Finance Literacy
GAAP and GASB
Why Do I Care?

290 Hearst Mining, Memorial Building
1:30 – 3:00pm

Presenter: Wanda Lynn Riley
Chief Audit and Risk Executive
Agenda

• Generally Accepted Accounting Principles
• Governmental Accounting Standards Board
• Financial Statements
• Fund Accounting
• Transactions
Generally Accepted Accounting Principles

Financial Accounting Standards Board (FASB)
Accounting Standards Codification

Governmental Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins

American Institute of Certified Public Accountants (AICPA) Industry Audit and Accounting Guides, Statements of Position, Issue Papers, Technical Practice Aids

Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements

International Financial Reporting Standards (IFRS)

Generally Accepted Accounting Principles
What is GAAP?

Generally accepted accounting principles, or GAAP, are a set of rules that encompass the details, complexities, and legalities of business and corporate accounting. GAAP incorporate 10 key concepts:

1. **Principle of regularity**: GAAP-compliant accountants strictly adhere to established rules and regulations.
2. **Principle of consistency**: Consistent standards are applied throughout the financial reporting process.
3. **Principle of sincerity**: GAAP-compliant accountants are committed to accuracy and impartiality.
4. **Principle of permanence of methods**: Consistent procedures are used in the preparation of all financial reports.
5. **Principle of non-compensation**: All aspects of an organization’s performance, whether positive or negative, are fully reported with no prospect of debt compensation.
6. **Principle of prudence**: Speculation does not influence the reporting of financial data.
7. **Principle of continuity**: Asset valuations assume the organization’s operations will continue.
8. **Principle of periodicity**: Reporting of revenues is divided by standard accounting time periods, such as fiscal quarters or fiscal years.
9. **Principle of materiality**: Financial reports fully disclose the organization’s monetary situation.
10. **Principle of utmost good faith**: All involved parties are assumed to be acting honestly.
## GASB and FASB

Established in 1972, the Financial Accounting Foundation is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut responsible for the oversight, administration, financing, and appointment of the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

### GASB

Established in 1984, the Governmental Accounting Standards Board (GASB) is the independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

### FASB

Established in 1973, the Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organization that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).

The collective mission of the GASB, the FASB, and the FAF is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.
GASB and FASB

The coexistence of two standards boards, each with its own distinct mission, results in disparity in recognition, measurement, display, and disclosure that challenges comparable financial reporting transparency.

### GASB
- Mission revolves around accountability State and local governments
- Provide accurate and reliable information to the public in general
- Modified Accrual Accounting (Revenues are recorded when measurable and available, while expenditures are recorded using the full accrual basis.)
- Relatively prescriptive when it comes to financial statement presentation
- Does not amend standards

