

FUND ACCOUNTING OVERVIEW

Funds.

The University maintains its books in accordance with the principles of **fund accounting**. Resources available to the university are either unrestricted or restricted for a specific purpose and are grouping into fund types, which comprise one or more individual funds. A fund is defined as an accounting entity with a self-balancing set of accounts for recording assets, liabilities, and fund balance. The fund types used by Millersville include:

- A. **Current Funds:** Consists of Unrestricted and Restricted Current Funds.
 - Unrestricted funds include Educational & General funds, and Auxiliary funds. Unrestricted resources are expendable for any purpose in performing the primary objectives of the university. Principal revenue sources are tuition and general fees, state appropriations, auxiliary fees, and investment income. Auxiliary enterprises are activities conducted to provide facilities for students, faculty, and staff. They include the food services, dormitory, and the student union operations.
 - Restricted funds include gifts, grants, and contracts. Donors or outside agencies specify the purposes for which fund may be expended. Examples are Pell grants, SEOG grants, SICO gifts, etc.
- B. **Loan Funds:** Consists of both federal and local funds available for loans to students. The Federal Perkins Fund and the Alumni Association-Student Services Emergency Loan Fund are the University's two primary loan funds.
- C. **Endowment and Similar Funds:** Includes true endowments, term endowments, and quasi-endowments. These are funds for which donors have stipulated that the principal be maintained inviolate and in perpetuity. The University must invest these funds for the purposes of producing income that will satisfy the donor's purposes.
- D. **Plant Funds:** Divided into four sub groups, including Unexpended Plant, Renewal & Replacement, Retirement of Indebtedness, and Investment in Plant. Plant funds may receive direct contributions by donors or by restricted governmental appropriations. We may also transfer funds from other fund groups as authorized by the Trustees or the president.
- E. **Agency Funds:** Funds that the University is holding as custodian or fiscal agent for others such as student organizations, faculty and staff.

All financial transactions are recorded in the appropriate account code within the fund. The balance sheet of the University, prepared at the end of a fiscal period, discloses the assets, liabilities, and fund balances for each fund types separately.

General Ledger/Operating Ledgers

University posts general ledger activities within the fund code and operating activities within the operating ledger or the organization code. General ledger accounts includes asset, liabilities, and control accounts. Operating ledger accounts are revenue, expenditure, and transfer accounts.

All revenues and expenditures are recorded in the operating ledgers within the appropriate funds. Budgetary allocations and encumbrances are also recorded in the operating ledgers. The financial statements of the institution are prepared from the general ledger, along with operating ledgers.

Revenues

Revenues are inflow of resources and are classified by source and include

- A. All unrestricted gifts and other unrestricted resources earned during the reporting period.
- B. Restricted current funds to the extent that such funds are expended for current operating purposes. The following list outlines the recommended classification of revenues, by source of funds:
 - Tuition and Fees
 - Government 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
 - Other Sources
 - Sales and Services of Auxiliary Enterprises

In developing the chart of revenue accounts, a more detailed recording of revenue sources is desirable, but all such sources are classified according to the above general outline.

Expenditures

Expenditures and transfers include all expenses incurred and amounts transferred to other funds, as required. We may summarize current fund expenditures in terms of function (program), organizational unit, and object.

- A. **Function (program):** Expenditures are classified by "function groups" according to the general purposes for which the funds were expended. Note that the term function and program is used interchangeably. Grouping expenditures into function groups facilitates uniform presentation of financial statements. Following is the standard listing of function categories currently depicted in the financial statements. Sub-functions may be established to provide more detail as needed.

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships and Fellowships

When developing the chart of accounts, grouping individual organization code by program is desirable.

- B. **Organizational Unit:** While classification by function is important for financial statement purposes, the actual recording of detailed expenditures is generally done at the account or organizational unit level. An organizational unit is a department, office or activity such as the English Department, President's Office, or Holocaust Conference. Classification of expenditures by account is thus the primary method of categorization, and it is at the organizational unit level that the University usually establishes budgets.
- C. **Object:** Classifying expenditures by object provides information on the types of expenditures being charged. The three major areas of expenditure are a) personnel compensation, b) services, supplies, and other expenses, and c) capital expenditures. We can subdivide each of these major categories into more detailed minor objects. Classifying expenditures by object is critical for budget development and control purposes at both the departmental and university-wide levels.

To summarize, a **function** describes for what purpose expenditure is made, an **organizational unit** indicates where that expenditure is being charged, and an **object** describes what type of expenditure is being made. Each individual expenditure account includes the function/organizational unit/object components. For example, an expenditure transaction might involve the acquisition of an office supply (object) by the Personnel Office (organizational unit) for institutional support purposes (function).

Transfers

Transfers between fund and or fund groups are sometimes necessary and are reported in the statement of current fund revenues, expenditures, and other changes, and also on the statement of changes in fund balances. **Mandatory transfers** may arise from binding legal agreements related to debt financing or from agreements to match outside gifts or grants. **Non-mandatory transfers** are made at the discretion of the governing board to provide additions to loan, quasi -endowment, or plant funds.