</u>	<u>Loan Funds</u>			<u>Unex- pended</u>	<u>Renewal and Replace- ments</u>	<u>Retire- ment of Indebt- edness</u>	<u>Invest- ment in Plant</u>
Revenues and other additions:									
Unrestricted Current fund Revenues	\$ 7,540,000								
Expired term endowment - restricted						50,000			
State appropriations - Restricted						50,000			
Federal grants & contracts Restricted		500,000							
Private gifts, grants, and contracts – restricted		370,000	100,000	1,500,000	800,000	115,000		65,000	15,000
Investment income - Restricted		224,000	12,000	10,000		5,000	5,000	5,000	
Realized gains on investments - unrestricted				109,000					
Realized gains on investments –restricted			4,000	50,000		10,000	5,000	5,000	
Interest on loans receivable			7,000						
U.S. government advances			18,000						
Expended for plant facilities (including \$100,000 charged to Current fund expenditures)									1,550,000
Retirement of indebtedness									220,000
Accrued interest on sale of Bonds								3,000	
Matured annuity and life income restricted to endowment				10,000					
Total revenues and other additions	<u>7,540,000</u>	<u>1,094,000</u>	<u>141,000</u>	<u>1,679,000</u>	<u>800,000</u>	<u>230,000</u>	<u>10,000</u>	<u>78,000</u>	<u>1,785,000</u>

continued

FUND AND REVENUE ACCOUNTING

SAMPLE EDUCATIONAL INSTITUTION
Statement of Changes in Fund Balances - continued
Year Ended June 30, 200x

	Current Funds			Endow- ment & Similar Funds	Annuity & Life Income Funds	Plant Funds			
	<u>Unre- stricted</u>	<u>Re- stricted</u>	<u>Loan Funds</u>			<u>Unex- pended</u>	<u>Renewal and Replace- ments</u>	<u>Retire- ment of Indebt- edness</u>	<u>Invest- ment in Plant</u>
Expenditures and other deductions:									
Educational and general Expenditures	4,400,000	1,014,000							
Auxiliary enterprises Expenditures									
Indirect costs recovered		35,000							
Refunded to grantors		20,000	10,000						
Loan cancellations and write-offs			1,000						
Administrative and collection costs			1,000					1,000	
Adjustment of actuarial liability for annuities payable					75,000				
Expended for plant facilities (including non-capitalized expenditures of \$50,000)						1,200,000	300,000		
Retirement of indebtedness								220,000	
Interest on indebtedness								190,000	
Disposal of plant facilities									115,000
Expired term endowments (\$40,000 unrestricted, \$50,000 restricted to plant)				90,000					
Matured annuity and life income funds restricted to endowment					10,000				
Total expenditures and other deductions	<u>6,230,000</u>	<u>1,069,000</u>	<u>12,000</u>	<u>90,000</u>	<u>85,000</u>	<u>1,200,000</u>	<u>300,000</u>	<u>411,000</u>	<u>115,000</u>

continued

FUND AND REVENUE ACCOUNTING

SAMPLE EDUCATIONAL INSTITUTION
Statement of Changes in Fund Balances - continued
Year Ended June 30, 200x

	Current Funds			Endow- ment & Similar Funds	Annuity & Life Income Funds	Plant Funds			
	<u>Unre- stricted</u>	<u>Re- stricted</u>	<u>Loan Funds</u>			<u>Unex- pended</u>	<u>Renewal and Replace- ments</u>	<u>Retire- ment of Indebt- edness</u>	<u>Invest- ment in Plant</u>
Transfers among funds - additions/(deductions):									
Mandatory:									
Principal and interest	(340,000)							340,000	
Renewals & replacements	(170,000)						170,000		
Loan fund matching grant	(2,000)		2,000						
Unrestricted gifts allocated	(650,000)		50,000	550,000		50,000			
Portion of unrestricted quasi-endowment funds investment gains appropriated	40,000			(40,000)					
Total Transfers	<u>(1,122,000)</u>		<u>52,000</u>	<u>510,000</u>		<u>50,000</u>	<u>170,000</u>	<u>340,000</u>	
 Net increase/(decrease) for the year	188,000	25,000	14,000	2,099,000	715,000	(920,000)	(120,000)	7,000	1,670,000
Fund balance at beginning of the year	<u>455,000</u>	<u>421,000</u>	<u>502,000</u>	<u>11,901,000</u>	<u>2,505,000</u>	<u>2,120,000</u>	<u>380,000</u>	<u>293,000</u>	<u>36,540,000</u>
Fund balance at end of the year	<u>\$643,000</u>	<u>\$446,000</u>	<u>\$683,000</u>	<u>\$14,000,000</u>	<u>\$3,220,000</u>	<u>\$1,200,000</u>	<u>\$260,000</u>	<u>\$300,000</u>	<u>\$38,210,000</u>