### FASB
- Mission is to help investors and creditors make decisions
- Public and private organizations
- Provide accurate and reliable information to the shareholders or investors
- Full Accrual Accounting (Revenues are matched with the expenses at the time of the occurrence of the transaction.)
- Relatively flexible when it comes to financial statement presentation
- Amends standards
<table>
<thead>
<tr>
<th>Description</th>
<th>FASB</th>
<th>GASB</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed Services</td>
<td>Allows recognition</td>
<td>No recognition</td>
<td>Gift revenues Expenses</td>
</tr>
<tr>
<td>Restricted Cash Contributions</td>
<td>Recognize as temporarily or permanently restricted</td>
<td>Recognized as deferred revenue, if use restricted to a future period</td>
<td>Liabilities Gift revenues Net assets</td>
</tr>
<tr>
<td>Endowment Pledges</td>
<td>Recognize as permanently restricted</td>
<td>Recognition prohibited</td>
<td>Assets Gift revenues Net assets</td>
</tr>
<tr>
<td>Restricted Non-endowment Pledges</td>
<td>Recognize as temporarily restricted revenue</td>
<td>Prohibits recognition if for future period use</td>
<td>Assets Gift revenues Net assets</td>
</tr>
<tr>
<td>Investment Income</td>
<td>Recognize and display net against income</td>
<td>Display income net of related expenses</td>
<td>Line item display</td>
</tr>
<tr>
<td></td>
<td>Recognize as operating or non-operating</td>
<td>Cannot be operating revenue unless from student loan programs</td>
<td>Operating and non-operating categories</td>
</tr>
<tr>
<td>Description</td>
<td>FASB</td>
<td>GASB</td>
<td>Impact</td>
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<tr>
<td>Pell Grants</td>
<td>Balance sheet transaction</td>
<td>Activities statement transaction</td>
<td>Grants and contract revenue</td>
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<td>Net tuition</td>
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<td>Net assets</td>
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<td>Liabilities</td>
</tr>
<tr>
<td>Perkins Loans</td>
<td>Balance sheet transaction</td>
<td>Balance sheet or activities statement</td>
<td>Activities statement:</td>
</tr>
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<td>Grants and contract revenue</td>
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<td>Net assets</td>
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<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td>Funds Held in Trust by Others</td>
<td>Included as assets</td>
<td>No recognition</td>
<td>Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenues</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Net assets</td>
</tr>
<tr>
<td>Restrictions Definition</td>
<td>Only donors can restrict</td>
<td>Any external party can restrict</td>
<td>Categorization of net assets</td>
</tr>
<tr>
<td>Use of Restricted Funds</td>
<td>First dollar release mandated</td>
<td>First dollar release optional</td>
<td>Categorization of net assets</td>
</tr>
<tr>
<td>Description</td>
<td>FASB</td>
<td>GASB</td>
<td>Impact</td>
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</tr>
<tr>
<td>Pensions and Other Post-Retirement Benefits</td>
<td>Expense and liability calculated consistently using FASB methodology</td>
<td>Expense and liability calculated consistently using GASB methodology</td>
<td>Measurement difference Expenses Liabilities Net assets</td>
</tr>
<tr>
<td>Software</td>
<td>Capitalization required</td>
<td>No capitalization required</td>
<td>Assets Expenses Net assets</td>
</tr>
<tr>
<td>Impairment</td>
<td>Requires cash flow approach</td>
<td>Requires service utility approach</td>
<td>Assets Expenses and losses Net assets</td>
</tr>
</tbody>
</table>
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GASB
Two Categories of Authoritative Guidance

- Category A
  - GASB Statements
  - Formerly issued Interpretations

- Category B
  - GASB Technical Bulletins
  - GASB Implementation Guides (Q&As)
  - AICPA literature cleared by the GASB

Non-authoritative (when no authoritative GAAP exists)

NACUBO
Key GASB Pronouncements for Public Colleges and Universities

- Statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools
- Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions
- Statement No. 34 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
- Statement No. 35 Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34
- Statement No. 37 Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34
- Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
The financial reporting objectives set forth in GASB Concepts Statement No. 1 are:

• Financial reporting should assist in fulfilling government's duty to be **publicly accountable** and should enable users to assess that accountability.

• Financial reporting should assist users in evaluating the **operating results** of the governmental entity for the year.

• Financial reporting should assist users in assessing the **level of services** that can be provided by the governmental entity and its **ability to meet its obligations** as they become due.
The seven elements of financial statements defined in GASB Concepts Statement No. 4 are:

Statement of financial position:
- **Assets** are resources with present service capacity that the government presently controls.
- **Liabilities** are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.
- A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.
- **Net position** is the residual of all other elements presented in a statement of financial position.

Resource flows statements:
- An outflow of resources is a consumption of net assets by the government that is applicable to the reporting period.
- An inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period.
GASB Concepts

GASB Concepts Statement No. 6 Measurement of Elements of the Financial Statements

- **Initial-Transaction-Date-Based Measurement (Initial Amount)**—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported. Initial amounts are more appropriate for assets that are used directly in providing services.

- **Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)**—The amount assigned when an asset or liability is remeasured as of the financial statement date. Remeasured amounts are more appropriate for assets that will be converted to cash (financial assets). Remeasured amounts also are more appropriate for liabilities for which there is uncertainty about the timing and amount of payments.
GASB Concepts

GASB Concepts Statement No. 6 Measurement of Elements of the Financial Statements

This Concepts Statement also establishes the four measurement attributes that are used in financial statements, as follows:

- **Historical cost** is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.
- **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- **Replacement cost** is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.
- **Settlement amount** is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.
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Financial Statements
The Statement of Net Position

- The term “net position” replaces “fund balance.” Only three classes of net position are allowed: unrestricted, restricted (nonexpendable and expendable), and net investment in capital assets.
- Resources used to establish quasi-endowments will be classified as either restricted or unrestricted based on whether the original resources used to create the quasi-endowment were restricted or unrestricted.
- The statement must be classified between current assets/liabilities and non-current assets/liabilities. In general, current liabilities are those that will be paid within one year of the date of the Statement. Current assets are those that are available to satisfy current liabilities.
- Capital assets and major expenditures for infrastructure such as utility systems, streets, and sidewalks are classified as assets and depreciated over the useful life.

The accompanying notes to financial statements should be reviewed for additional information.
Statement of Revenues, Expenses, and Changes in Net Position

- Operating and non-operating revenues and expenses are differentiated.
- Tuition and fee revenues must be reduced by scholarship and fellowship amounts that already have been recognized as revenues, unless they result in a cash payment to the student.
- Revenues and expenses for summer session (or any term that crosses a fiscal year) must be allocated between the years based on when the revenue is earned; expenses must be matched with the revenue.
- Two options are available for presenting expenses: natural or functional expense classifications.
- Expenditures for capital assets are replaced by the recognition of depreciation expense.
- Non-operating revenues and expenses include appropriations, gifts, and investment income. All investment income, as well as realized gains and losses, are reported as non-operating.

<table>
<thead>
<tr>
<th>Year ended June 30, 2010 (in thousands of dollars)</th>
<th>UNIVERSITY OF CALIFORNIA</th>
<th>CAMPUS FOUNDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net</td>
<td>54,132,352</td>
<td></td>
</tr>
<tr>
<td>Grants and contracts, net</td>
<td>2,394,505</td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>3,244,529</td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>443,194</td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>1,284,753</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>300,119</td>
<td></td>
</tr>
<tr>
<td>Medical centers, net</td>
<td>10,235,000</td>
<td></td>
</tr>
<tr>
<td>Educational activities, net</td>
<td>2,947,610</td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises, net</td>
<td>1,429,985</td>
<td></td>
</tr>
<tr>
<td>Department of Energy laboratories</td>
<td>1,259,768</td>
<td></td>
</tr>
<tr>
<td>Campus foundation private gifts</td>
<td></td>
<td>570,983</td>
</tr>
<tr>
<td>Other operating revenues, net</td>
<td>96,2,304</td>
<td>11,492</td>
</tr>
<tr>
<td><strong>Total operating revenues, net</strong></td>
<td>26,265,624</td>
<td>793,475</td>
</tr>
</tbody>
</table>

| **OPERATING EXPENSES**                              |                          |                     |
| Salaries and wages                                  | 14,021,131               |                     |
| Pension benefits                                    | 2,394,505                |                     |
| Retiree health benefits                             | 1,448,105                |                     |
| Other employee benefits                             | 2,023,056                |                     |
| Supplies and materials                              | 3,086,907                |                     |
| Depreciation and amortization                       | 1,004,046                |                     |
| Department of Energy laboratories                   | 1,252,842                |                     |
| Scholarships and fellowships                        | 651,565                  |                     |
| UTILITIES                                           | 282,199                  |                     |
| Campus foundation grants                            |                          | 889,278             |
| Other operating expenses                            | 4,410,718                | 25,890              |
| **Total operating expenses**                        | 32,490,680               | 915,168             |

| **Operating loss**                                  | (6,224,850)              | (122,693)           |