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FUND AND REVENUE ACCOUNTING

Attachment A - Exhibit 3

**SAMPLE EDUCATIONAL INSTITUTION
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 200x**

	Current Year			Prior Year Total
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	
Revenues:				
Tuition and fees	\$2,600,000		2,600,000	2,300,000
Federal appropriations	500,000		500,000	500,000
State appropriations	700,000		700,000	700,000
Local appropriations	100,000		100,000	100,000
Federal grants and contracts	20,000	375,000	395,000	350,000
State grants and contracts	10,000	25,000	35,000	200,000
Local states and contracts	5,000	25,000	30,000	45,000
Private gifts, grants and contracts	850,000	380,000	1,230,000	1,190,000
Endowment income	325,000	209,000	534,000	500,000
Sales and services of educational depts	190,000		190,000	195,000
Sales and services of auxiliary enterprises	2,200,000		2,200,000	2,100,000
Expired term endowment	40,000		40,000	
Other sources (if any)				
Total Current revenues	<u>7,540,000</u>	<u>1,014,000</u>	<u>8,554,000</u>	<u>8,180,000</u>
Expenditures and mandatory transfers:				
Educational and general:	2,960,000	489,000	3,449,000	3,300,000
Instruction	100,000	400,000	500,000	650,000
Research	130,000	25,000	155,000	175,000
Public service	250,000		250,000	225,000
Academic support	200,000		200,000	195,000
Student services	450,000		450,000	445,000
Institutional support				
Operation and maintenance of plant	220,000		220,000	200,000
Scholarships and fellowships	90,000	100,000	190,000	180,000
Educational and general expenditures	<u>4,400,000</u>	<u>1,014,000</u>	<u>5,414,000</u>	<u>5,370,000</u>
Mandatory transfers for				
Principal and interest	90,000		90,000	50,000
Renewals and replacements	100,000		100,000	80,000
Loan fund matching grant	2,000		2,000	
Total educational and general	<u>4,592,000</u>	<u>1,014,000</u>	<u>5,606,000</u>	<u>5,500,000</u>
Auxiliary enterprises				
Expenditures	1,830,000		1,830,000	1,730,000
Mandatory transfers for				
Principal and interest	250,000		250,000	250,000
Renewals and replacements	70,000		70,000	70,000
Total auxiliary enterprises	<u>2,150,000</u>		<u>2,150,000</u>	<u>2,050,000</u>
Total expenditures and mandatory transfers	<u>6,742,000</u>	<u>1,014,000</u>	<u>7,756,000</u>	<u>7,550,000</u>
Other transfers and additions/(deductions):				
Excess of restricted receipts over transfers to				
Revenues		45,000	45,000	40,000
Refunded to grantors		(20,000)	(20,000)	
Unrestricted gifts allocated to other funds	(650,000)		(650,000)	(510,000)

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FUND AND REVENUE ACCOUNTING

Portion of quasi-endowment gains appropriated	<u>40,000</u>		<u>40,000</u>	
Net increase in fund balances	<u>188,000</u>	<u>25,000</u>	<u>213,000</u>	<u>160,000</u>

FUND AND REVENUE ACCOUNTING

Endnotes

- ⁱ Bailey, Larry P. Governmental GAAP Guide for State and Local Governments. Aspen Law & Business, New York. 2002. pages 1.03-1.09
- ⁱⁱ Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 5.
- ⁱⁱⁱ Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 5.
- ^{iv} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 5.
- ^v Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 51.
- ^{vi} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 5.
- ^{vii} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 37.
- ^{viii} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 31
- ^{ix} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 21.
- ^x Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 51.
- ^{xi} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 53.
- ^{xii} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 59.
- ^{xiii} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 60.
- ^{xiv} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 57.
- ^{xv} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 57.
- ^{xvi} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 57.
- ^{xvii} Webster's Seventh New Collegiate Dictionary. C&C Merriam & Company, Springfield, MA. 1977. page 277.
- ^{xviii} Financial Accounting and Reporting by Colleges and Universities, Statement of Position 74-8, August 31, 1974, AICPA, page 53.
- ^{xix} Industry Audit Guide, Audits of Colleges and Universities with Conforming Changes as of May 1, 1992, AICPA, page 5.
- ^{xx} Original Pronouncements Governmental Accounting Finance Reporting Standards as of June 30, 2000, Accounting and Financial Reporting for Non-Exchange Transactions. GASB, Norwalk, CT. 2000. page 1011.
- ^{xxi} Original Pronouncements Governmental Accounting Finance Reporting Standards as of June 30, 2000, Accounting and Financial Reporting for Non-Exchange Transactions. GASB, Norwalk, CT. 2000. page 1011.
- ^{xxii} Original Pronouncements Governmental Accounting Finance Reporting Standards as of June 30, 2000, Accounting and Financial Reporting for Non-Exchange Transactions. GASB, Norwalk, CT. 2000. page 1012
- ^{xxiii} Original Pronouncements Governmental Accounting Finance Reporting Standards as of June 30, 2000, Accounting and Financial Reporting for Non-Exchange Transactions. GASB, Norwalk, CT. 2000. page 1015.
- ^{xxiv} Original Pronouncements Governmental Accounting Finance Reporting Standards as of June 30, 2000, Accounting and Financial Reporting for Non-Exchange Transactions. GASB, Norwalk, CT. 2000. page 1013.