| **NONOPERATING REVENUES (EXPENSES)**                |                          |                     |
| State educational appropriations                    | 3,048,384                |                     |
| State hospital fee grants                            | 15,137                   |                     |
| Build America Bonds/federal interest subsidies      | 58,659                   |                     |
| Federal Pell Grants                                  | 576,794                  |                     |
| Private gifts, net                                   | 1,091,510                |                     |
| Investment income:                                  |                          |                     |
| Short Term Investment Pool and other, net           | 233,232                  |                     |
| Endowment, net                                      | 71,751                   |                     |
| Securities lending, net                              | 6,282                    | 415                 |
| Campus foundations                                  | 52,825                   |                     |
| Net appreciation (depreciation) in fair value of investments | (473,308)            | (225,237)           |
| Interest expense                                    | (693,027)                | (35)                |
| Loss on disposal of capital assets                  | (4,707)                  |                     |
| Other nonoperating revenues (expenses)              | (7,406)                  | 3,168               |
| **Net nonoperating revenues (expense)**             | 3,480,318                | (168,863)           |
| Loss before other changes in net position           | (2,544,338)              | (291,355)           |

| **OTHER CHANGES IN NET POSITION**                   |                          |                     |
| Capital gifts and grants, net                       | 248,705                  |                     |
| State capital appropriations                        | 4,155                    |                     |
| Permanent endowments                                | 30,008                   | 278,077             |
| **Decrease in net position**                        | (2,261,069)              | (13,479)            |

**NET POSITION**
- Beginning of year, as previously reported 11,201,530 8,081,866
- Cumulative effect of reporting entity changes 531,537 (531,537)
- Beginning of year, restated 11,733,067 7,550,329
- **End of year** 59,471,598 57,316,850

See accompanying notes to financial statements.
A **natural expense** classification is a method of grouping expenses according to the type of costs that are incurred.

The classifications tell *what* was purchased rather than *why* an expense was incurred.

- Salaries & Wages
- Employee Benefits
- Utilities
- Supplies and Materials
- Travel
- Scholarships and fellowships
- Services
The financial statements are preceded by a narrative section called Management’s Discussion and Analysis (MD&A). The MD&A must provide an objective and easily readable analysis of the institution’s financial activities based on facts, decisions, and conditions known at the date of the auditor’s report. It will discuss the current year’s results in comparison to the prior year, emphasizing the current year, and review positive and negative trends.
A functional expense classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased. Reporting expenses this way helps stakeholders understand the various mission-related activities and their relative importance.

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Student Financial Aid
- Auxiliary Enterprises
- Operations & Maintenance of Plant
- Depreciation and amortization
Statements of Cash Flows

- Identifies the ability to meet obligations when they are due
- Used to determine if the institution needs external financing
- Can be used to project future cash flows
- Determine the reasons for differences between operating income and associated cash receipts and disbursements
- Assess the effects of the financial position of both cash and noncash investing, financing and capital transactions during the fiscal year
- Reports on four categories
  - Operating activities
  - Noncapital financing activities
  - Capital financing activities
  - Investing activities
Auditor’s Opinion of the Financial Statements

• **Unqualified Opinion**
  - An unqualified opinion means that the report is clean. It is usually expressed when auditors determine that the financial statements of the organization are presented fairly or give true and fair view of the entity’s operations, in accordance with the applicable financial reporting framework.

• **Qualified Opinion**
  - Qualified opinions are expressed when auditors conclude that they can't express unqualified opinions, and the effects of disagreements with the organization's management or limitation of scope is not so pervasive and material as to require adverse opinions or disclaimers of opinions. It is expressed when auditors take exception to a certain accounting application or are unable to minimize the risk of potential misstatements by their audit procedures.

• **Disclaimer Opinion**
  - When auditors can't express an opinion, they give a disclaimer. This typically occurs when the organization limits the auditors. For example, the company may, for whatever reason, prevent the auditors from performing a specific audit procedure. Auditors also may not be able to render an opinion because of circumstances beyond their control. For example, the audit might have started after the company completed its inventory processes, which means the auditors did not actually observe the inventory. Other instances when auditors may not be able to render an opinion include when books of accounts are not appropriately maintained and when the auditors are unable to perform procedures they believe are necessary.

• **Adverse Opinion**
  - When there is a conflict between the auditor and the organization's management, and the effects of this conflict are high enough to impact the decisions of the users of the financial statements. Misleading or incomplete financial statements also could lead auditors to give an adverse opinion. The use of an accounting policy that is not acceptable, the method by which they are applied, or the calculation of the accounting estimates made by the organization.
Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying financial statements of the University of California (the “University”), a component unit of the State of California, its aggregate discretely presented component units, the University of California Retirement System and the University of California Retiree Health Benefit Trust, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.
Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University, its aggregate discretely presented component units, the University of California Retirement System and the University of California Retiree Health Benefit Trust as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed under “Significant Accounting Policies” in the notes to the financial statements, the University changed the manner in which it presents certain fair value hierarchy disclosures related to investments and the manner in which it accounts for certain components as blended components in fiscal 2016. Our opinions are not modified with respect to this matter.

Other Matter
Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 12 to 30 and the required supplemental information on pages 99 through 104 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

SAN FRANCISCO, CALIFORNIA
OCTOBER 12, 2016

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Office of the Vice Chancellor of Finance
Berkeley Team

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Financial Statements
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Fund Accounting
Fund Accounting Principles

Why fund accounting?

– Universities have unique obligations for accounting and financial reporting according to the sources of funds received and their subsequent net uses rather than just reporting net income to investors.

Fund accounting is an accounting system emphasizing accountability rather than profitability, used by non-profit organizations and governments. In this system, a fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations*

Objectives of Fund Accounting

1. Accountability and stewardship
   – Did we use the funds in the way instructed?
   – Have we documented that the funds were used properly?

2. Determining financial condition
   – How much can we do with the resources we have?
   – What is the value of our buildings and other assets?
   – What is the financial impact of maintaining/replacing other assets?
Objectives of Fund Accounting

3. Planning and budgeting
   – What should we do with the funds we have?
   – How much do we need to do the job right?

4. Evaluating organizational and managerial performance
   – Are we accomplishing the objectives for which we received the funds?
   – What did the program/activity actually cost?
   – Are we operating effectively and efficiently?
Objectives of Fund Accounting

5. Determining / forecasting cash flow
   - How much cash is coming in, how much is going out and how much do we need for contingencies?

6. Communication
   - Are we communicating financial information to all with the need to know?
   - Is the financial information relevant, clear, reliable, timely and comparable?
# Six Basic Fund Groups

<table>
<thead>
<tr>
<th>Current Funds</th>
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</thead>
<tbody>
<tr>
<td>Can be spent in the current operating cycle. No outside person or agency has specified how the funds are to be spent.</td>
</tr>
</tbody>
</table>

**Current Unrestricted**

- Student fees
- State support for instruction and departmental research
- Facilities and Administrative Cost recoveries
- Interest on cash investments
- Sales of goods and services

**Current Restricted**

- Can be spent in the current operating cycle. An outside person or agency **has** specified how the funds are to be spent.

- Gifts for current or continuing use
- Distributions from the Endowment
- State appropriations for specific purposes
- Grants and contracts for research
- Other grants and contracts
## Six Basic Fund Groups

<table>
<thead>
<tr>
<th>Non-Current Funds</th>
<th>Endowment</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>May not be spent and are invested &quot;in perpetuity.&quot; A portion of the market value of the endowment is distributed each year, usually to current restricted funds for spending.</td>
<td>Are monies lent to students, collected from the students and lent out again.</td>
</tr>
<tr>
<td></td>
<td>Example of funding source: Endowment principal</td>
<td>Example of funding source: Gifts and Federal Funds to provide loans to students</td>
</tr>
<tr>
<td>Plant</td>
<td>Non-Current Funds</td>
<td></td>
</tr>
<tr>
<td>-------</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Are funds associated with purchasing, maintaining and recording the university's property, plant and equipment.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Examples of funding sources:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allocations from the state for buildings and equipment (rare)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Money borrowed for construction (bond issues)</td>
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</tr>
<tr>
<td></td>
<td>There are four subsets of Plant Funds:</td>
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<tr>
<td></td>
<td>1. <strong>Unexpended Plant</strong></td>
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<td>Used to accumulate costs of capitalized assets such as new buildings or equipment during the timeframe that they are being constructed or acquired. When complete, the total cost is transferred to the Investment in Plant Fund Group.</td>
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<td>2. <strong>Renewals and Replacements</strong></td>
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<td>Used to account for remodeling, renovation or replacement of fixed assets. These are the funds usually used for departmental equipment reserves.</td>
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<td>3. <strong>Retirement of Indebtedness</strong></td>
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<td>For the monies used to pay back debt that the university has acquired in the form of bond issues.</td>
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<td>4. <strong>Investment in Plant</strong></td>
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<tr>
<td></td>
<td>Used to record the value of our capitalized assets such as land, buildings and equipment.</td>
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</tbody>
</table>
# Six Basic Fund Groups

<table>
<thead>
<tr>
<th>Agency Funds</th>
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<tbody>
<tr>
<td>The funds do not belong to the university, but are managed by a university employee or support or affiliated group. Money coming into Agency Funds is generally payment from external entities. A typical example is an academic journal of which the editor is a faculty member. Payment is accepted for subscriptions and printing, distribution and other expenditures are recorded, but the funds ultimately belong to the organization that publishes the journal. Other potential</td>
</tr>
</tbody>
</table>
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Fund Accounting
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Transactions
Nonreciprocal (Non-Exchange) vs. Reciprocal (Exchange) Transactions
Nonreciprocal (Non-Exchange) vs. Reciprocal Exchange

• Contributions are *nonreciprocal* (the recipient does not give up an asset or incur a liability of commensurate value). A contribution is an *unconditional* transfer of cash or other assets...a voluntary nonreciprocal transfer by another entity acting other than as an owner. Other assets include securities, land, buildings,...and unconditional promises to give those items in the future.

• Earned revenues are *reciprocal* transactions, because they involve an exchange of goods or services of approximately equal value.

• The distinction is important because there are significant accounting and reporting differences between a contribution (or nonreciprocal transactions) and earned revenue (or reciprocal transactions).
Non-Exchange Transactions

Voluntary non-exchange transactions, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).
Exchange Transactions

Reciprocal transfers in which each party receives and sacrifices something of approximately equal value.

– Sales/Services

– Grants/contracts if a specific deliverable such as a report, product, results of research, etc. is required. If no deliverable is required, the grant or contract may be a contribution.

– Auxiliary Enterprise revenues.
What is a condition?

- Donor imposed conditions = future uncertain events that give the promisor a right to a return of the assets given.

- Conditional $$ received in advance of condition being met = refundable advance or deferred revenue

- Restrictions do not equal conditions
Conditions vs. Restrictions

- **Conditions** – affects the passage of ownership.
  - “challenge gifts”
    - I will contribute $X if the University raises $X by a certain date
    - I will contribute $X if the University breaks ground on the building by a certain date

- **Restrictions** – ownership has passed but the contributor has placed limitations on how and/or when the assets can be used.
  - Scholarships and fellowships
  - Build a facility
  - Support a department
Endowment Funds

An endowment fund is a fund not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument.

Fund Types:

- True - permanently restricted by a donor for a charitable purpose with only the income being spent and the principal being preserved
- Quasi – (fund functioning as endowment) created when the Board takes unrestricted funds and imposes a spending restriction.
- Term - funds subject to a restriction that the Board can satisfy – such as a timing restriction or purpose restriction – are classified as temporarily restricted.
Summer Revenue Generating Activities

• Apply matching principle
  – Time

• Full accrual recognition
  – Revenue (received or earned)
  – Expense (paid or obligated)
Summer Revenue Generating Activities

- Apply matching principle
  - Time

- Full accrual recognition
  - Revenue (received or earned)
  - Expense (paid or obligated)
Interdepartmental Eliminations

• Financial statements should reflect elimination of “internal” transactions as no economic inflow or outflow transpired

• Subset of transactions offered primarily to students, faculty, or staff – that are “exchange” transactions between the Auxiliary and an internal academic or administrative department on campus – example copy centers or central purchasing transactions.

• Should also include service enterprise “internal” transactions.
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Transactions
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Final Jeopardy
Thank You